NEWSPAPER MARKETING STRATEGIES

by

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ABSTRACT

Faced with changing market conditions, newspaper executives are beginning to debate whether the traditional practice of relying on circulation revenues for only about one-quarter of their total revenues still makes sense. The critical question is whether raising prices would upset undermine the needs for high circulation to keep attracting advertising. Newspapers are, after all, two interdependent products -- both an advertising medium sold to advertisers and a daily news summary sold to readers.

To test the relation, regression models were set up to compare the relative price elasticities of advertising and circulation sales to price and of advertising sales to circulation. Total circulation was found to have a relatively small effect on ad sales, and newspaper price did not have a statistically significant effect on circulation sales. This combination argues for higher prices than is currently the case, especially under current competitive conditions.

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INTRODUCTION: Newspaper Pricing Strategies

Thirty years of stagnant circulation levels and a protracted downturn in advertising revenue have prompted some daily newspaper executives to start thinking about whether or not it is time to change the way newspapers do business. Traditionally, newspapers have been sold very cheaply to readers with advertisers paying dearly for the right to push their products and services. But now, some executives are starting that relying on ads for 75 to 80 percent of the revenues no longer makes sense.

The most notable proponent of higher prices is Allen Neuhrath, recently retired as chairman and chief executive officer of Gannett, the nation's largest newspaper chain. In a speech to the Southern Newspaper Publishers Association in September 1990, Neuhrath said, ""Every public newspaper company could have avoided or curtailed the current profit slump if management stopped blaming advertisers and instead prudently priced its products to the reader. The solution to your profit squeeze is simple. Put more news in your newspaper and charge more for it. The readers and shareholders alike will benefit.""¹

The purpose of this thesis is to investigate the validity of this claim. The forces working on the industry will be examined and economic techniques will be used to predict the consequences of increased prices. The issue

¹ George Garneau, ""Stop Crying and Raise Prices,"" Editor and Publisher, October 6, 1990.
raised is what will maximize profits (and presumably revenues, although they don’t necessarily coincide).

Answering this question involves first looking at the respective elasticities of advertisers and readers. However, there is more to it than that.

Probably the most important issue concerns young readers. Total market penetration by newspapers has dropped dramatically since the advent of television around 1950, when many households subscribed to more than one newspaper and total household penetration was about 150 percent. Within 30 years this had dropped 70 percent. Total newspaper circulation remained roughly constant, however, due to population growth and a disproportionate increase in the number of households as family units got smaller. The biggest losses were among young readers, who never developed the newspaper reading habit in the age of television.

What worries newspaper executives is the prospect of young non-readers growing up to be old non-readers. Among the risks of higher pricing would be discouraging the development of the newspaper-reading habit by young people reluctant to take up the more expensive product and encouraging the development of other printed news sources such free alternative weeklies that offer much of the in-depth reporting without the accumulation of daily minutiae.

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The corollary is that newspapers that put too much emphasis on extracting the most from advertisers similarly encourage the development of competing media. While the particular advantages of newspaper advertising over other media (such as timeliness, low production costs, high penetration, and the ability to convey detailed price and sales information) have kept newspapers stuffed full of ads even as the electronic media came of age, high prices can spur the development of neighborhood papers and free advertising sheets called 'shoppers' that can compete on fairly equal terms with newspaper ads. In addition, technological developments like the spread of fiber-optic telephone lines open up possibilities for home shopping ventures by local telephone companies or their agents that could undermine the cozy monopolies newspapers have long enjoyed.

The question then becomes one of whether newspaper success depends on a dominating franchise in its circulation area. Since few newspapers have direct competition, outselling rivals is no longer much of a consideration. But some managements give greater emphasis to the level of penetration within a quasi-monopoly market. The correct judgment on that emphasis is subject to debate, and also to change as the marketplace evolves. In recent years, some newspapers have been happy to carry non-paying delinquent readers on their circulation rolls, while others have been aggressive in paring readers in sparse delivery areas in
order to minimize circulation costs. (In the most extreme case, the *New York Daily News* sought to keep circulation levels high during the recent strike by giving bundles of newspapers to homeless people and allowing them to keep the proceeds after threats of violence caused most regular vendors to stop selling the *News.)*

Thus, the decisions on pricing are influenced by a series of forces:

- **Economic**: elasticities of readers and advertisers determine the pricing strategy that will yield the highest short-term revenues.

- **Strategic**: the long-term growth and stability of the industry appears to depend on keeping the newspaper as a vital general interest publication with an on-going readership base that will not decline as demographics change. The question of who bears the largest burden can shape that ultimate growth. A parallel question is whether newspapers still need to be universal, high penetration vehicles or if they can be successful as a product targeted to a relatively elite readership.

- **Competitive**: Although most newspapers are quasi-monopolies with huge barriers to entry, there are enough substitutes and potential substitutes that newspapers need to be sensitive to the direction they drive the market.

