

# Preview 2009

## Newspapers' Outlook on Ad Revenue Growth and Strategic Initiatives

By Ed Strapagiel

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Kubas Consultants surveyed over 400 daily newspaper executives and managers on their expectations for advertising revenues and what strategic initiatives they intend to undertake in 2009. The survey was conducted in late November 2008, when plans and budgets for the new year would have been substantially in place.

### Highlights

#### 2009 Advertising Revenues

- There is a very negative outlook regarding newspaper advertising revenues in 2009. More executives and managers project decreases rather than increases in 7 out of 8 ad revenue categories.
- Not only do newspaper executives and managers project weakness, the severity of expected declines is remarkable. The outlook has very much deteriorated compared to a year ago.
- Online revenue is still expected to grow in 2009, but it is the only positive area. Even so, recent trends indicate that this may be a challenge.
- Employment is slated to be the next disaster area, which is particularly problematic from an ad revenue perspective.
- All sizes of US newspapers are about equally pessimistic. Canadian newspapers are less pessimistic, but still expect declines in most categories.

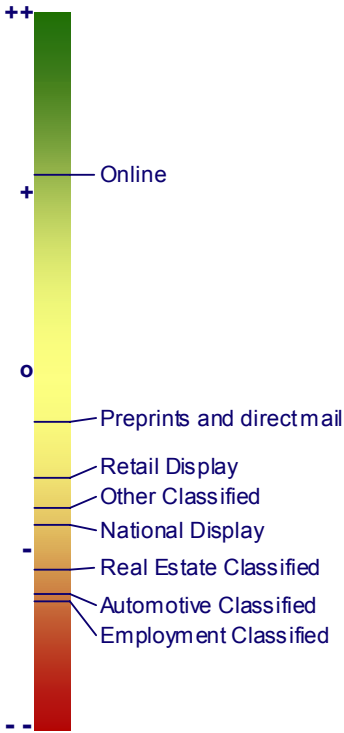
#### 2009 Strategic Initiatives

- Developing online, in terms of both content and advertising programs, is still very high on the list of strategic initiatives for 2009.
- Controlling both staff and non-staff costs has declined slightly, but perhaps mostly because many newspapers have already done so. Nevertheless, there's still more of this to come.
- Format reduction is also popular. About a third of newspapers have already done so, and most of the rest have definite plans in this area.
- Improving rate structures and pricing programs has moved up to #2 on the list.
- Last year's enthusiasm for niche publications appears to have cooled off.
- About 1 in 5 newspapers is considering outsourcing printing and closing their own plant.

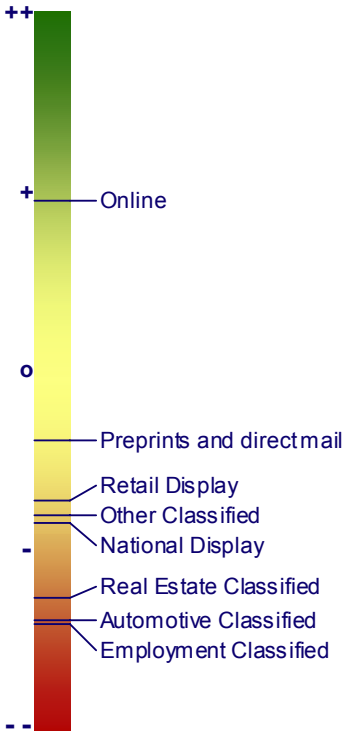
## 2009 Ad Revenue Expectations

++ Large Increase    + Small Increase    o About the Same    - Small Decrease    -- Large Decrease

