

British newspapers and the internet

John Hill, examines the changes being forced on the press by the internet's successful attack on classified ad revenues

THERE HAS BEEN an increasingly rising tide of interest in the internet among newspaper managements as more and more revenue has been lost to websites. Such has been their concentration on the perceived threats and possible responses that newspaper managements often appear to have lost sight of the fact that newspapers remain much stronger as a medium. The degree of this strength is indicated by a recent Mintel report which shows that 34% of people in the UK use newspapers as a main source of news compared with 12% who use the internet.

So, if the threat is not to newspapers as products, it can only be to the advertising that newspapers carry, and this is indeed the case. More and more property advertising is being handled through websites such as Rightmove, and even recruitment advertising for the National Health Service is being channelled through its own website. We are seeing retail stores concentrating on advertising their goods on the web and seemingly preparing to use their store locations merely as convenient display cases.

Overdependence

This would be of less importance if newspapers did not have a serious overdependence on advertising, not just to make a profit but also to cover a large part of their costs. Advertising represents

approximately 80% of the total revenues of regional newspapers and 60% of those of nationals. If, and it is a very big if, newspaper organisations were making operating profits of 20% of turnover, it would not take much of an advertising decline to place considerable numbers of titles in jeopardy. It is to the protection of their revenues that newspapers are looking when they seek to find an internet business model.

There are broadly three strategic options:

1. to tackle their internet competitors head-on by out-focusing them
2. to 'bundle' the advertising by co-operating with competitive websites, and
3. to increase the price of the newspaper as a product, so lessening the dependence on advertising.

Out-focusing in the case of property advertising is particularly difficult, as the owners of the properties have entrusted the sale to estate agents who may have an interest in the website they advise the owner to use.

The loss of property advertising is almost exclusively the problem of regional newspapers, and is limited to higher-priced homes. Lower-priced properties cannot carry the cost of large amounts of advertising and the evidence is that owners wish to have their properties advertised in the local newspaper as a first priority. This may well be because internet access is less frequently available in these demographic groups. It seems probable that this area will remain with newspapers.

With car advertising, the nationwide websites seem to have been less effective, probably because cars often have to be examined and driven before a buying decision is made. While all car retailers have websites, they continue to run newspaper advertisements stressing their localness.

Online recruitment advertising has had very considerable success, but again it has been primarily with higher-paid positions that attract applicants who are prepared either to travel, or move home. As mentioned earlier, the National Health Service now has its own website on which all vacancies are advertised.

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This was a serious loss to newspapers which previously carried all these vacancies. There is another looming threat from the possible loss of all public-sector vacancy advertising, as the Conservative Party was reported in the *Daily Mail* (3 December 2006) to be proposing to ban all public-service recruitment advertising in newspapers, replacing it with the government's own website. This would mean a loss of £800 million, a damaging shortfall for newspapers if none was retained. This would represent 16% of total ad revenue, a loss that newspapers could ill afford.

Bundling

Bundling is the second broad option available to newspapers. By co-operating with specialist websites, newspapers could offer readership that the websites do not already have, bearing in mind that not all households have internet access. Either the newspapers could offer commission to the website for all properties, jobs or cars transferred to the newspaper, or vice versa. While expensive, it would probably cost no more than the discounts that newspapers currently give to estate agents. Another alternative is what has become known as the Google model, where a newspaper sets up a general site



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and advertisers pay-per-click as readers link to their site.

The final option is for newspapers to accept that a great deal of their advertising revenue has gone for good and to concentrate on making the product itself profitable. It is slightly bizarre that a newspaper is sold for less than its cost of production and can be bought for the price of two cigarettes. The fundamental reason that this situation exists is that newspaper managers believe themselves to be in competition with other newspapers on price. By any measure, newspapers are seen by the public as essential goods, some way less sensitive to price increases than the majority of others.

In their drive for the highest possible copy sales, individual managements have held down the price of the product, relying more and more on the burgeoning advertising revenues that their large circulations brought them. This, as it turned out, was a strategic cul-de-sac - fine as long as circulations stayed high and advertising plentiful, less fine when circulations dropped, as they have over the last 30 years, and advertisers found alternatives.

Everything newspaper managements did with regard to production of the newspapers in the salad days was designed to obtain economies of scale. Their newspaper presses were large and fast, which enabled the lowest possible unit cost per copy. When photocomposition technology became available, newspapers were among the first to re-equip, so newspapers could be delivered faster than ever before and manpower reduced. At the same time, family-owned newspapers were passing into the hands of large groups, many of which were publicly owned, and the influence of market analysts began to be felt in both board rooms and in senior management. To maintain margins, newspapers had to raise advertising rates to compensate for lower sales revenues. Advertisers were paying more and more and getting less, which is not a particularly sound and sensible long term policy for any business to pursue.