- **Technological**: Changes in technology are likely to alter the competitive outlook and open new possibilities for newspaper companies. The question of who pays more --
advertisers or readers -- may be moot if technological changes alter the way the printed word is disseminated.

To date, the debate on the correct direction to go with pricing strategies in the industry has been more theoretical than actual as only a handful of papers have actually begun pushing prices upward towards 50 cents or more. But there has probably been enough to get some preliminary indications. Moreover, enough research has been conducted about the other influencing factors to start to shape judgments about the way newspapers should approach their future. (For example, few non-readers give price as a reason for eschewing newspapers, but there is a correlation between readership and income.)

The future of the daily newspapers is ultimately critical to the operation of a free society. (One of the nasty secrets of the television news business is how much they depend on newspapers for gathering their news.) It is a future that is currently quite murky, largely due to questions about the business of newspapers that have not yet been resolved in an increasingly complicated marketplace. It is quite appropriate to raise questions now about the future the newspapers envision for themselves.

###

**THE NATURE OF THE BUSINESS**

Any discussion of newspaper pricing strategies should begin with a recognition of the nature of the business newspaper's find themselves in.

Specifically, a daily newspaper is two businesses:
A daily information summary sold to readers at a cost that is usually less than the cost of the raw materials of the product.

A medium for advertising sold to merchants with rates usually dictated by the size of the sales to readers and providing the bulk of newspaper revenue.

Arguably, it could be added that newspapers sell a third service when they make their delivery capacity available for advertisers to distribute pre-printed inserts. For this activity, the primary rival would be the U.S. Postal Service, rather than other advertising media. However, the proportion of newspaper revenue from pre-printed inserts is relatively small and the competitive dynamics are sufficiently similar to make this activity analytically indistinct from the advertising function of the newspaper.

Thus, while a newspaper can be viewed as a cheap, disposable manufactured product, its inherent value lies in the services embedded within the product rather than the physical product itself. Although the two fundamental services that newspapers provide arrive simultaneously on the readers’ doorsteps in the same manufactured bundle, Those service business have their own dynamics that are worth setting out separately.

The Information Summary Business

The salient fact about the newspaper as a daily information summary business is the local monopoly. As a result of the contraction of the newspaper business that
began with the advent of television in the 1950s, less than 10 directly competitive markets still exist within the United States (including New York, Chicago, Houston, San Antonio, Boston, Denver, Dallas, Wilkes Barre, Pa., Anchorage, Sacramento, Ca., and arguably Los Angeles). In spite of technological progress in areas like desktop publishing that have allowed a number of smaller publications to open, the high fixed costs for the kind of physical plant needed to publish a daily paper have made those new monopolies secure. Less than five newspapers have successfully opened against established competition in the last 20 years, all reflecting special circumstances.\(^3\)

In about 40 additional markets, nominal editorial competition continues under an oligopoly arrangement sanctioned (in many cases, retroactively) by Congress in 1970 as the Newspaper Preservation Act. These markets include Seattle, Detroit, San Francisco, Nashville, and Cincinnati. Under the act, newspapers in danger of failing are allowed to set up partnerships with the dominant newspaper in which production and business functions are combined while keeping the papers editorially separate. These arrangements, called "joint operating agreements," must be sanctioned by the Justice Department. Because of the business cooperation,

\(^3\) The Wilkes Barre Citizens Voice, which grew out of a bitter strike during the 1970s, and New York Newsday are probably the only successful startups, although USA Today and the Los Angeles Daily News, which is targeted only to the San Fernando Valley section of the city, might also be included.
which allows bundling arrangements for both advertising and circulation and unified price setting, papers involved in JOAs can largely be viewed as single business entities, especially since the division of revenue between JOA partners is frequently set in advance and not dictated by the size of relative circulation. (Some competition does exist in that the stronger partner, often with sole ownership of the printing facilities, seeks to undermine the weaker partner with a long-term interest in forcing the weaker member out of business with the expiration of the JOA. However, this infighting means little to either the readers or the advertisers.)

Thus, most local markets are secure, with rivals eradicated and challenges by new entrants highly unlikely. However, newspapers face a number of challenges from substitute products. To date, they have stood up well to these challenges.

The most obvious challenge has been the technological one. With their invention, radio -- and later, television -- appeared set to drive newspapers out of business with their capacity for immediate delivery of the news. That has not happened. While television has taken a big bite out of newspaper circulations, with household penetration falling from 150 percent in 1950 to less than 70 percent now, the effect has had more to do with reducing the amount of time available to read newspapers than with successful competition as a news-gathering organization. While polling data indicate
that majorities of people claim to rely most on radio and television for news, that claim mostly reflects the responses of people who think of their information intake in terms of what they have been unable to get out of the way of rather than in what they have sought out.

