

Are Newspapers in Trouble? Observations on Some Trends and Developments in the Newspaper Business

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Newspapers have had it, if one believes what Rupert Murdoch, chairman of News Corporation, has to say. Mr. Murdoch recently stated that newspapers will not die overnight, but the trend is downward and advertising will increasingly go elsewhere, especially in the United States.²

After almost two decades of continuous growth, the U.S. daily newspaper industry finds itself in trouble. Many of the fundamental problems of the business like the lack of circulation growth and the decline of local retail display advertising linage were ignored as retail display and classified ad revenues surged in a buoyant economy.

This paper examines some of the problems now clouding the future of newspapers. Among them are changes in retailing, a loss of readers, intense and growing competition, fragmentation of the marketplace and structural changes in the industry.

A Time of Ferment

The 1960s and early 1970s were a time of ferment. Union compositors, who were still using hot-metal linecasting machines, held a stranglehold on newspapers since they had to re-keystroke every item typed by both reporters and ad takers. In the 1970-1972 time frame, a technological breakthrough in production took place with the utilization of minicomputer-based time-shared video terminals. At last, reporters' and ad-takers' original keystrokes could be captured and the redundant compositors' keystrokes eliminated, along with the compositors. This technological *tour de force* led to the accelerated introduction and use of photo-typesetting, computer-aided composition, offset printing and plastic letterpress printing plates. Throughout the rest of the '70s truly dramatic labor savings were achieved by newspapers large and small.

Simultaneously with these sharp cost reductions in the early 1970s, classified and display retail advertising linage and profits began to soar in an upbeat economy. Profits reached the double-digit range. Wall Street took notice. The industry was on a roll. And, taking advantage of this financial good news, newspaper owners were selling their

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² Cohen, Roger. "Rupert Murdoch's Greatest Gamble," *The New York Times Sunday Magazine*, October 21, 1990.

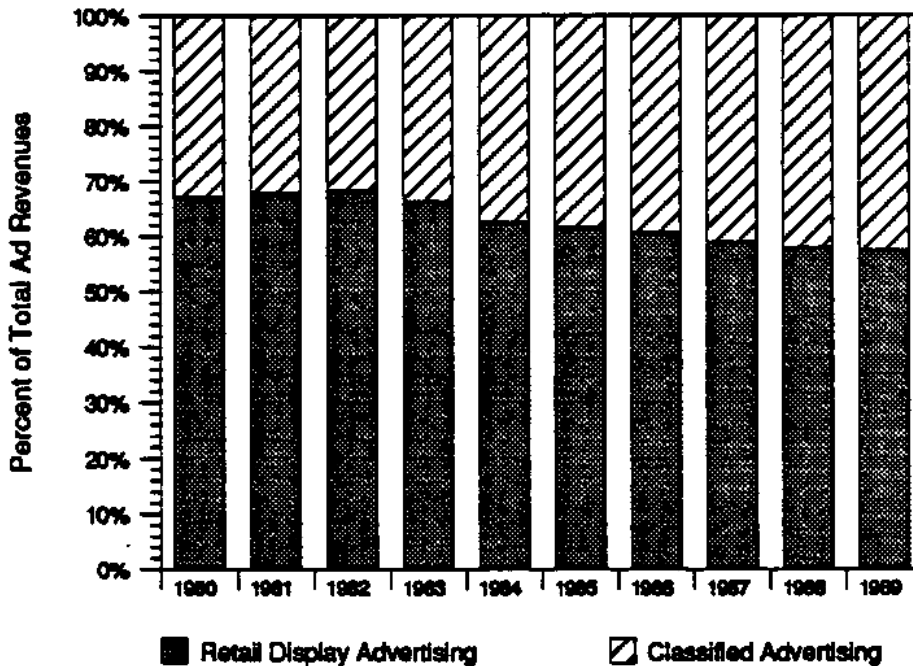
properties to larger groups at multiples of eight to ten times earnings. Everyone was making money. It would never stop.

Newspapers Have Been Money Machines But...

For the past two decades, daily newspapers have been money machines. Pre-tax net profit margins of 20% to 30% of total sales were fairly common for the industry. Such margins, coupled to rich cash flows, equal or exceed those of such high tech industries as telecommunications, aerospace and computers, and far surpass the financial results of the newspapers' advertisers.

