

HOW TO SELL AND PRICE NEWSPAPER ADS FOR THE FUTURE

Newspapers around the world are experiencing accelerating declines in revenues and profits caused by a combination of structural disruption and an intensifying international recession. What can newspapers do to navigate safely through these turbulent times?

Len Kubas
 Consultant, INNOVATION International
 Media Consulting Group (Canada)
 lkubas@innovation-mediaconsulting.com

For over a century newspapers' approach to selling advertisements bordered on a "take it or leave it" attitude. Newspapers basically charged what the market would bear, while confusing customers with published rates that were both difficult to understand and bore little semblance to what many customers actually paid.

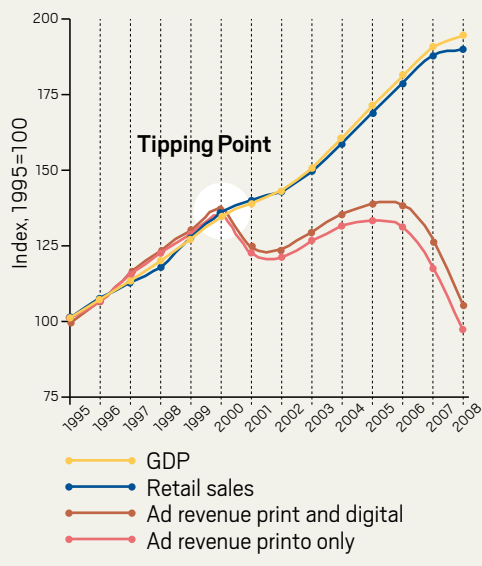
Newspaper ad sales practices included constant negotiations, discounts and deals. Newspaper sales reps sold whatever gave them the best commission, sometimes at the expense of what would deliver the best results for their customers – or their employers.

These practices seemed to work for many years as newspapers' sales and operating margins increased steadily. But evidence was accumulating that newspapers' ad sales and pricing practices were becoming dysfunctional and disconnected from the marketplace.

It is useful to look at daily newspapers in the United States as a case study. A sharp break in the long-standing relationship between newspaper ad revenues and the main economic drivers, Gross Domestic Product (GDP) and Retail Sales, started in the second quarter of 2000. This was before the Internet became a major force in advertising, and well before the current economic meltdown. Since Q2, 2000, newspapers' revenue performance gap has been widening, as shown in the chart on the left.

Up until the second quarter, 2000, U.S. daily newspapers' ad revenues grew at about the same rate as the general economy. With growth indexed to the Year 1995 = 100, the gap between newspaper ad revenues and the economy has diverged alarmingly starting in

US DAILIES TIPPING POINT WAS Q2 2000



early 2000. This suggests that there is something inherently wrong with newspapers' current sales and pricing practices.

The chart also highlights three key points:

- **Daily newspaper print ad revenues for 2008 (Index = 96) are about 4% below the level they were in 1995 (Index = 100).** In other words, in current dollars, the daily newspaper industry is generating less print ad revenues in 2008, despite the economy growing in excess of 6% annually, on average over the last thirteen years.

- **When converted to constant (inflation-adjusted) dollars, the industry experienced actual real declines,** as inflation generally averaged at least 2% per annum during that period.

- **Digital (web/on-line/search, etc.) advertising revenues** have not significantly offset the stunning decline in print ad revenues.

If your newspaper is not located in America, what would your industry's graph look like?

IT'S BROKEN, NOW LET'S FIX IT!

Today, newspapers appear to be rushing off in all directions: cutting staff and expenses, reducing content, curtailing publishing frequency and service, and engaging in even more deals and discounts for advertisers in order to generate at least some revenues and profits. There are several problems with this scenario as shown in the illustration of the Newspaper Pricing Iceberg.

Published rate cards represent only a small portion of the total pricing permutations available. Most of the potential damage is self-inflicted, and is caused by dysfunctional pricing activity that is hidden from view.

Massive price cuts and discounting raise expectations of more discounts to come, while creating resentment and undermining trust among the newspapers' best customers. The quest for almost any ad revenue, no matter

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what the profit contribution, is causing newspapers to pursue the wrong tactics and further weaken newspapers' foundation for success once a recovery does take place.

There is no question that the next year or two promises a bumpy ride for newspaper ad sales. What should newspapers be doing today to survive 2009 and beyond? One key to survival is to do more with what you've got. Here are a few suggestions.

1. FOCUS ON THE NOW

Focus on where you can increase efficiencies and strip costs out of newspapers' business model. Streamline, standardize and automate all elements of your newspaper's advertising sales operations, eliminating pen and paper processes. Make it easier to buy and sell advertising.

Create an advertising sales process that is simple, transparent, systematic and disciplined, designed to deliver sustainable revenue over the long term. Usually this requires "blowing up" the rate card, which is often irrelevant, as shown in the following chart. There is little consistency and even less logic about how newspapers actually charge for advertising.

The following example illustrates that published rate cards are usually not representative,

since effective yields can vary dramatically, often with little bearing on an advertiser's total investment.

Because markets are in turmoil, now is the time to provide a logical, rational foundation for ad pricing that encourages more investment for improved results. Newspapers must invest in research that demonstrates the effectiveness of ads published in their pages.

Automate the sales process by using computer software to create an Ad Cost Calculator™ that prices ad campaigns of different sizes, frequency, color, day of week, section or position, in print and online. Then it is just a matter of a few clicks on a laptop computer to determine which schedule provides the advertiser with the most impact for their investment.

As soon as possible, implement online ad creation capabilities to enable advertisers to buy and create their own ad schedules. As Google has shown, this is a more effective long-term solution than off-shoring ad creation or even putting more “feet on the street.”