Broadcasters have never been able to match the depth of newspapers in presenting news. A transcript of the nightly network newscast would cover only one third of a standard newspaper broadsheet page. Moreover, broadcasters have found there is more money to be made in entertainment programming and basically do not try to compete with newspapers on a day-to-day basis. Indeed, most local TV news operations now rely on newspapers for the basic newsgathering function and are generally a day behind -- rather than ahead -- of the local newspapers on all but a handful of institutional stories.

To be sure, the contraction of the newspaper industry in the 1950 and 1960s had much to do with the advent of television. However, in most cases, the newspapers that folded were the ones that appealed to the most working-class readership, reflecting a decline in readership among blue-collar workers while readership among middle-class professionals stayed much stronger. Examples of blue-collar papers defeated by more upscale ones include the triumph of the Cleveland Plain Dealer over the Cleveland Press, the St. Louis Post-Dispatch over the Globe Democrat, and the Baltimore Sun over the News American. Much of the damage done by television was in draining off national advertising
dollars much more than they drained off readership. National advertising fell to about six percent of newspaper ads during the 1980s from about one third during the 1930s.

Other substitute products are specialty and news magazines, which detract from the total available reading time but cannot match newspapers in their immediacy or ability to provide information about the local community; local alternative publications, which are often good sources of bulletin board information about entertainment and different interpretations of the news but again lack comprehensiveness; and national newspapers, such as the Wall Street Journal, New York Times national edition and USA Today, which match local operations in immediacy and (in the first two cases) outperform most of them in world and national coverage but offer nothing on local communities.

All these substitute challenges have taken their toll on local newspaper circulations. However, the losses in these areas appear to have stabilized, albeit at the price of considerable consolidation in the industry. While newspapers face future risks, none of the other substitute products appears likely to induce a major readership hemorrhage in the foreseeable future.

The only important suppliers for newspapers are paper producers, with newsprint representing the major variable cost of the product. Typically, newspapers sell for less than the cost of the newsprint upon which they are printed. However, individual suppliers do not exercise great leverage.
Newsprint is a commodity traded in world markets subject to wide variations in price, although the product is generally available. These variations have been a major headache to newspapers in the last 15 years. Some newspaper companies have hedged their exposure to newsprint price fluctuations by acquiring paper mills.

Several developments appear likely to decrease the leverage of suppliers. One is the political pressure for more use of recycled paper. Newsprint is the best use for recycled paper, and the supply of recycled paper tends to outpace demand. Environmental and political pressures may further push up the supply of recycled paper, exerting downward pressure on newsprint prices. A parallel development is progress in using a fast-growing quasi-weed called kenaf as an extender for wood pulp, which may also trim prices and reduce the leverage of suppliers.

The readers themselves tend to have little leverage. Their choices in most communities are limited, requiring them to choose between the local daily and nothing at all. Most newspapers are sold by subscription -- typically 80 percent or more, with some newspapers even charging a premium for home delivery. The result is that readers generally are not engaged in daily decisionmaking about newspaper purchases, preferring to get the paper even on days when they may not read it.

The Advertising Medium
The other aspect of the newspaper business is as an advertising medium. Again, direct competition in most markets is nonexistent, and the risk of new entrants is minimal. The primary challenge is from other advertising media. The strength of the newspaper lies in its status as a differentiated product. It remains the best way to convey specific information about product prices and availability on a timely basis. As a consequence, newspapers still capture the largest share of the advertising dollar in America -- about 31 percent.

The major challenges are from radio, television, magazines, outdoor and direct mail. All have advantages and disadvantages when compared to newspapers. Although newspapers have lost a share of advertising to other media over the last 50 years, they remain strong in those areas where their services are most appropriate.

Advertising can be broken down into three categories: national, local and classified. Different pressures exist in these various forms.

National advertising is product advertising for national brands. Newspapers lost the battle of national advertising long ago, and national ads comprise only about five percent of newspaper advertising revenue. Quite simply, radio and television are better able to product and mood messages than newspapers. Magazines are better able to target specific audiences and have better quality printing and reproduction. The only products for which newspapers really get much
national advertising are cigarettes and other tobacco
products, which are forbidden to advertise on television.

Local advertising comes from area merchants who want to
disseminate information about prices and products at their
stores. Radio and television are not as good at doing this,
and television has substantial production costs. Moreover,
newspapers can publish the information in a more timely
fashion. The major challenges to daily newspapers come from
neighborhood publications, which often have little editorial
content and are frequently given away without charge. These
generally do not get the penetration of newspapers. Other
substitutes are direct mail circulars and the inserts that
newspapers frequently deliver for a reduced charge.

Classified ads are small, inexpensive ads run by
individuals selling goods and services, and also providing
listing of real estate and employment opportunities. Few
substitutes exist for this kind of ad, and it has been a
major growth area for newspapers in the last 20 years.
Although the ads are small and inexpensive for the
advertiser, they ad up to big revenue for the newspaper --
about $12 billion in 1988 or 20 percent of the total ad
revenue.