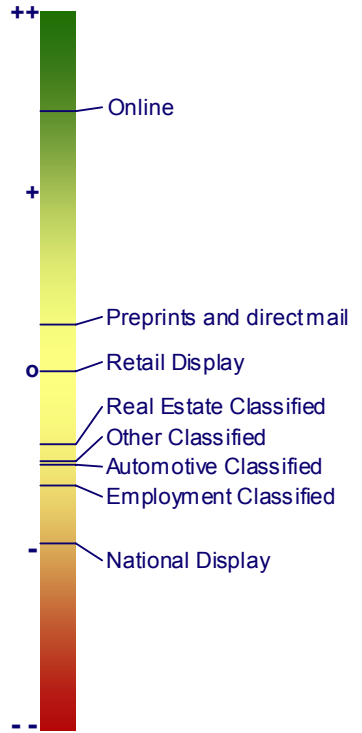
### All



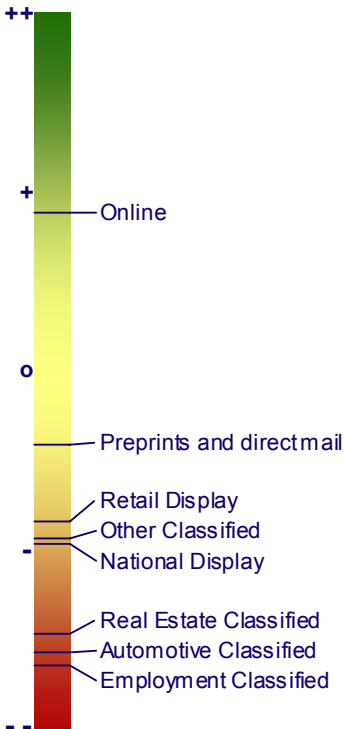
### United States Total



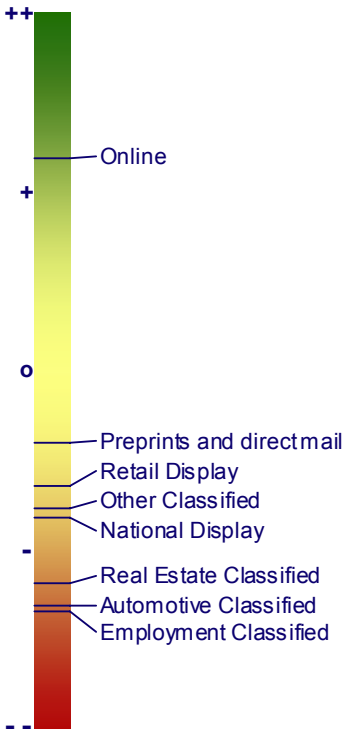
### Canada Total



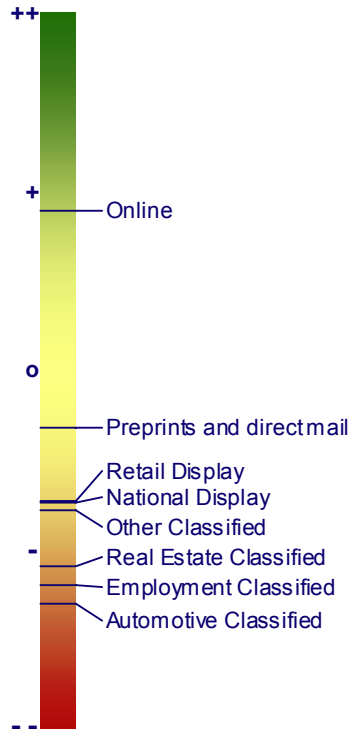
### US 100K+ Circulation



### US 25K-99K Circulation



### US Under 25K Circulation



## A Terrible Outlook For Ad Revenues

Newspaper executives' and managers' consensus outlook for 2009 advertising revenues is illustrated on the previous page, which shows average survey results by group. The prognosis can only be described as terrible.

Online is the only category expected to make a gain. All other advertising revenue sources are anticipated to decline, some of them drastically. Classified is poised to be hit particularly hard.

As only a "guesstimate", if the scale in the charts translates to a range of -25% to +25%, then growth projections by ad revenue category would be as follows:

2009 Projected Change	
Category	% Growth
Online	+13.6%
Preprints & direct mail	-3.5%
Retail display	-7.5%
Other classified	-9.5%
National display	-10.8%
Real estate classified	-13.9%
Automotive classified	-15.5%
Employment classified	-16.0%
<b>Weighted Total</b>	<b>-9.1%</b>

Given current economic trends, the first half of 2009 is likely to be much worse, perhaps down 12% overall, with the second half of the year down "only" 6%.