But, the good times seem to be winding down. A number of newspaper executives worry that the high profit margins newspapers have enjoyed will decline as newspapers find themselves caught in a squeeze between rising costs of materials and wages and slower revenue growth due to intense local competition for readers and advertisers and fragmentation of their markets.

Some disturbing signs began to emerge even while profits were still on the upswing in the early 1980s. Classified advertising increasingly became the industry's financial lifeblood. National advertising, a significant factor for larger dailies, was eroding. Local retail display ad revenues, although continuing to rise because of aggressive price increases, were declining as a part of the total local advertising mix (Fig. 1). This change

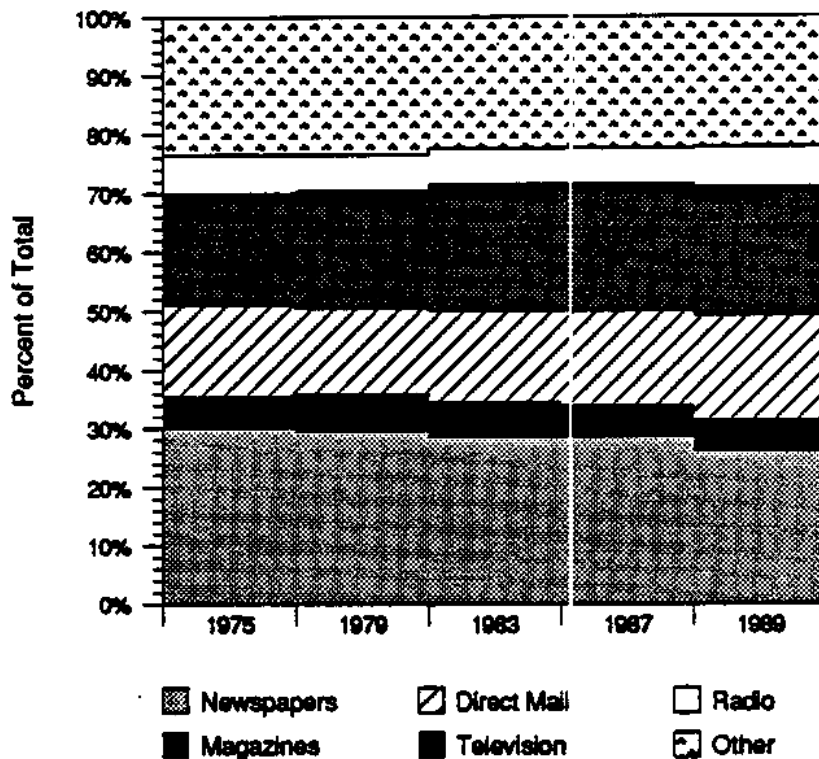


Source: Data from Newspaper Advertising Bureau; Robert J. Coen, McCann-Erickson, Inc.

Figure 1
Classified vs. Retail Display Advertising:
Percent of Total Local Advertising Revenues, 1980 - 1989

of the relationship between retail and classified advertising volumes was the result of two factors: first, advertisers were shifting portions of their print advertising budget from the local retail display (in the newspaper vernacular known as run-of-paper or ROP) ads to preprinted inserts and second, the sheer increase in the volume of classified advertising.

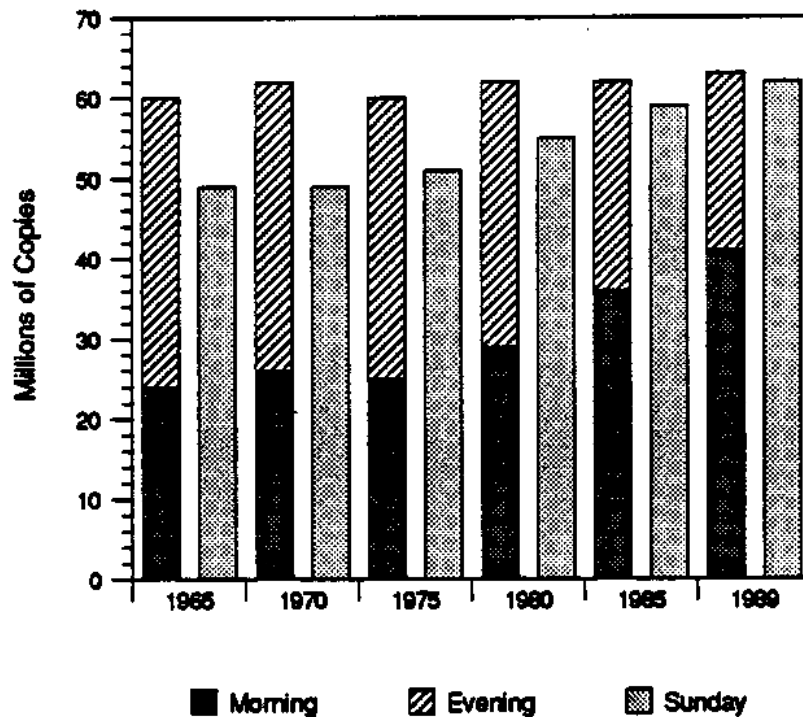
In 1989 \$32.5 billion was spent for newspaper advertising. Newspapers remain the nation's largest advertising medium with 26% of the total advertising market of \$126.8 billion (Fig. 2), but their market share has dropped 3.5% since 1975.



