

How the Big Money Sees Newspaper Advertising

By Ed Strapagiel

22 May 2007

Newspaper Services of America (NSA) and Kubas Consultants joined forces to conduct a survey of NSA clients on their views and perceptions concerning advertising in newspapers. This study represents many of the largest newspaper advertisers in the U.S.

The News(paper) Is Not Good

Newspaper owners, executives and managers should be forewarned at this point that their biggest customers appear to be highly critical of both the value and process of newspaper advertising.

- Almost all of the ratings received across a variety of performance measures indicate negative results and failing grades.
- Comments made by survey respondents allude to problems with everything from prices to attitudes.

While newspapers are not naive and do realize that there are concerns, the depth and extent of the issues may be more serious than has been anticipated so far. This is particularly so, given that this news is coming from essentially the world's biggest newspaper advertisers.

On the other hand, it should be noted that this study has a limited perspective. Newspapers are being evaluated in the absolute, and not in comparison to other media. It remains unknown, for example, if broadcast advertising buyers are just as critical of television and radio. Nevertheless, newspapers will have to solve their own problems, and cannot hide among the shortcomings of other media.

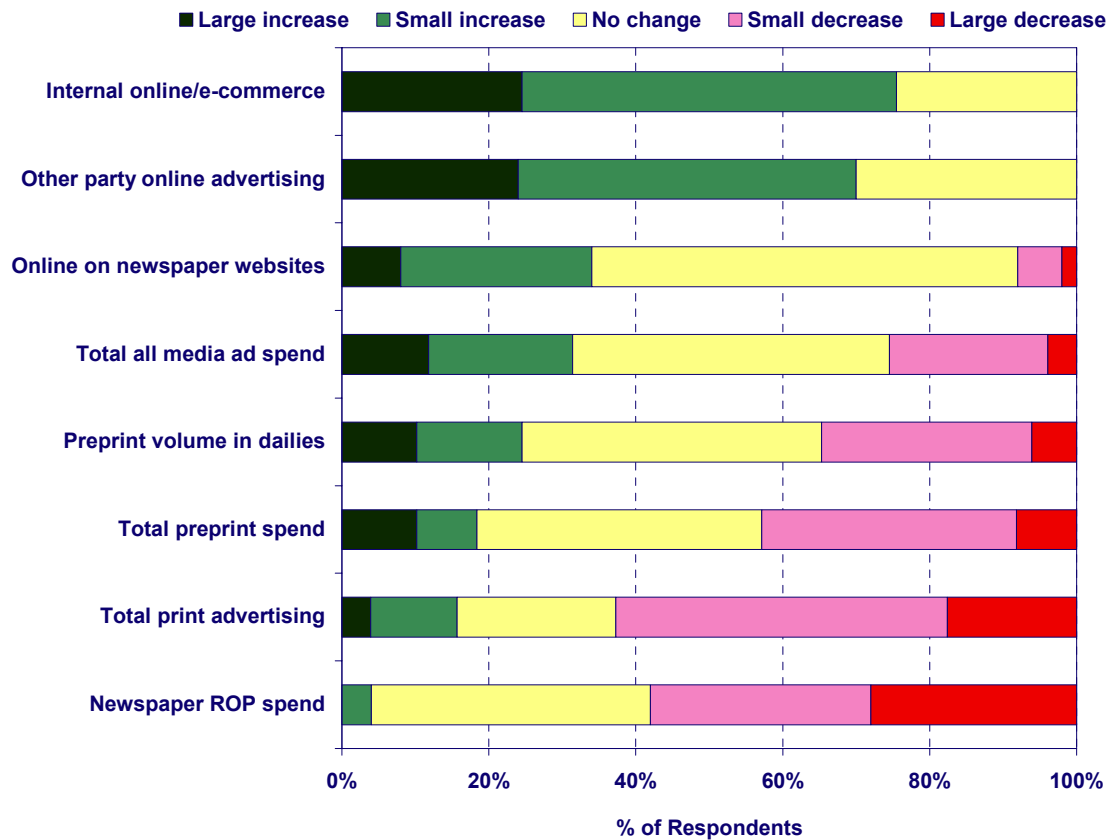
Yet another factor is what appears to be an essentially adversarial relationship between advertisers and newspapers. Advertisers feel they have long standing grievances, while newspapers feel they are under tremendous market pressure. In such a climate, it's difficult to expect advertisers to give newspapers kind or generous evaluations, or that newspapers are in a frame of mind to be kind or generous to advertisers.