### But Will Online Produce?

Online is seen as a bright spot for 2009, but recent developments indicate that this optimism may be misplaced. By Q3 2008, newspapers' online revenues started to decline. This is mainly because online advertising on newspaper websites is closely tied to print, particularly Classified. Furthermore, in many cases, recorded online revenue is an accounting allocation, done as a percentage or a deemed up-charge on print ads. As print volumes decline, so does online ad revenue.

In any event, online is still a small percentage of total newspaper ad revenue. The pennies gained in online will not replace the dollars lost in print.

### Employment: The New Disaster Area

Newspapers saw automotive advertising crumble a few years ago. Then came the collapse in real estate. Now employment, the third pillar of Classified, is expected to buckle, and is slated to be the single worst performer in 2009.

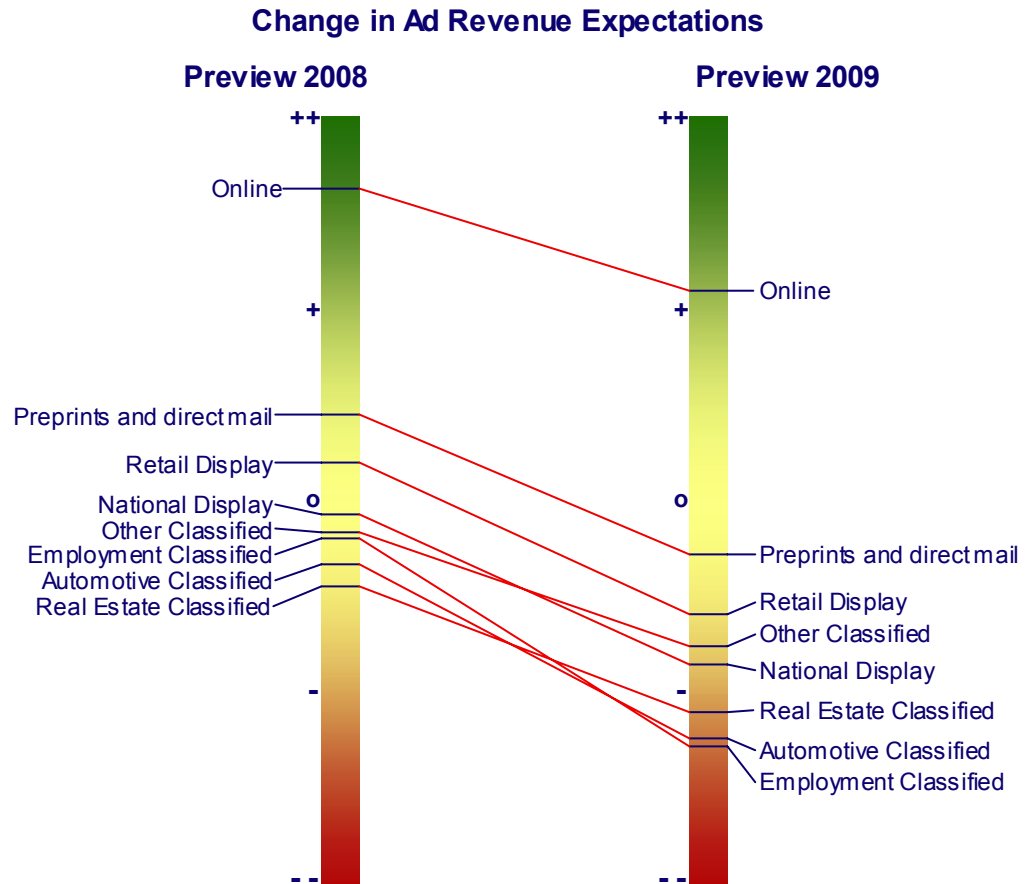
### Canadian Newspapers Less Pessimistic

A year ago, smaller circulation (under 25,000) US newspapers had a brighter outlook than their big city counterparts. This time, all sizes of US newspapers are about equally pessimistic in their outlook for 2009.