Suppliers are not relevant actors in this service.

The buyers -- the advertisers -- generally have only
limited leverage in dealing with the newspapers. National
advertisers have the most because of their ambivalence about
newspaper advertising, but they are also small customers.
Local merchants frequently have some freedom to choose other media, but generally can’t get the same kind of service that a newspaper offers and are consequently willing to pay premium prices. Classified advertisers generally have insignificant leverage. As a result they pay rates that are quite high per inch, even though the total cost of the ads is small.

**Fat and Happy**

Ultimately, the competitive pressures on newspapers are mild enough that newspapers can still count on being fat and happy businesses. Indeed, some executive say that newspapers can virtually choose their profit level, constrained primarily by what their the consciences say about the quality of the editorial product they offer their readers.

However, the industry has never been known for reacting quickly or intelligently to challenges in the past. The ongoing slump in newspaper advertising in the past two years may indicate trouble ahead, which is why newspapers have to ask themselves if they are pricing the product properly.

###

**GETTING THE MOST: Short-term price strategies**

If newspapers can be viewed as two products, there are three major elements in the profit picture for newspapers: circulation revenues and costs, advertising revenues and costs, and newsgathering or quality costs. With substantial fixed costs typically accounting for 70 percent of expenses, papers are well insulated from competitive challenges.
The last element -- how much a newspaper is willing to spend on putting out a quality product -- can vary substantially among newspapers. In most big city markets where newspapers have waged duels to the death over the last five decades, quality was a determinant of victory more often than not. It is less clear that quality is a factor in purchase/don’t purchase decisions of readers in non-competitive markets. Quality is, after all, a subjective thing as evidenced by the profitable coexistence during the 1970s of an upscale (The Times) and a downscale paper (The Daily News) in New York City, one of the few markets large enough to support separate market segments.

Consequently, the newspaper can be viewed as seeking to maximize short run profit through its two output prices (for advertising and news circulation) and its editorial efforts. Hence:

\[
\text{MAX } q \left( P_c, e \right) \left( P_c - K \right) + a \left( q \left( P_c, e \right), P_a \right) P_a - f \left( e \right)
\]

where:

\[ q = \text{the number of papers sold (a decreasing function of price and an increasing function of editorial effort)} \]

\[ a = \text{the amount of advertising sold (an increasing function of circulation and a decreasing function of the price of advertising).} \]

\[ f = \text{the cost of editorial effort e.} \]

\[ P_c = \text{Price of circulation} \]

\[ K = \text{Variable cost of production} \]

\[ P_a = \text{Price of advertising} \]
This yields:
\[ \frac{dq}{dP_c} (P_c - K) + q + \left( \frac{da}{dq} \right) \left( \frac{dq}{dP_c} \right) P_a = 0 \]
\[ \left( \frac{da}{dP_a} \right) P_a + a = 0 \]
\[ \frac{dq}{de} (P_c - K) + \left[ \left( \frac{da}{dq} \right) \left( \frac{dq}{de} \right) \right] P_a - \frac{df}{de} = 0 \]

The first equation then yields a profit maximizing \( P_c \) as:
\[ P_c = K - q \left( \frac{dq}{dP_c} \right)^{-1} - P_a \left( \frac{da}{dq} \right) \]

This suggests that the optimal price should also be aimed at increasing advertising revenue. Since demand for advertising is not only a negative function of its price but also a positive function of size of circulation, this is a downward pressure on circulation price as price is tied to circulation, which enhances advertising revenue.

The second expression yields a profit maximizing \( P_a \) as:
\[ P_a = -a \left( \frac{da}{dP_a} \right)^{-1} \]

The third expression yields a profit maximizing \( e \) as:
\[ e = g \left[ \left( \frac{dq}{de} \right) (P_c - K) + \left( \frac{da}{dq} \right) \left( \frac{dq}{de} \right) P_a \right] \]

where \( g = \frac{df}{de}^{-1} \)

The coupling of the products generally results in lower circulation prices, higher editorial efforts, and higher advertising prices than would otherwise be the case.

Beyond the short term effects, I have suggested that circulation has an investment value because it is habit forming. A simple, ad hoc way to model this is by adding \( Nq \) to the maximant, where \( N \) is some constant. If this is done, there is additional downward pressure on \( P_c \) and upward pressure on \( e \).
ANALYSIS: Demand for Circulation and Advertising

As mentioned in the introduction, newspaper managers have traditionally viewed advertising as the main source of revenue and have held down circulation prices in the apparent belief that this allows the papers to charge the most for their advertising. As shown above, there is an inescapable logic in this.

However, it is obviously a matter of finding the optimal balance, which can be done by estimating the elasticities of demand for the two products. To do this, regressions were run based on assumptions about the demand for them using a cross-sectional sample of results from 22 monopoly markets (See appendix one for a list of markets in the sample; appendix two lists data sources) from around the country.