The onus for change however appears to be on the shoulders of newspaper owners, executives and managers. The practical consequence of the current situation is that, unless performance improves, newspapers are likely to face softening demand for their advertising services. Indeed, this is already the case for newspapers' core print advertising products.

Online Yes, ROP No

Large advertisers intend to more or less maintain their overall advertising budgets in 2007, as shown by “Total all media ad spend” in the chart below. About 65% however expect to pull back on print of any kind. Newspaper ROP would be particularly hard hit, with 56% forecasting a decrease versus just 4% anticipating an increase. The net result is also somewhat negative for preprints, in terms of both volumes and expenditures.

Advertising Expenditure Expectations

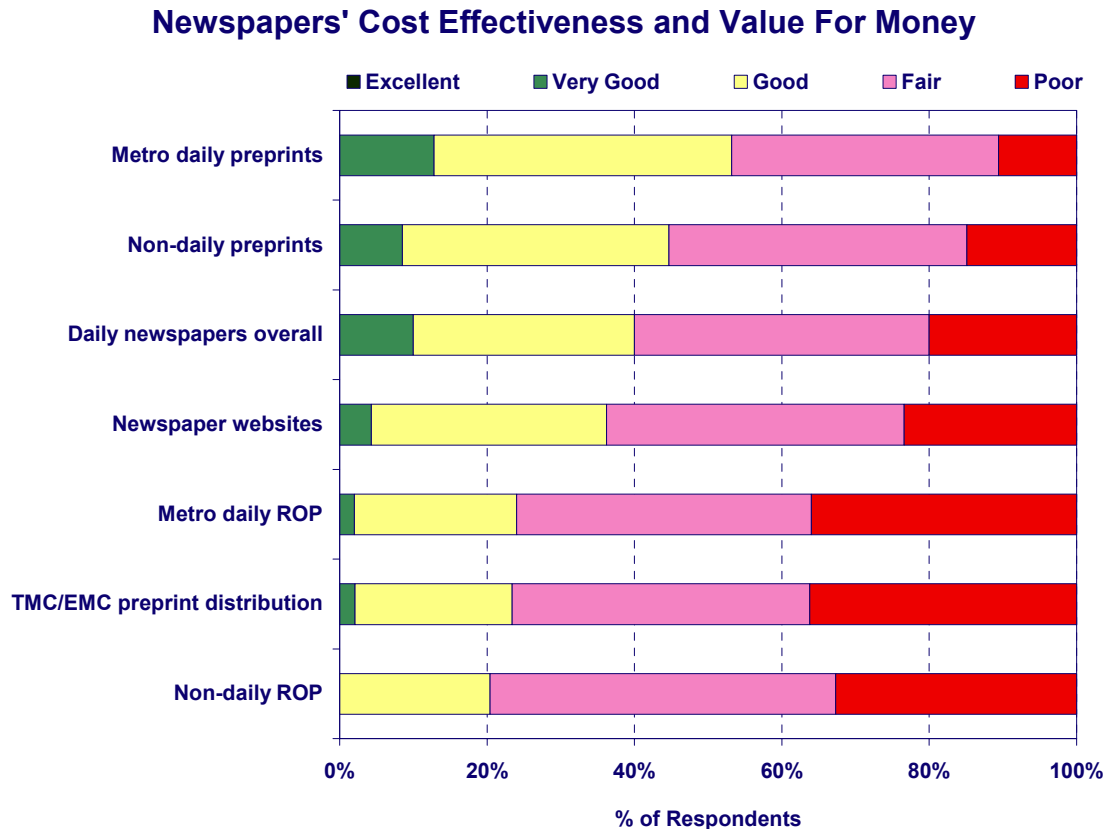


Advertisers expect to spend more on online, especially for internal developments and advertising on general websites. Although a net increase is indicated for spending on newspaper websites, the outlook is not as strong as for other online initiatives.