Owing to somewhat better economic conditions north of the border, Canadian newspapers are less negative about 2009. Nevertheless, most ad revenue sources are still expected to be flat or down, particularly National. Declines are expected in all Classified categories as well, although not as severely as in the US.

## (Much) Lowered Expectations

Last year's Preview report noted a weak outlook for 2008 on the part of newspaper industry executives and managers. Apparently, even this might have been over-optimistic. For next year, 2009, ad revenue expectations have been drastically cut back.



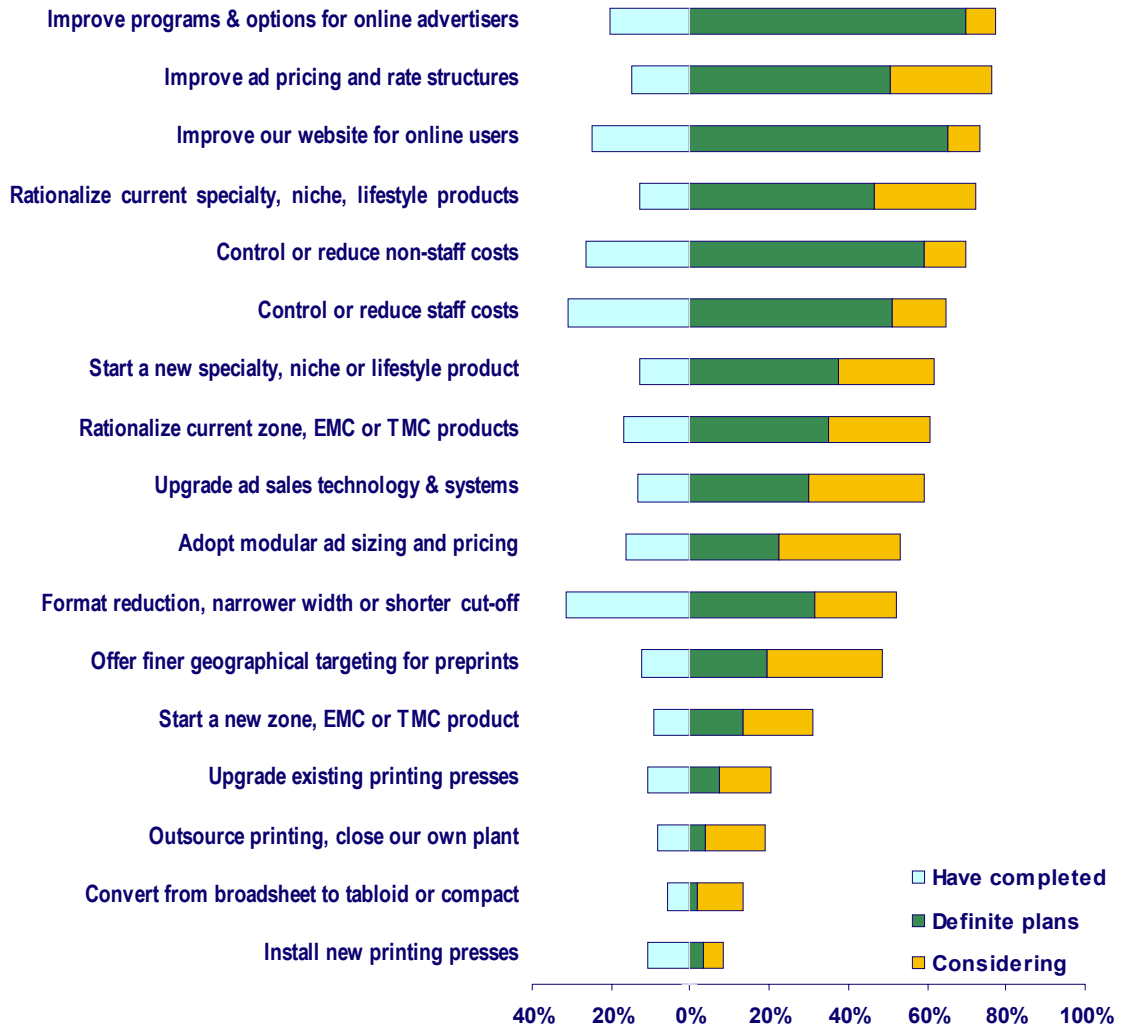
Newspaper industry executives and managers have lowered their 2009 expectations for all ad revenue sources across the board. Online is still anticipated to show positive growth, but not by as much as previously. Formerly positive areas, Preprints & Direct Mail and Retail Display, have now gone negative. In short, over the course of the last year, the newspaper industry's overall outlook has gone from bad to worse.