Source: Data from Robert J. Coen, McCann-Erickson, Inc.

Figure 2
Advertising Spending by Media
as Percent of Total, 1975 - 1989

Newspapers also were confronted with the fact that overall circulation was essentially level—not keeping pace with population growth. Daily circulation was flat but Sunday's was rising. Likewise, by the early 1930s, the attrition of evening newspapers began in earnest as publishers switched their papers to the morning cycle. The one positive factor in this picture of gloom was the growth of Sunday papers (Fig. 3). New Sunday papers were launched and they thrived.



Source: Data from *Editor & Publisher International Yearbooks, 1966 - 1990.*

Figure 3

Newspaper Circulation in Millions of Copies

On the revenue side, newspaper subscription and newsstand prices rose almost in lockstep with the price increases in advertising. Thus, the relationship of the twin drivers of newspaper revenue, advertising and circulation, (which represent approximately 80% and 20% respectively of total revenues) remained much the same as it had for a decade or more.

Partners in a Changing Marketplace

Daily newspapers and department stores have had close ties stretching back over several decades. This relationship has been most important to newspapers, inasmuch as a quarter or more of their total local retail display advertising revenue had come from department stores.

At the end of World War II, this linkage with department stores grew as the stores renewed their advertising activities. With the pent-up consumer demand, the stores would place an ad in the newspapers one day and have empty shelves the next. This in turn led to more advertising as the demand for consumer goods continued to grow. Consumers bought houses, furnished them and then settled down to raise families. In

turn, the new babies became *baby boomers* who started their own consumption cycle. The department store sales grew and so did the newspaper advertising.

But, the retailing climate was changing. Beginning in the 1950s, shopping malls began to spring up in almost every city and town. Department stores soon relocated to these new shopping centers. At the same time, the smaller retailers who were located in the downtown areas either joined them or succumbed. Many downtowns became ghost towns.

By the late 1970s, national discounters like K-Mart, who had been regular newspaper advertisers, sought a less expensive form of advertising. They began to reallocate more of their retail ad dollars from newspaper display advertising to preprinted insert sections. Soon, they were followed by major department store chains like Sears, J.C. Penney and Montgomery Ward. The major advertisers began to pressure the newspapers not only to distribute their preprints but to do so at lower rates than for conventional run-of-paper advertising. Newspapers resisted, but they finally gave in, so as not to lose revenues to direct mail or independent delivery channels.

Did it pay for newspapers to carry the lower-priced preprints? In the short-term, yes. But in the longer-term, some merchants cut the number of preprints they used. There were just too many of them in newspapers creating clutter. Also, advertisers began to shift their ad dollars into other media like direct mail, coupons, in-store promotions, radio and television.

A Change in Retailing, Shopping and Buying

During the last half of the 1980s, a transformation was occurring among the newspapers' mainstay advertisers—the department stores. Financed by junk bonds, several major investors targeted large department store chains for takeover. Once these takeovers were completed, the buyers sought to pay off some of their staggering debt by stripping assets and cutting advertising budgets.

At the same time, a major restructuring was taking place within retailing. Department stores were dropping traditional product lines like large appliances and concentrating on soft goods (such as clothing with designer labels), as a way of distinguishing themselves from the K-Marts, Wal-Marts and other discounters. However, these same department stores continued their marketing efforts as before, virtually ignoring the opportunity to attract the newer time-starved two-income family shoppers. To their chagrin, many of the department stores soon discovered that the potential buyers were shopping elsewhere.