**Demand for circulation:** Price elasticities for circulation and advertising were estimated using a two-stage, least squares regression. Variations in market size were reflected as an independent variable. Demand for circulation was expected to follow this model:

\[
\text{Ln (Circ)} = \beta + \beta \text{Ln (P)} + \beta \text{Ln (percentage of news)} + \beta \text{Ln (Households in circulation area)} + \beta \text{Ln (Income)} + \beta \text{Ln (Number of television stations)}.
\]

In this configuration, price is the monthly, home delivered cost of the daily and Sunday paper. Although
single-copy sales are generally more volatile in their short-
term reaction to price changes, subscription prices seemed to
be the more relevant measure, given that most newspapers
expect to sell 80 percent or more of their papers through
subscriptions.

Percentage of news is the proportion of the paper given
to editorial matter. It is the best available quantitative
indicator of editorial quality, although it is a crude one.
Having a lot of space for editorial content is different from
using the space wisely. This proportion generally stays
constant regardless of the variations in ad sales. In
dividing up space for a particular day’s editions, managers
typically decide how many columns of editorial content to
include based on the amount of ads sold, subject to certain
minima and maxima.

The income variable is the median family income in a
market. It probably contains some indication of general
living costs in a given area, as well as some reflection of
education and the general level of literacy in a community.

While all the newspapers were chosen because they have
monopoly power in their respective markets, there are varying
degrees of this power. One indicator of this power is the
number of television stations, which compete both for local
advertising dollars and as a source of local news.

Estimates for these factors were as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimate</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-6.3</td>
<td>7.262</td>
</tr>
</tbody>
</table>
\begin{align*}
\text{Ln} (P_c) & \quad .406 & \quad .471 \\
\text{Ln} (\text{News}) & \quad .684 & \quad .594 \\
\text{Ln} (\text{Households}) & \quad .849 & \quad .105 \\
\text{Ln} (\text{Income}) & \quad .656 & \quad .620 \\
\text{Ln} (\text{TV}) & \quad -.029 & \quad .121 \\
R^2 &= .869 \\
\end{align*}

With one exception, the signs of all the determinants are what one would have expected. However, price of circulation was expected to yield a negative coefficient. The most obvious explanation is that there is an embedded anomaly in the data set that was resistant to various efforts to control. However, even dismissing the result, it is clear that price is not a major determinant of newspaper purchases. Two similar exercises produced results that support this conclusion. A model in one study yielded a coefficient of \(-.44\) with a standard error of \(.053\) while a second study produced a coefficient of \(-.55\), although it was not statistically significant.\(^4\)

Clearly, the peculiar result in this study calls for some explanation. Short of outright dismissal, one possible conclusion to draw is that the positive coefficient may simply reflect the effect of other, more elusive factors that go into newspaper sales. Clearly, there are factors that go

into newspaper sales that do not show up in any quantitative measure.

The most elusive of these is editorial quality, which is not just an absolute professional standard but something that is perceived in each community in different ways. While the newspaper competitions of this century were generally won by the newspapers that were regarded as the best by professional standards, numerous examples where this was not the case (the victory of the Chronicle over the Examiner in San Francisco, the Star Ledger over the Evening News in Newark, and News-Free Press over the Times in Chattanooga) can be found. These examples are probably best explained by saying that the managers of the superficially superior newspaper somehow missed the underlying demands of their community and failed to serve their communities well by adapting the general standards of the profession to the specific requirements of their communities.

Other factors that may distort results are median age in a community (older people are more likely to read newspapers), rate of growth in a community (an area with a large number of new arrivals may have many residents without much interest in community affairs), number of minorities (the historical disinterest of daily newspapers in covering minority affairs spurred the establishment of ethnic papers in many communities and has left a residue of alienation), and the territorial ambitions of newspapers (some papers have lower market shares because they try to circulate in much
broader areas beyond their core cities). But these either defied measurement or did not produce consistently significant effects.

Even so, the results suggest that price is a minor determinant of market penetration. What the elasticity seems to suggest is that those papers that successfully serve their communities may be able to push their prices upward without much loss of sales, while those that fail to serve their communities well may not be able to positively affect their penetration by maintaining low prices.

It is also worth considering how newspapers are marketed. Most newspapers are sold by subscription, with subscriptions continuing until they are actively canceled by the reader. Price increases are generally announced in the newspaper (rather than on the subscription bill), and readers get no personal notice until after they have received the product at the increased price for one billing period. This method of sales works against consumer price sensitivity.

Even in the more sensitive area of single-copy sales, anecdotal data indicate that short term sales reductions following price increases are generally overcome in relatively short periods of time. For example, even at USA Today, which should be more price sensitive than a community based paper, price increases that put the paper well above prevailing prices did not do lasting damage to circulation, more than 70 percent of which comes from single-copy sales. When USA Today increased its price from 25 cents to 35 cents
in August 1984, sales dropped off by about 80,000 copies. However, those losses were fully recouped within seven weeks. When the paper increased prices again from 35 cents to 50 cents a year later, the circulation loss was smaller, partly due to other promotional activities. Similar effects can be found at other papers.