Employment Classified is slated to take the biggest hit in 2009, with the steepest year over year decline in expectations. A year ago, Real Estate Classified was tapped to be the weakest category – a fairly accurate assessment, as it turned out – but the outlook for Employment going forward is about twice as bad. This is particularly troublesome, as any decline in the premium rate Employment category translates to a disproportionately higher drop in overall Classified ad revenue and profitability.

## Focus on Online, Pricing Structure, Cost Control ...

Newspapers executives and managers have a lot in their playbooks for 2009, involving both offence and defence. Preview 2009 survey results below illustrate intended strategic initiatives.

### 2009 Strategic Initiatives



### Cost Cutting: To Be Continued

The main initiatives that have already been completed at many newspapers mostly involve cost cutting measures, including:

- Controlling or reducing both staff and non-staff costs;
- Format reduction (narrower page width or shorter cut-off), in order to save on newsprint.

Half or more of newspapers are still planning or considering these moves however, indicating there's plenty more cost cutting coming in 2009.

## **Definite Plans For Online**

Just like a year ago, Online is expected to get high attention from newspaper executives and managers. About 2 out of 3 intend to improve their website for users and to improve online programs for advertisers. These were cited as the top 2 initiatives overall for which there are “definite plans” and not just “considering”.

## **Improving Rate Structures and Sales Tech, And Going Modular**

Improving rate structures and pricing is also high on the list. This relates more to the print side of the business, along with upgrading ad sales technology, and adopting modular ad sizing and pricing.

At least 1 out of 2 newspaper executives and managers have these initiatives on their radar, but their resolve appears to be softer. A relatively lower proportion have “definite plans” and more are just “considering” than is the case for Online.

## **Some Sober Second Thoughts On Non-Core Publications?**

There seemed to be a lot of interest in non-core publications a year ago. These are targeted specialty, niche or lifestyle products, plus geographically based zone, TMC, EMC or community publications. Generally however, few newspapers appear to have actually launched a new non-core publication in the last year. Furthermore, for both types of publications, the higher concern seems to be “rationalize” rather than “start a new”.

Non-core publications, if done correctly, can offer incremental revenue opportunities. Launching a new publication however is a gamble in the best of times, and these aren’t the best of times.

## **Meanwhile, Back At The Plant ...**

Not surprisingly, installing new presses is at the bottom of the list – big iron costs big money that newspapers don’t have. Nevertheless, about 1 in 5 are looking at some upgrades to existing press equipment. More interestingly however, almost 20% are at least considering outsourcing printing and closing their own plant.