Department stores are in trouble. Chains like Federated Stores, Carter Hawley Hale and Allied are bankrupt, Sears and Macy's are beleaguered, and old-line merchants like B. Altman, Bonwit Teller and Garfinckel's have disappeared. The net result has been a loss of ROP advertising for most metropolitan and suburban newspapers. The historical reliance on department stores for significant ad revenues is at risk.

In this turbulent retailing climate, discounters continue to become more specialized, with certain stores selling only off-price, men's, women's or children's

clothing, while others sell only large and small appliances, low or high-end consumer electronics, non-prescription drugs and cosmetics. Increasingly there are now niches within niches.

Meanwhile, there emerged the specialty boutiques and direct marketers—the catalog merchants—neither of whom advertise in newspapers. The direct marketers enjoyed double-digit growth rates in the 1980s as they targeted the time-strapped, two-income family to good effect. They by-passed daily newspapers and sold their products via catalogs directly to the consumers. Local merchants, especially department stores, suffered from this aggressive competition.

Discounters, direct marketers, and specialty boutiques have altered the way Americans shop and buy. Because of these changes affecting retailing, and the lumbering ways in which many department store chains responded to them, much of the traditional department store market has disappeared, possibly forever.

The Shift to Classified Ads

During the past decade, as retail advertising faltered and lineage dropped, most papers were able to ignore the consequences of this slowdown because of two factors: first, the continued vigorous growth of classified advertising and second, by aggressively raising rates of retail display ad space. However, this shift of relationship between the two types of advertising (Fig. 1) poses a major problem for newspapers in that classified advertising is cyclical. The three major elements of all classified ad sections, help-wanted, real estate and automotive, are all highly sensitive to fluctuations in the economy.

A further factor complicating the picture for newspapers is the increasing competition for classified advertising, especially in metropolitan markets. The competitors range from classified-only paid weekly publications, to free shoppers containing no editorial material but only local advertising, weeklies and free real estate-only papers which are prepared and distributed by local realtors.

A Monopoly With Too Many Competitors?

Some newspaper critics maintain that most dailies are monopolies. While this statement may have been true several decades ago (and still may be true in a few isolated backwaters), today it is a fiction. In most communities the competition for the reader's time and attention and the local advertiser's dollars is fearsome. There are a whole host of competitors including television, cable TV, national and regional dailies, weeklies, shoppers, magazines, and yellow page directories. And the number of media choices is expanding.

What is true about the so-called monopoly position of daily newspapers is that they have dominated the local advertising market, garnering a share upwards of 65%. But, during the past decade, this share figure has been eroding as a steady stream of competitors have emerged and the marketplace for advertising became fragmented.

To counter this competitive onslaught, newspapers have invested heavily in sales training programs and market research, but their competitors are not sitting still. The fight for local advertising is turning into a battle royal. Ad rates are being creatively applied and deals are being made by most newspapers and their competitors. And, the future would appear to be even more contentious than the present.

Shoppers, Weeklies and Regionals

One of the constant irritants and threats to local newspapers are weekly "shoppers." With the advent of desktop publishing, a bit of imagination and a lot of hard work, one can enter the shopper business easily and with a relatively small investment. Shopper entrepreneurs have no money tied-up in bricks, mortar and iron and can easily undercut the advertising prices of most dailies, since the latter have significant overhead of plant and equipment and editorial staff costs. Lastly, the shopper owners don't have to answer to Wall Street, only Main Street.

Weekly newspapers share the same type of cost structure as shoppers, except they do have a small editorial staff. But, weeklies have a big advantage over dailies in that they can run the type of local news items such as church suppers, club affairs, local school lunch menus and the police blotter, which the daily hasn't room for on its pages.

Weeklies and shoppers have been doing very well this past decade and their circulation growth shows it. According to the National Newspaper Association, the combined circulation for weeklies and shoppers in 1980 stood at 42.3 million. By 1990 the figure is expected to reach 55.2 million, an increase of 30.5% in a decade.

Many newspaper groups, in a defensive move, are buying shoppers and weeklies in or adjacent to their markets. This protects the daily by keeping other print competitors at bay and also provides some flexibility in selling to all kinds of advertisers.