**Demand for advertising:** In the second equation, monthly advertising lineage was compared to prices, market penetration and other likely influences. Demand for advertising was expected to reflect:

\[ \ln(\text{ads}) = \beta + \beta \ln(\text{circulation}) + \beta \ln(P_a) + \beta \ln(\text{community wealth}) + \beta \ln(\text{Retail Spending}) + \beta \ln(\text{percentage of news}) \]

The price for ads is the basic open inch rate for 1989 adjusted to reflect the cost per thousand copies sold. Retail spending is the total for the spending for the metropolitan area divided by the number of households in the circulation area. Areas with more retail activity could be expected to sell more advertising. Community wealth was the product of the number of households in the circulation area and the average household income. Percentage of news is the proportion of the paper given over to non-advertising material.

Estimates for these factors were as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimate</th>
<th>Standard Error</th>
</tr>
</thead>
</table>

5 Peter Pritchard, The Making of McPaper. P. 239
\[
\begin{array}{ccc}
\text{Constant} & -4.755 & 3.755 \\
\text{Ln (Circ)} & -0.210 & .347 \\
\text{Ln (Wealth)} & 0.468 & .280 \\
\text{Ln (Pa)} & -0.350 & .229 \\
\text{Ln (Retail spending)} & 0.496 & .121 \\
\text{Marginal Competition} & -0.792 & .249 \\
\end{array}
\]

\[R^2 = .692\]

These results fit much more comfortably with intuition. The most striking aspect is the negative but relatively small weight that circulation had on ad sales. But this should be put in the context that all the newspapers were local monopolies and that the band of differences in penetration was relatively narrow -- most falling in the 50 to 70 percent band. The other aspect to remember is that newspaper advertisers are fairly indifferent about some of the readers -- particularly those with lower incomes or who live and work far away from the advertisers stores. Newspapers with large geographical ambitions may have low penetration percentages, but are not penalized by advertisers located in the central city or nearby suburbs.

It should be noted that, over the last 30 years, competitive markets have been highly sensitive to market share with advertising tending to divide up fairly equally as long as the competing papers have similar market shares but becoming lopsided once one paper starts to pull away from the other.
Demand for ads is also a decreasing function of price, but remains fairly inelastic. This probably reflects the limited flexibility that advertisers have in seeking to get the particular benefits that newspaper ads offer. While advertisers have the option to shift some of their dollars to competing media, this is essentially a decision they make at the margin.

###

MANAGERIAL IMPLICATIONS: A Tale of Two Fabless

**Fable One:** William McIlwain, one of the great survivors of American journalism with a resume carrying a long list of top newspaper jobs held for short period, looks back with fondness on his role in the development of Long Island Newsday into one of the powerhouse success stories of American newspapers.

"When I was at Newsday, we used to be pretty smug about product being serious," he recalled. "But we had 85 percent home delivery subscriptions. I had a friend who worked for one of the New York newspapers back them when their were six dailies, mostly single copy sales. He used to tell me that it was easy for us to lead the paper with the federal budget or whatever, and it didn't make any difference to our sales. But in New York, with the street sales, sales went up or down by 50,000 papers a day depending on whether or not they had
Jayne Mansfield on the cover. We didn't have to put Jayne Mansfield on the cover.\

Now most newspapers don't have to worry about what to do with Jayne Mansfield or her contemporary equivalent. They have secure sales in their core territories with their only competition coming at the fringes or against their co-conspirators in joint operating agreements. The data suggest that, while there are clear distinctions in the levels of newspaper success, price is not a major determinant.

**Fable Two:** During his long, failing effort to establish a presence in the New York market, Australian-born publisher K. Rupert Murdoch poured millions into the lurid New York Post, a paper best known under Murdoch's leadership for its blood-and-guts focus (''HEADLESS BODY IN TOPLESS BAR'' one headline screamed). And while Murdoch was able to drive circulation up to nearly one million in the bitterly competitive New York market, he was never able to match the circulation gains with gains in advertising.

In an oft-retold story, politely denied by all participants, Murdoch is reported to have brought in the advertising managers from all of New York's major department stores for a lavish dinner and hard sell on the virtues of advertising in the Post. At the conclusion of his sales pitch, however, the Bloomingdale's representative finally

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6 Conversation, 1976.
exclaimed in exasperation, "But Rupert, you just don't understand. Your readers are our shoplifters."  