Towards realistic pricing

To increase prices to a level that would sustain the newspaper industry in the medium to long term it will be necessary for the product to be changed sufficiently to fit the needs of readers better. The current one-size-fits-all nature of newspapers means that they suit some of the readers only some of the time, and those satisfied readers are becoming fewer as their wealth grows and their tastes grow more discriminating. As an indication of this, Angus Deaton in his book *Economics and Consumer Behaviour* (1980) quoted the income elasticity of demand index for newspapers as minus 0.1, which means that newspapers were regarded as 'inferior goods', but only just so. At present this index is around minus 0.46, showing that newspapers are now regarded as more inferior. A characteristic of inferior goods is that they are more substitutable than normal goods, and this is what appears to have happened with newspapers. (It is important to note that newspapers can be regarded as both 'essential' and 'inferior' at the same time: these are economists' terms that describe a good's behaviour in changing conditions.)

What can be done to reverse this inexorable descent? Lessons are available from other industries: when consumer goods manufacturers faced the same situation, they segmented their markets and proceeded to supply the identified

segments with goods suited to their needs. But this is impossible for newspaper organisations that strive for low unit cost and have invested heavily in large, fast and expensive presses that operate best at their designed speed. Any interruption to the smooth flow of papers through the press results in spoiled copies, and as newsprint usually costs about the same as steel, this is a situation to be avoided. Of course it is possible to break a press run into segments, but the cost in both time and money would be insupportable.

Leaving aside the problem of viable production, it is necessary to decide on what basis newspaper markets should be segmented. The traditional categories are geographic, demographic, psychographic and behavioural; of these, the only one that does not require extensive research is the first. Except in the case of very small communities, there are usually distinct community divisions that have their own interests and concerns upon which a newspaper may report and comment. The larger the overall community, the more communities of interest there will be, making segmentation simpler.

Personalisation?

One stage beyond segmentation is personalisation, where a product is engineered to fit the needs of each I*



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individual, as happens with very-high-value luxury items such as motor cars or private aircraft. Personalisation is possible with newspapers by recognising that newspaper content can be categorised as being either made, which in the case of editorial means those items that are created within the newspaper, or bought - content that is provided at a cost by outside agencies. Most news stories are handled by the newspaper's staff, and the overwhelming majority of feature articles on subject areas such as fashion and so on are bought in.

In order to provide products that best suit readers, it is obvious and self-evident that they need to be asked. With segmentation, especially geographic segmentation, this is simple: if they live in a community, the chances are that they will be interested in events that either happen in, or affect, their community. Readership research at frequent intervals will be needed to monitor the overall situation, but other than organising regular focus groups, little would need to be done.

With personalised newspapers the position is even simpler. Because of the *unknowability* of news content readers cannot make timely, informed choices about what they wish to have presented to them. But they can determine what feature content they wish to read. At present, the amount of household budgets spent on the purchase of newspapers is falling and the money spent on consumer magazines is rising. As the content of magazines is almost totally feature material, which is not time-sensitive, it is clear that readers are turning to magazines to find material that newspapers simply do not have the space to accommodate. By providing each reader with a list of available subjects and asking them to select a specified number, newspaper management can order the feature content and incorporate these items into the reader's copy of the newspaper.

It may be thought that these are impossible dreams. Well, they might be, but the fact is that all the technologies to permit both segmentation and personalisation already exist. Digital newspaper presses that enable a complete change of content for each individual copy in a press run have been demonstrated at recent newspaper exhibitions. The workflow databases that will permit the change of content for each named reader already exist. They are slow, but like many new technologies they are set to double and redouble both their speeds and capacities in years to come.

Will digital printing enable newspapers to charge more for their product? It is important to recognise that, as far as the purchaser is concerned, it is not the actual price that matters, it is the perceived price, and the perceived price is closely linked to the perceived value inherent in the prod-

uct itself. If a newspaper improves the perceived value for a reader, then that reader will consider him or herself to have benefited from what is, in effect, a lower price. By any standard, segmentation and personalisation add considerable value to a newspaper and enhance the newspaper organisation's opportunity to charge a premium price, certainly in the case of personalised newspapers.

What about ad sales?

While the editorial content of a digitally printed newspaper will be created much as it is today, the selling of advertising will change dramatically. In place of being able to offer just one advertising vehicle with the waste readership that entails, newspapers will be able to offer both split-run advertisements where the copy changes depending on the reading audience, and geographically separate areas, so that each branch of a multiple store could carry its own address and its own special offers. With the information contained within the newspaper's databases it will be possible to provide virtually any specified audience the advertiser requires.

Newspapers will always be around: they are too closely identified with their communities for those communities not to wish to retain the symbol that identifies them as a group. The closer the newspaper is to its community, the better its chances of surviving unscathed, which is why weekly local newspapers have lost least in circulation in recent years. The larger regional newspapers and regional editions of nationals will need to look closely at what they can do to take themselves down to the grass roots.

With regard to national newspapers, there has been a significant recent development in the United States that we may well see repeated here. *The Sunday Times* (3 December 2006) carried a story that super-rich individuals such as Jack Welch, the former boss of General Electric, were emerging as would-be buyers of some of that country's most significant newspapers, including the *Los Angeles Times*, the *Boston Globe*, the *Baltimore Sun* and the *Wall Street Journal*, most of which are suffering decline. These men have identified values that others have not seen, which brings to mind the words of the immortal Damon Runyon: 'The race is not always to the swift, nor the battle to the strong, but that's the way to bet.'



Job search: online recruitment has experienced considerable success, yet primarily with higher-paid positions that attract applicants who are prepared either to travel, or move home

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