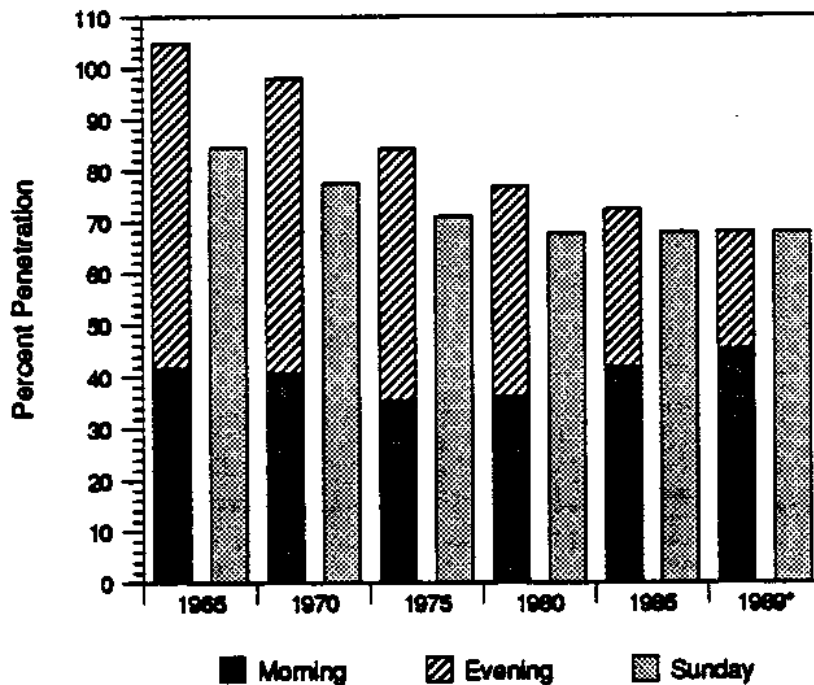
In several metropolitan markets like Washington, D.C., Detroit, Chicago, San Francisco and Los Angeles, the metro papers are surrounded by suburban dailies, weeklies and shoppers. The latter thrive while the metro dailies try to reach and maintain readership in the suburbs through zoned news and advertising. But the large newspapers are hampered by the inherent inflexibilities in the printing process of having to use several tons of machinery to deposit a couple of grams of ink on paper. Likewise, they are constrained by their inability to accommodate the printing of zoned editions without having to stop the presses to put on new printing plates containing the different editorial and advertising matter. This is quite costly in terms of both time and money, and there does not appear to be an alternative type of high-speed printing process in the foreseeable future. Still, metropolitan newspapers must zone their products despite the cost, if they are not to abdicate their hard won stakes in the suburbs, since this is where the readers are.

For major dailies like *The Chicago Tribune* or *The Los Angeles Times*, growth in the suburbs is important, but the papers also seek to serve expanded regional markets. Recognizing this point, *The Tribune* uses satellite printing plants in Illinois and Wisconsin to print their daily product which is delivered into parts of those states and

Iowa. *The Los Angeles Times'* regional efforts are concentrated in Southern California while *The New York Times* has both regional and national editions. *The Wall Street Journal* and *USA Today* are national papers which offer regional advertising.

Newspaper Circulation—Good News and Bad News

On the circulation front the good news is that the numbers of subscribers to Sunday papers have been steadily rising. The bad news is that daily circulation is falling. For the past two decades, total daily subscriber count has been stuck in a rut at between 62 and 63 million. And, as U.S. population continues to grow, daily newspaper household penetration continues to decline. There appears to be no let-up in this trend (Fig. 4).



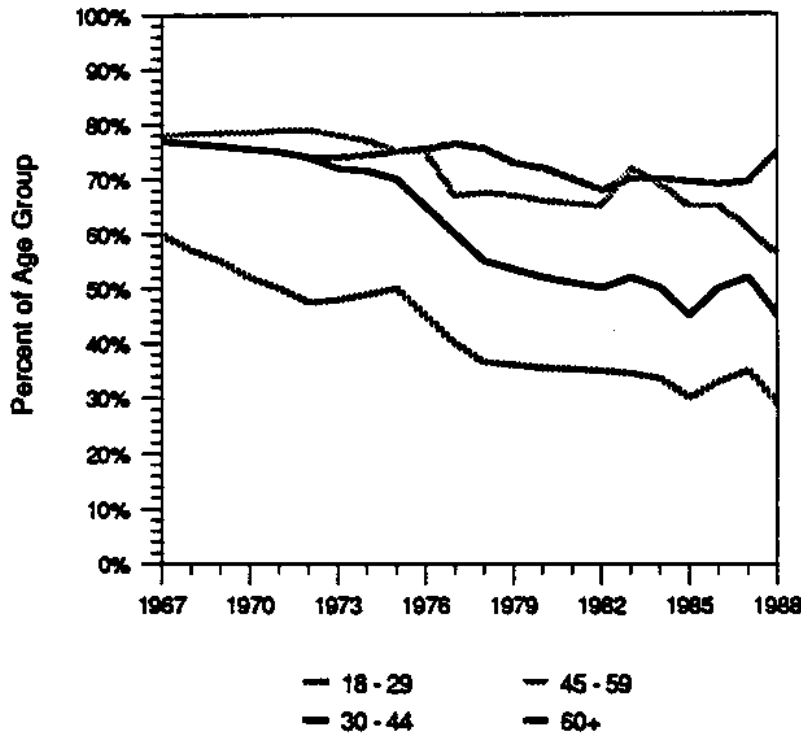
*Estimated.