One of the critical factors in the demise of many of America's dailies has been the failure of local merchants to support one of the papers with advertising dollars. This frequently occurred before the circulation imbalance reached the point that would have justified the desertion. Usually, the scorned newspaper was the publication which had gotten a reputation as the newspaper of choice for blue-collar and inner city dwellers and was targeted to that audience. The desertion was simply a case of newspapers making distinctions among readers. While one of the attractions of newspaper advertising is its universality, clearly the more affluent advertisers view some readers as more equal than others.  

The data in the previous section confirm this latter conclusion, indicating that market penetration is a minimal influence on the amount of ads sold and that a newspaper that loses some marginal circulation in a non-competitive market will not suffer in ad sales.  

It may be the ultimate demonstration of Richard Kluger's dictum: "Newspaper advertising is bought, not sold." Kluger argues that advertisers make their decisions on advertising purchases based on their own internal factors and

7 This story is widely known in journalism circles and has been cited in Editor & Publisher, Columbia Journalism Review and other publications.  
budgets and ultimately do not pay much attention to the marketing actions of newspapers advertising managers. Ads purchases are driven by price only to the extent that higher prices mean the independently determined budget number buys less. While this interpretation is probably simplistic, the data certainly don't seem to dispute it.

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The basic conclusions of the analysis are that newspapers are price inelastic and that variations in circulation above a barebones threshold attained by all the local monopolies have a minimal effect on the ability of papers to attract advertising. The pricing decision that this seems to point fairly obviously to is an increase in newspaper prices to make readers bear more of the costs of the product they use.

There are sound contemporary supporting reasons. In the last year, the newspaper industry has slumped seriously. While circulations have held steady, ad sales in 1990 were down about 10 percent over the previous year in a decline that preceded the current recession. This decline has been mirrored in a substantial drop in newspaper earnings for the year and considerable industry belt-tightening.

Many top officials in the business are arguing that the decline goes beyond the normal cyclical fluctuation and may represent a secular decline. This is reflected in the general slump in the advertising industry. A number of things contributed to the decline, but among the foremost are what
happened to the department store industry in the 1980s. A number of department store chains (most notably Allied/Federated) were driven to decline by leveraged buyouts that saddled the corporations with huge amounts of debt -- with advertising being one of the major expenses cut in order to handle that debt. Some of the large supermarket chains (most notably Kroger) went through similar experiences. The casual reader can hardly escape noticing that for many newspapers, department stores, supermarkets and auto dealers are the largest local advertising, and any cuts here are painful.

Moreover, the whole department store industry is under pressure from specialty stores (whose more distinct identities may enable them to advertise less) and mail order merchandisers (who don’t advertise at all). Indeed, direct mail advertising has been the most rapidly growing segment of the advertising industry and now captures 17.8 percent of the total advertising dollar, compared to 26 percent for daily newspapers and 21.8 percent for television.9

These things argue that advertising will not come back as quickly after the current recession as it has done in previous recessions. If newspapers are to maintain their traditional high profits, additional revenue to offset retail advertising losses will be necessary.

Newspaper circulation, meanwhile, leveled off at about 62 million copies daily in the early 1960s and has not changed much since then. With population growth and an increase in the number of households, this could be termed a decline in circulation. Part of that decline comes from the closing of newspapers. (A closure generally results in a decline in total circulation even though most readers simply transfer to the surviving newspaper. Some of the decline comes from readers who no longer buy both papers; the rest comes from people who simply drop out of the market.) This has allowed many large newspapers, even in sluggishly growing areas, to continue to grow even as total circulation remains stagnant. (The Cleveland Plain Dealer has grown from 410,000 daily circulation in 1975 to 467,000 in 1990 even though the Cleveland metropolitan area lost population during the 1980s.)\(^\text{10}\) Another possible factor -- difficult to document but frequently mentioned newspaper executives -- has been efforts by newspapers to cut down on deliveries to outlying areas in order to reduce circulation costs. Such sales, traditionally disdained by core city advertisers, is sometimes referred to as "'vanity circulation.'"

Intuitively, it would seem rash to respond to a decline in advertising revenue by raising the prices for readers whom the newspaper is fighting to hang onto. But the finding that the readers are not particularly driven by price obviates

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\(^{10}\) --, "'The 10 Worst Newspapers in America,'" [MORE], October 1975.
this response. The additional finding that any circulation losses will not be punished by advertisers reinforces the argument. Moreover, since most newspaper sales prices do not cover the cost of production, marginal sales losses due to higher prices would lead to higher profits by reducing production costs.

A parallel concern is the relatively small number of young people who acquire the newspaper reading habit. A 1990 survey for the Times Mirror Corp. found that the percentage of young people (under 35) who said they had read a newspaper the previous day had declined to 30 percent from 67 percent in 1965. The totals for respondents of all ages were 44 and 71 percent respectively.\textsuperscript{11} However, the study found a deeper problem than just declining newspaper readership. "Today's young Americans, aged 18 to 30, know less and care less about news and public affairs than any other generation of Americans in the past 50 years," Times Mirror reported. According to the survey, from 1941 to 1975, young people were about as informed and followed major news events as closely as their elders. By 1990, they expressed 20 percent less interest in news than older people, were 40 percent less likely to be able to correctly identify frequent newsmakers, and were 20 percent less likely to know about major news

\textsuperscript{11} ---, The Age of Indifference: A Study of Young Americans and How they View the News, Times Mirror Center for the People and the Press, 1990.
developments such as the execution of Nicolae Ceausescu or political changes in the Soviet Union.