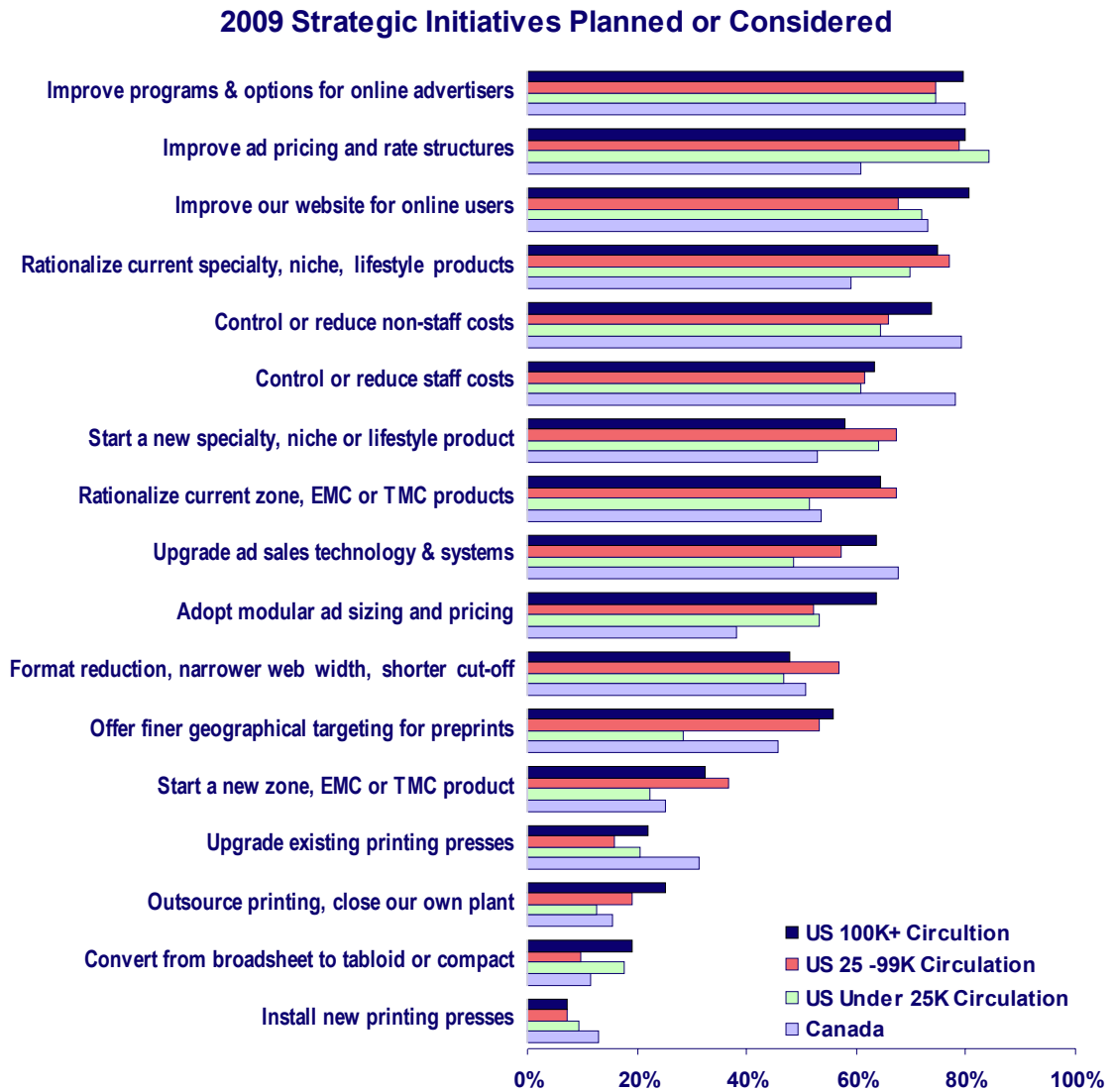
## **Other and Emerging Initiatives**

A number of further 2009 initiatives were volunteered by survey respondents.

- The most popular theme was increasing sales pressure, on both reps and accounts, through training, pursuing non-traditional advertisers, offering better research, promotions, breakfast meetings, and almost anything else. The heat on the sales department is really being turned up in many cases.
- A related initiative is consolidation and reorganization of the sales department. In some cases, this could extend to production operations and executive positions.
- Both outsourcing and insourcing (being a supplier to another newspaper) were mentioned as potential strategies for a variety of production and distribution operations.
- More sophisticated online developments were noted by some, including using video, mobile, and Yahoo behavioral targeting.
- Mentioned for the first time, a few newspapers intend to cut back out-of-market circulation, reduce publishing days per week, or even close non-core titles.
- Also mentioned for the first time, a handful of newspapers are working on developing online self-serve print ad sales.

## Initiatives By Newspaper Group

The following chart summarizes what 2009 initiatives are planned or considered by newspaper group. Different newspapers do have some different priorities going forward



While not shown in the chart, there are also differences in degree of commitment. Larger newspapers are significantly more likely to have “definite plans” in place rather than have things only “under consideration”. This may in part be a function of staffing levels and stricter budgeting discipline, but it’s also the case that larger publications in bigger markets are suffering more in the current industry downturn.