Sources: Data from *Editor & Publisher International Yearbooks, 1966-1990*; Newspaper Advertising Bureau; Data Resource Inc. (*Review of the U.S. Economy*), Oct. 1989; and Paine Webber Inc. estimates, Nov. 1989.

Figure 4
Household Penetration of Daily and Sunday Newspapers, 1965 - 1983

A study by the National Opinion Research Center of the University of Chicago, covering the period 1967-1988, disclosed that the trend in reading newspapers every day is down. The study revealed that "...since 1967, for each of the four age groups: 18-29, 30-34, 45-59, and age 60 and over, all but the oldest (60+) age groups show fairly steady

decline, with the steepest declines being registered by the two groups under age 45.³ (Fig. 5).



Source: Adapted from National Opinion Research Center of the University of Chicago.

Figure 5
Percentage of People Who Read a Newspaper Everyday

This report revealed that total average daily and Sunday readership was eroding and this erosion intensified among younger adults. In 1970, for example, daily readership among those over age 18 was 73%; by 1989 it had dropped to 50%. And a study conducted for the Times Mirror Corporation reveals that young people seem to have little interest in reading a newspaper. In that study only 24% of the 18-29 year old age group read a daily newspaper yesterday. The figures for the so-called baby boomers, the 30-39 year old and 40-49 year old groups, were 40% and 45% respectively.⁴

Dr. John P. Robinson, an expert on time usage, measured the number of hours per week in 1985 that people aged 18 to 64 spent reading as a primary activity. He said that,

³ Gollin, Albert E. "Circulation and Readership Trends and Industry Challenges," Report to the Newspaper Advertising Bureau Board of Directors, October 23, 1989. National Opinion Research Center, University of Chicago.

⁴ *The American Media: Who Reads, Who Watches, Who Listens, Who Cares?* Times Mirror Center for the People and the Press. July 15, 1990.

"The decline in newspaper reading over last three decades has been one of the steadiest and pronounced trends in the free-time behavior of the American public." He also stated that, "The share of the adult public that read a newspaper yesterday has declined from 85% in 1945 to 73 percent in 1965 and 55 percent in 1985. This decline in newspaper reading is evident in almost every consumer segment regardless of age, education, family type, or employment status." Dr. Robinson added, "The overall decline comes because the time the public spends with newspapers has fallen, from 2.5 hours to just 1 hour per week. Women spent 18 minutes a day reading the newspaper in 1965, but only 7 minutes in 1985..."⁵

Obviously, newspaper executives are concerned by these trends. Some have suggested that newspapers can no longer remain a mass medium and should be oriented toward upscale readers. Others believe that if the subscriber base continues to erode, then what will remain in terms of audience and penetration may not satisfy advertiser needs. Meanwhile, editors assert that any such circulation marketing shift will lead to a mass vs. class situation, which is something they very much want to avoid.

Newspaper publishers are also concerned about the potential negative effect declining circulation will have on advertising revenues. Al Neuharth, former chairman of Gannett Corporation, has suggested that newspapers traditionally have relied too heavily on advertising revenues and that they should raise subscription rates so that they exceed their usual 20% of total revenue.⁶ Such a move could in the short-term make up for a drop in ad revenue. However, subscribers would probably be lost in the process. Where might those losses come from? Would only lower income readers drop their subscriptions? Would local advertisers be happy with this contracted readership base? As the king declared in *The King and I*, "Is a puzzlement!"