Take sufficient time to test and develop a new rate structure that will work better for both the newspaper and for advertisers. Be sure to look outside your own newspaper or your own country for advice and best practices. Like carpenters, measure twice and cut once.

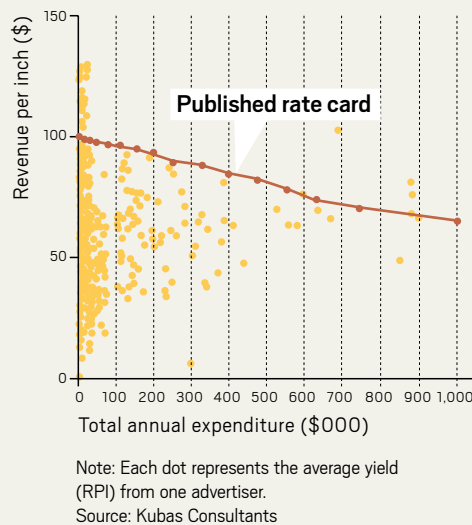
2. SELL IMPACT, NOT INCHES (OR CM, OR MM, OR AGATE LINES)

Historically newspapers charged advertisers based on the physical space the ad occupied. Ad cost equals space times rate. This long-standing linear space-based pricing practice used by most newspapers has three fundamental flaws.

- Since the price of advertising is essentially linear (a 50 inch/cm costs twice as much as a 25 inch/cm ad), there is little incentive for advertisers to buy larger ads, and every incentive to buy smaller ads. Over time, the average ad size at most newspapers has decreased appreciably.

- Advertisers can buy almost any ad size in newspapers, whereas almost all other media, including the Internet, sell advertising based on standardized ad units. As a result of not implementing modular ad units, newspapers have become more cluttered, and incur higher production costs, with substantial wastage in non-productive newsprint – e.g., white space, “filler” ads.

RETAIL AD ACCOUNT ANALYSIS YIELD: REVENUE PER INCH



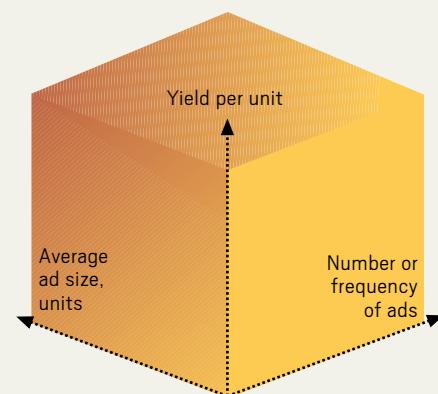
MODULAR AD UNITS PUBLISHED BY THE TORONTO STAR



A. A section
B. Travel section
C. Business section

NEWSPAPER REVENUE CUBE™

Ad Revenue = Volume of the Cube = length x width x height
Grow ad revenue by increasing any or all dimensions



Modular or standardized ad units work well for both advertisers (better ad visibility and response) and the newspaper (less costly layout and production), while newspaper readers end up with a cleaner looking and easier to read paper. And, when combined with Visual Impact Pricing™ modular ads also allow the newspaper to generate higher revenues per unit of space. *The Palm Beach Post* (West Palm Beach, Florida, USA), *The Toronto Star* in Canada and *The Sydney Morning Herald* (Sydney, Australia) are among many newspapers that have adopted and are profiting from modular ad units.

On the left are the examples of modular ad units published by *The Toronto Star*.

- When a broadsheet newspaper decides to convert to a compact format, it is very difficult to generate equivalent revenue per page because there is less space or “sales inventory” from the smaller page size. Broadsheet newspapers can generally maintain future ad revenue per page by establishing page-based or modular pricing practices prior to converting to a smaller format.

3. PULL ALL THREE REVENUE LEVERS, SIMULTANEOUSLY

Three main levers control newspaper ad revenues. They are effective yield (or realizable rate), ad size, and frequency. But many newspapers rely on just one of these revenue levers: rate.

- Newspapers have traditionally managed revenues by raising rates. Advertisers responded by buying smaller ads, and less often. The result is less volume, the same or lower revenues, and higher prices, which is definitely not a formula for growth.

- Most newspapers provide few incentives for advertisers to maximize ad impact or ad size. Visual Impact Pricing™ is one proven solution to foster larger ads, where advertisers benefit from more impact at a lower cost per unit of space.

- Frequency, or multiple ad insertions, can deliver more impact and results for advertisers at lower costs. The key to effective frequency is structuring a compelling multi-insertion schedule that works for both newspapers and advertisers.

There is conclusive evidence that newspapers can generate more profitable ad revenues by skillfully pulling the effective rate, ad size,

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and frequency levers together, rather than by just raising (or lowering) rates. Refer to the diagram of the Newspaper Revenue Cube™.

THE FORK IN THE ROAD

The American poet Robert Frost wrote that when he came to a fork in the road, he took the path less travelled, and he said that it had made all the difference.

There are no silver bullets or magic potions to pull newspapers out their current revenue and profit crisis. We firmly believe that the industry's current fixation on cutting costs, content and service will not position newspapers to succeed in the digital newsmedia environment of the future. While the tools needed are at hand, we fear that many newspapers will basically run out of revenues and profits before they can implement brave new changes. The recent bankruptcy of Tribune Co. in the United States is proof of this.

Yet newspapers have many tools that are readily available to better position themselves for the future. The most important of these must be a deeply-held conviction among senior newspaper executives that it is possible to grow print advertising. Unfortunately, it appears that many industry executives have given up hope (much too prematurely we believe) that it's possible to implement innovative and profitable pricing solutions.

Leaders of successful newspapers will focus on future revenue growth by applying smarter ways to package, price and sell both print and digital advertising. All of the industry's current cost cutting activities will be for naught if newspapers don't start generating profitable print advertising revenues, now.