Daily newspapers have only generally anticipated these trends, according to the [Preview 2007](#) report by Kubas Consultants (December 2006). While both newspapers and advertisers foresee a strong move to online, the prognosis for preprints and display advertising appears softer than what newspaper executives and managers had been expecting. The positive but relatively reserved outlook for newspaper websites also implies that spending in this area will not grow as fast nor keep pace with other online options available to advertisers.

Doubts About Cost Effectiveness and Value For Money

Large advertisers appear to have some significant reservations about cost effectiveness and value for money concerning almost all facets of newspaper advertising. As the chart below indicates, only preprint distribution in larger Metro dailies was rated as at least “Good” by 50% or more of survey respondents.



Not a single “Excellent” rating was recorded in any category of newspaper advertising. Over 25% of large advertisers gave a “Poor” rating for ROP in non-daily newspapers, preprint distribution in TMC/EMC vehicles, and ROP in Metro dailies. These value perceptions are generally reflected in large advertisers’ expectations regarding their advertising spending in the current year.

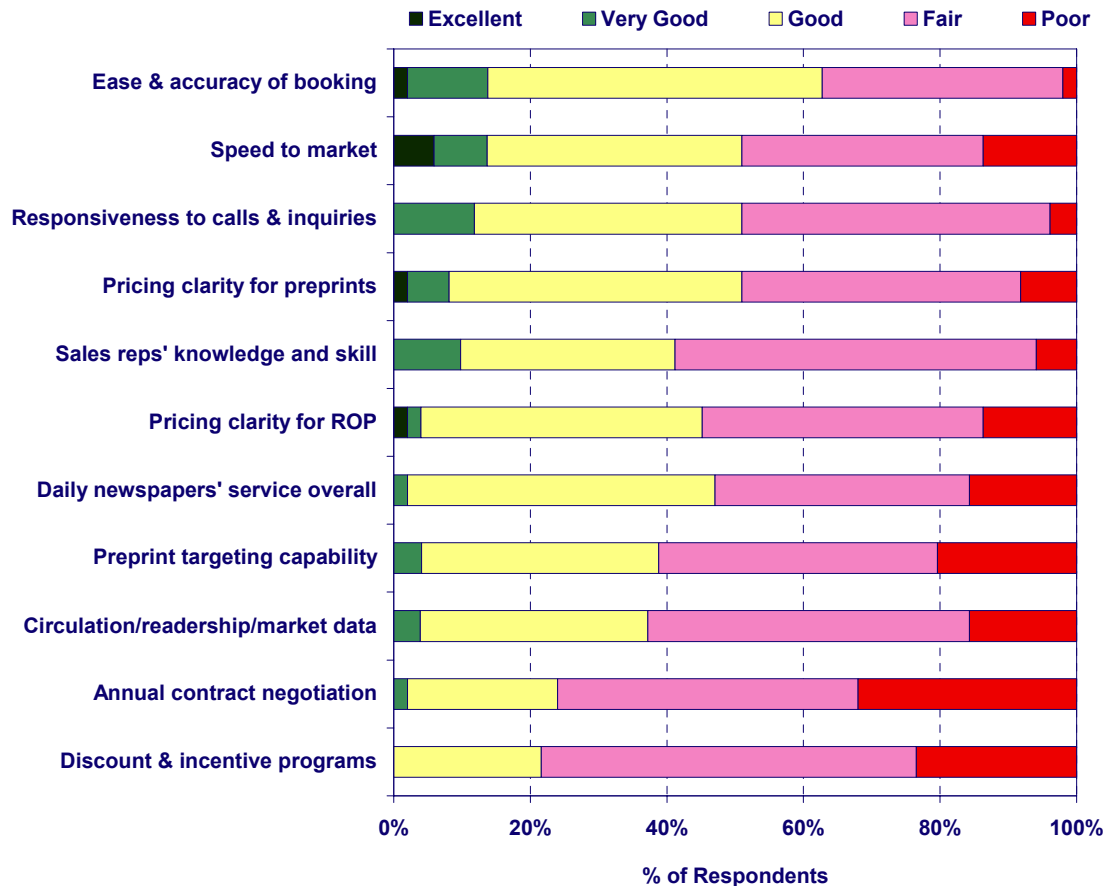
On the other hand, value for money is a difficult area. Although Return on Investment or ROI has become a mantra in advertising, the reality is that it is practically impossible to fully measure, especially for mass media like newspapers, radio and television. Even the Internet is not immune to questions over cost effectiveness and value for money – recent concerns include click fraud in search engine advertising, and potentially significant overestimation of online audiences due to web surfers regularly deleting cookie files.