Choices Facing Small Dailies

In some of the more isolated ex-urban and rural markets, many smaller dailies are having a difficult time. Local advertising is pretty thin and with the structural changes taking place in retailing, will probably become thinner. The future of small dailies, those under 25,000 circulation (which represents more than 50% of all daily newspapers in the U.S.) is in question.

Among the several ideas discussed by newspaper executives with regard to small dailies is the possibility of these papers publishing only twice or three times a week including a full Sunday package. They reason that the operating costs for dailies are going up, i.e., wages, newsprint, ink, distribution, etc. The question then becomes "Can a small town daily newspaper's advertising and subscription revenues support a seven-day a week operation?" If not, would a daily newspaper become more profitable if it shifted to a two or three-day per week publishing cycle including the Sunday package or a Sunday-only product?

⁵ Robinson, John P. "Thanks for Reading This - About Time," *American Demographics*, May, 1990.

⁶ Interview with the Editors. *Electronic Media*, New York, November 1, 1990.

Editors vs. the "Bean Counters"

The question of newsroom expenditures is one area of contention that exists in newspapers between the editorial staff and the newspaper business executives. The former accuse the latter of being "bean counters" who are hurting the news product by their penny-pinching ways. The business people maintain that editors are editing for their peers and not for their readers—that they may need a course in Economics 101. Both sides are talking past each other, and at times they seem to speak different languages.

Another subject of controversy among editors is that of market research. For some the term is a malediction. These few are disinclined to accept the idea of using market research to ascertain information about the readers—who they are, what they read in a newspaper or, what they want to see in the product and are not getting. Likewise, this same group often mistrusts the conclusions one can draw from the research. They feel that editors are the ones who understand what the public needs and wants to read.

The majority of editors appear to be as concerned as other newspaper executives about the future of daily newspapers. Their careers are on the line. They too wrestle daily with the seemingly insoluble problems entailed by the loss of subscribers. As one editor said, "Frankly, I'm worried. I love this job and I want to keep it. I don't want to be forced to sell insurance in ten years."

Admittedly, the editors have a bit of difficulty balancing their sense of purpose in this last decade of the 20th century with the 100 years of journalistic culture they carry with them. But, most editors are accommodating themselves to the new conditions in their environment. They are developing fresh ideas and relevant editorial products that attempt to meet the information and entertainment needs of their audiences. Their success may be measured by the fact that approximately 63 million people read a daily newspaper. Their failure is the fact that newspaper readership has not kept pace with population growth.

Alternative Revenue Sources for Newspapers?

What are some of the possible alternatives for daily newspapers? Currently a number of papers are investing in various audiotex projects using interactive 900 numbers for which they can collect a fee per call. Other papers are active in the promotion of audiotex services such as stock prices, sports' scores, health tips, etc., which are sponsored by an advertiser or carry some type of institutional message from the newspaper. The purpose of such services is to maintain the goodwill and interest of both subscribers and non-subscribers alike and keep competitors out of the field. (These latter audiotex offerings provide little or no revenue for the newspaper.) Will all of these new audiotex services be an important source of new revenues and profits? Current results are not promising.

RBOCs and Newspapers—Adversaries or Partners?

What will be the role of the regional Bell operating companies (RBOCs)? Will they be allowed to disseminate their own information over their own phone lines? For the

past decade the RBOCs have been operating under a court order that has prohibited them from doing so. The newspaper industry has been most aggressive in seeing that these restrictions are retained. Newspapers view the RBOCs as a serious threat because of their potential ability to solicit both Yellow Pages and classified advertising and transmit the same for customer interaction directly to the home via their own lines.

While Judge Harold Greene lifted the information services restrictions on RBOCs in his decision of July 25, 1991, appeals of his ruling may keep the issue unresolved for another couple of years. Even assuming that RBOCs win unconditional freedom to provide information services over their networks, it is not clear that the new RBOC services will actually capture any of the newspapers' traditional markets. If and when the restriction is removed, it is likely that many newspapers will establish joint ventures with RBOCs as a defensive strategy.

Database Marketing to the Rescue?

The newest idea being discussed by newspapers is database marketing (DBM). At various industry meetings and seminars, the DBM proponents wax rhapsodically when they describe the potential revenue opportunities that might be attained once newspapers assemble all the various pieces of personal information about their subscribers. Then the papers could use this intelligence to market their own products and sell this information to others, creating a new stream of revenues and profits. Sound too good to be true? It probably is.