While the standard explanation for the decline of newspaper reading among young people is that television is wooing them away, this is not a satisfactory answer. During the same time period, the Times Mirror survey found the viewing of television news programs by young people declined from 52 percent to 41 percent. To be sure, this decline is not as rapid, total television news viewership fell much more slowly than for newspaper -- from 55 percent to 53 percent.

The issue of price is clearly not relevant when the problem is the triumph of aggressive ignorance. The general conclusion of the Times Mirror survey was that young people don't read anything at all, although they especially don't read newspapers. A more chilling example was described by Editor & Publisher:

A Sacramento Bee executive told the ANPA session of a focus group of young people arranged to comment on the paper's planned entertainment tab. The new section clearly impressed the young people, who quickly agreed they would spend 50 cents or more for it. So they would spend 35 cents for the Bee with this tab included, right? No, the group said. They simply had no interest in digging through the daily newspaper to get to it.12

To the degree that price might be a consideration under those circumstances, that problem can be dealt with promotional prices, which can also be done with to deal with general adult readership issues.

12 Mark Fitzgerald, A year of Retrenchment, Editor & Publisher, Jan. 5, 1991.
Another simmering issue is the nascent competition being offered by various publications such as neighborhood papers, alternative papers, shoppers and specialty advertising sheets. These offer many of the same benefits as newspapers, and frequently have lower advertising rates. This gives them the potential to skim off some of the more specialized advertisers who previously bought newspaper space by default. The risk of losing these advertisers might seem to argue that it remains important to hang on to the broad market penetration. However, the progress of competing advertising media just emphasize the importance making the readers pay for the service they get.

Classified advertising has been under particular pressure with the development of real estate tabs, auto quarterfolds and other newspaper-like products. During the 1980s, classifieds were the fastest growing segment of newspaper advertising. By 1988, however, the new products were collecting 38 cents in revenue for every dollar spent on classifieds. Another prospect on the horizon is the development of electronic classified systems that offer data through customers' home computers.

Indeed, the revolution in electronic information transmission is making possible a number of newspaper services that were not possible in the past. Many, including the Wall Street Journal, Atlanta Constitution and San

13 Ibid.
Francisco Chronicle, are already experimenting with audiotex services in which readers dial local toll telephone numbers to receive special information services like stock quotes and sports scores. Others are offering daily news summaries by facsimile machine. These kinds of services must be self-supporting information services. The degree to which they supplant the traditional paper newspaper will decide whether newspapers start viewing the sale of information as their main product. In the longest term -- which may not be that far off -- videotext is the ultimate information sale. These are the systems that transmit news stories to home computers. Some newspaper organizations tried selling this service in the 1980s without success (Knight Ridder lost $40 million on Viewtron, its videotext service), but some optimists believe that the larger number of installed home computers may make the technology commercially viable by the mid 1990s.14

What all this suggests is that the pressures that newspapers face over the coming years will require them to focus more on shifting the costs of their product more to readers from advertisers. While the advertisers are not particularly price sensitive, the development of some alternatives and structural trends in those industries argue that advertising growth is not likely to continue to grow. However, the data also suggest that readers are willing to

14 Boston Globe, op. cit.
pay more for the product than they now do. The industry may need to start charging them more.

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Appendix One

NEWSPAPER MARKETS STUDIED

Albany (N.Y.) Times Union
Allentown (Pa.) Call
Annapolis (Md.) Evening Capital
Asbury Park (N.J.) Press
Bangor (Me.) Times
Bergen County (N.J.) Record
Binghampton (N.Y.) Press
Buffalo News
Contra Costa (Calif.) Times
Hartford Courant
Louisville Courier Journal
Manchester (N.H.) Union Leader
Minneapolis Star Tribune
New Haven Register
Orange County (Calif.) Register
Providence (R.I.) Journal Bulletin
Reading (Pa.) Eagle Times
San Jose Mercury News
South Bend (Ind.) Tribune
St. Louis Post Dispatch
Toledo (Ohio) Blade
Winston-Salem (N. C.) Journal
Appendix Two

DATA SOURCES


Price: Yearbook.

Advertising: Audited and unaudited figures for December 1989, reported in Feb. 16 Editor & Publisher.

Ad prices: Yearbook.

Percentage of news: from advertising totals and from total commodity consumption figures listed in Yearbook.


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Retail Spending Per Household: Editor and Publisher Market Guide 1991.

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