While there may not be high confidence in newspapers’ cost effectiveness, this result may not be as negative in a competitive context versus other media. Newspaper advertisers after all continue to advertise in newspapers. But they may be forever doomed to not knowing which half of their advertising expenditure is not working.

Service Performance Could Be Better

On a list of 11 service performance factors, the number of “Poor” and “Fair” ratings exceeded “Excellent” and “Very Good” by a significant margin in every case. Nevertheless, 50% or more of large advertisers said service was at least “Good” on 4 of the measures, especially “Ease & accuracy of booking” newspaper ads.

Newspapers' Service Performance



The single highest “Poor” rating concerned annual contract negotiations. This has long been a sore point between newspapers and advertisers. A number of survey respondents commented to the effect that it was difficult to accept rate hikes or to raise their newspaper ad budgets in an era of declining circulation.

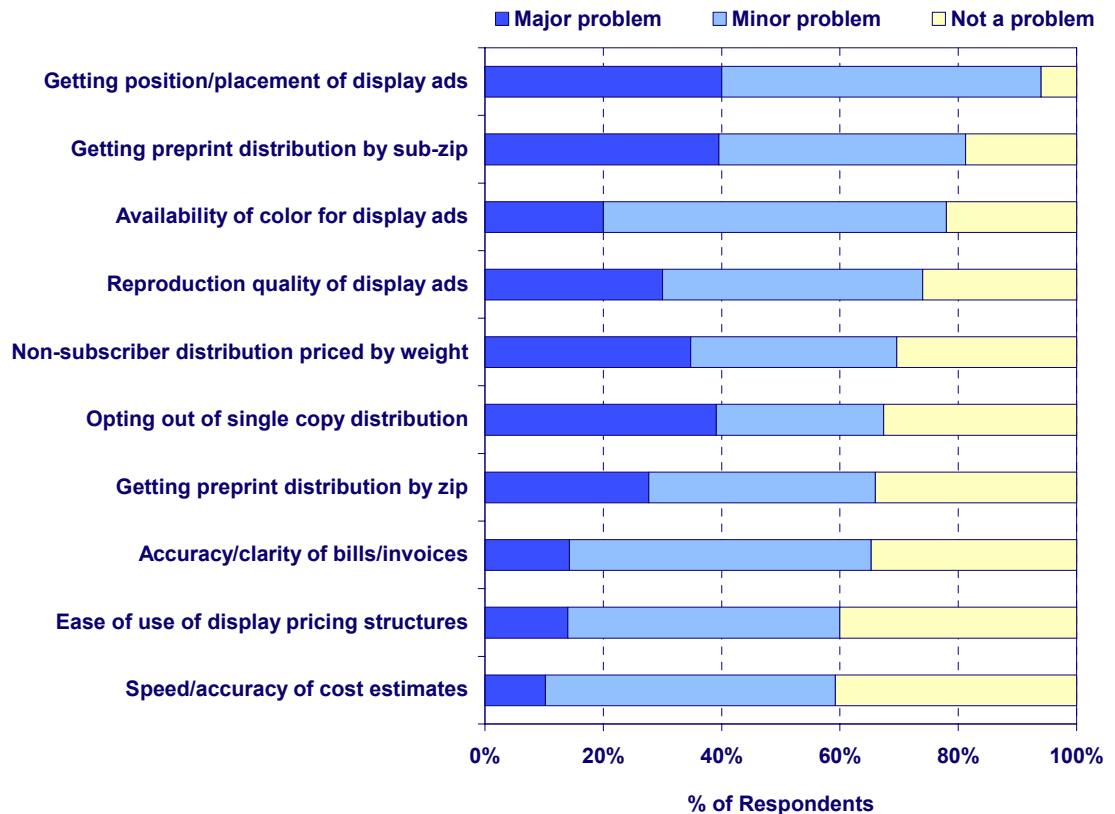
An unexpected result is that “Discount & incentive programs” is at the bottom of the list, with the highest excess of negative over positive ratings. Almost 80% of large advertisers feel that newspapers are doing only a “Poor” or “Fair” job in this area.