What the DBM experts fail to mention is the great difficulty there is in initially gathering the information and the great cost of maintaining and updating the database. The proponents of DBM also appear to overlook the potential social and legal questions surrounding the privacy of information. Indeed, it appears to be incongruous for one side of a newspaper to plan on selling personal information about its subscribers, while down the hall the newspaper's editors and reporters are willing to go to jail in order to protect the confidentiality of their sources while upholding their First Amendment rights.

Some New Technology for Newspapers?

What role will technology play for newspapers in the future? Will newspapers find the equivalent of another keystroke capturing technique, another way which will enable them to drastically cut costs? Not likely. Most of the computer-based tools and techniques such as pagination, color scanning, manipulation of graphics, fax and cellular phones will either save a few people, improve service to customers or both. In general, these new tools represent refinements of existing technology, but it appears that none of these technologies will have a major impact on a newspaper's bottom line.

Electronic Distribution and Other Changes

Will the newspaper change dramatically in appearance or packaging in the next few years? Some have suggested that a core newspaper would be sold to subscribers and that specially priced sections will be offered each week that subscribers could purchase and have delivered to them. Each section would deal in depth with subjects as

sports, local business, cooking, international and national news, entertainment, etc. This form of tier marketing is currently prevalent in cable television.

What about fax? The use of facsimile to deliver news briefs to subscribers, albeit at a very high price, has been experimented with by a number of newspapers, most of whom have now stopped their projects. The future of fax as another source of revenue appears dim.

Meanwhile, videotext seems to be re-emerging from the shadows. Despite the failed ventures of Knight-Ridder (Viewtron), Times Mirror (Gateway) and, most recently, the Omaha World-Telegram- U.S. West trial, videotext still has its advocates. Sears and IBM have poured hundreds of millions of dollars into their Prodigy joint venture. Most newspapers probably are well advised to let these giants prove whether there is a real market for videotext.

Electronic distribution of the entire newspaper directly to the home is impractical. Broadcast television, radio and CNN and full-time local cable news programs on Long Island (NY) and in the suburbs of Washington, D.C. have somewhat usurped the daily newspaper's role. Newspapers maintain that their electronic competitors are short on in-depth local and regional news reporting. Further, the daily paper sees as its strength the presentation of community news, interpretive analysis of local issues, entertainment, lifestyle information, etc. It appears to be difficult, at least in this decade, for any of the electronic media to fully displace the print technology.

Some newspaper experts speculate that electronics will become so pervasive that the only print product physically delivered to one's home will be the Sunday newspaper. Part of the subscription price will include electronic services via a phone line to a fax machine, a home video terminal or a memory cartridge which could be slipped into a subscriber's TV-notebook for later replay. The news and advertising would be tailored to fit the subscriber's interest profile. There are many such scenarios being discussed but which scenario will prevail in the future—if any—remains the big question.

An Emerging Industry Structure?

A question being discussed by some newspaper executives is, "What kind of a structure will the industry evolve into?" Already, a new framework is beginning to appear. It is shaped like an inverted capital "T" with a number of small independent newspapers and newspaper groups situated on the wide bottom segment, a handful of horizontally integrated mega-companies at the narrow top and very little in the middle.

This T-shaped industry structure is developing because of the need for growth and diversification. A mega-company has the strength to stake the millions of dollars often required to develop a new venture or make a speculative acquisition without putting the company at risk. The hazards of an investment of such magnitude would be too great for the middle-size firms.

On the other side of the equation, the middle-size newspaper group might find that smaller diversification opportunities take up much of management's time but fail to

offer a meaningful impact on their bottom line. Thus, medium-size newspaper groups are caught in a dilemma, being both too big and too small.

As for the small newspapers, they will only undertake diversification activities commensurate with their size. They cannot consider being involved in high risk ventures. Very simply, they just don't have the magnitude of financial resources.

Conclusion

Daily newspapers have not had it, at least not yet. They will not disappear but, industry trends are not encouraging. Circulation is stagnant, competition is growing, and no miraculous new technologies are within sight. Revenues and profits may be decent by the standards for most industries, but it appears that newspapers will be unable to maintain the same level of economic performance that they enjoyed in the recent past. One can readily imagine that more than a few newspaper publishers are looking back to the '70s and '80s with a touch of nostalgia and thinking, "Those were the days."