We note that the statistics above are based on subsamples and differences may not always be statistically significant.

Some points concerning newspaper groups follow.

### **US Newspapers 100,000+ Circulation**

- In the US, the largest newspapers are more likely to target website improvements, reducing staffing, and upgrading sales technology.
- Improving online advertising programs is also a high priority.
- There are two areas in which they stand out from the rest: adopting modular ad sizing and pricing, and considering outsourcing their printing.

### **US Newspapers 25,000 To 99,999 Circulation**

- Mid sized US newspapers' priorities tend to reflect the average.
- An exception however is that they appear to be relatively more interested in non-core publications, in terms of both rationalizing current titles and potentially launching new ones.

### **US Newspapers Under 25,000 Circulation**

- The top priority among smaller US newspapers is to improve ad pricing and rate structures.
- They are the least likely to focus on controlling or reducing both staff and non-staff costs by a small margin.
- They are less likely to be considering upgrading sales and related technology or to outsource their printing.

### **Canadian Newspapers**

- With a somewhat stronger economy, Canadian newspapers (of all sizes) are less pessimistic about 2009 compared to their US counterparts, and also have some different priorities. In addition to website improvements, controlling or reducing both staff and non-staff costs are top areas for attention. Canadian publications are also more focused on improving sales technology and upgrading their printing equipment.
- On the other hand, improving ad pricing, non-core publications, and modular advertising are relatively lower priorities.

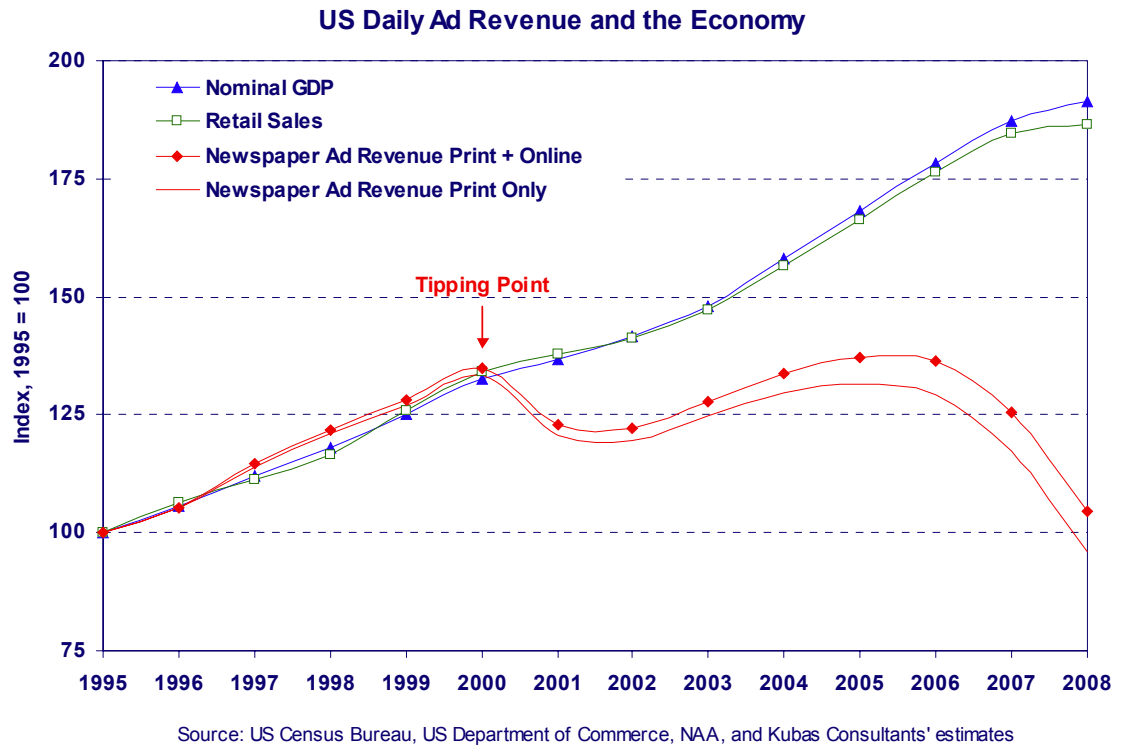
## **Comment: Some Perspective On 2009**

It is easy to point out the immediate culprits – automotive, real estate, employment, retail. But in reality, the path to 2009 was first paved years ago. And now newspapers will have to deal with a “triple whammy” of general economic recession, structural decline, and cyclical downturn in key customer sectors.

In the last 3 recessions, newspapers were the first to decline and the last to recover compared to other advertising media. But even more importantly, the subsequent return when the economy was back on track was at a lower level relative to GDP. Advertisers re-evaluate their ad strategies when a recession comes along, and the result for newspapers has been a permanent loss each time. When the economy sneezes, newspapers catch cold.

2009 is shaping up to be another one of those years.

In a larger perspective, what newspapers have to fear most is not just a few tough quarters, but a long term quantum decline, as occurred in the last recession.



Ad revenues tracked the economy closely in the 1990s. The last “great leap backward” however started with the onset of recession in 2000, and we can even trace the “Tipping Point” to Q2 of that year. That’s when the previous relationship to the economy broke.

Over 2002 to 2004, newspaper ad revenues again become proportional to GDP and retail sales, but at a lower ratio than was previously the case. The gap in these years illustrates a post-recession structural decline.

By 2005, ad revenue started to weaken due to cyclical downturns in key segments, starting with automotive, then real estate, and now employment. Retail and national are now weakening too, due to the current recession. Advertisers again are taking a hard look at how they spend their money.

The trend lines for 2009 certainly don’t look good. What we don’t know however, is what the post-recession structural decline will be this time.

The above chart also illustrates that online adds only a thin sliver of lift to newspapers’ total advertising revenues. It’s not nearly enough, nor is it ever likely to be enough, to offset the plunge in print. Yet many newspapers are putting a lot of time and effort into online, while at same time cutting costs and effectively de-investing in print. Hopefully, this won’t turn out to be like building a fine stateroom on a sinking ship.

## Wrap Up

A year ago in Preview 2008, the ad revenue trend indicated by newspaper executives and managers was summarized as “mostly a weak outlook”. That was an understatement.

Throughout most of 2008, newspaper ad revenues did in fact more or less follow those expectations. Then October hit, with the upheavals in the financial industry, crashing stock markets, plunging consumer confidence, and worldwide recession.

Whereas some improvement was projected for Q4 2008, what was delivered is exactly the opposite. To quote ourselves from last year’s report, “Recent US economic changes may lead to somewhat better ... results than expected for classified, particularly in the second half of 2008.” So much for that prediction.

Even given careful budgeting a year ago, it is unlikely that many newspapers will make their numbers this year. The outlook for 2009 is very negative, to say the least, and this will be reflected in budgets going forward.

## About Preview 2009

The survey for this Preview 2009 report was conducted online with newspaper executives and managers in late November 2008. Newspapers’ plans and budgets for 2009 would have been substantially in place by then.

Participant invitations were sent to both US and Canadian newspapers. The survey was conducted on an anonymous basis to ensure confidentiality.

A total of 422 survey replies were received. A normal probability sample of this size has a maximum statistical error of plus or minus 4.7% at the 95% confidence level or 19 times in 20. A breakdown of survey respondents is as follows.

<b>Preview 2009 Survey Respondents</b>			
<b>Weekday Circulation</b>	<b>US</b>	<b>Canada</b>	<b>Total</b>
100K+ Circulation	119	29	148
25K - 99K Circulation	157	15	172
Under 25K Circulation	64	28	92
Circulation not stated	9	1	10
<b>Total</b>	<b>349</b>	<b>73</b>	<b>422</b>

Relative to the number of publications, survey results under-represent small newspapers, but as a consequence may better reflect advertising revenue distribution by circulation size.

Thank you very much to all those who responded to the Preview 2009 survey and who made this report possible.

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