Kubas Consultants regularly works with newspapers on pricing issues, and the reality is that discounting is widespread in the industry. But large advertisers clearly don't see it that way. This indicates that newspapers are not getting credit for the concessions they are making, which could be in part because deals are mostly done by “back room” negotiation, rather than as an “up front” feature of the pricing structure.

Problems Dealing With Newspapers

Conflicts between buyers and sellers are not unusual. The following chart shows what large advertisers feel are some of the problems in dealing with newspapers.

Problems When Dealing With Newspapers



Getting a requested position or placement of a display ad is at the top of the list. While this may be a frustration for advertisers, this factor is in part a feature of the medium – not all ads can be on page A2 or on the back page of the first section, just like not all TV spots can lead the first break in the national news.

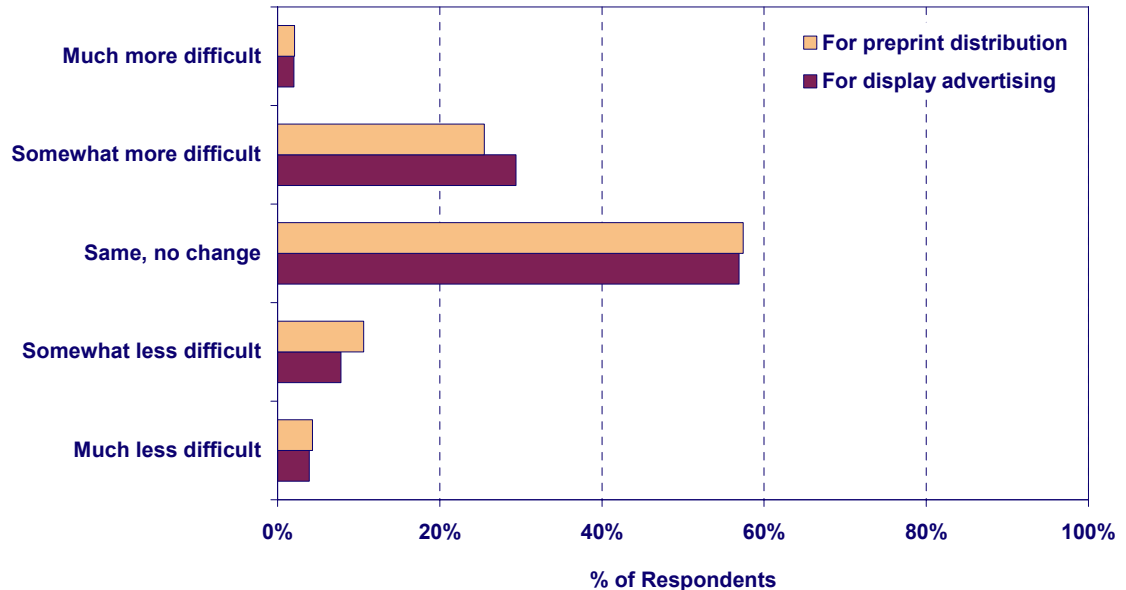
Many items however, such as zip or sub-zip preprint distribution and reproduction quality of display ads, are within a newspaper’s direct control. Some issues may be seen as an arbitrary policy designed to increase the advertiser’s bill, such as not being able to opt out of single copy preprint distribution. On the other hand, newspapers may not be effectively communicating the logistical and operating constraints they face in an area such as distribution selectivity.

Most problems that large advertisers have with newspapers appear to be of a “Minor” rather than a “Major” nature. This may be misleading however, due to the question of what level is actually acceptable. At least 25% of these advertisers, a significant minority, have a “Major” problem with half the items on the list, and that in turn can affect a large portion of newspapers’ overall advertising revenues.

Things Are Not Improving

Newspaper ad revenues have underperformed practically every comparable metric – GDP, retail sales, total advertising, etc. – since at least 2001. Despite this pressure, newspapers appear to have made little progress in improving sales and marketing practices, at least in the view of large advertisers.

Planning/Buying Newspapers in Recent Years



As the chart above shows, the consensus is that planning and buying newspaper advertising has in fact become somewhat more difficult in recent years. Results for both display and preprint advertising are similar.

New Approaches

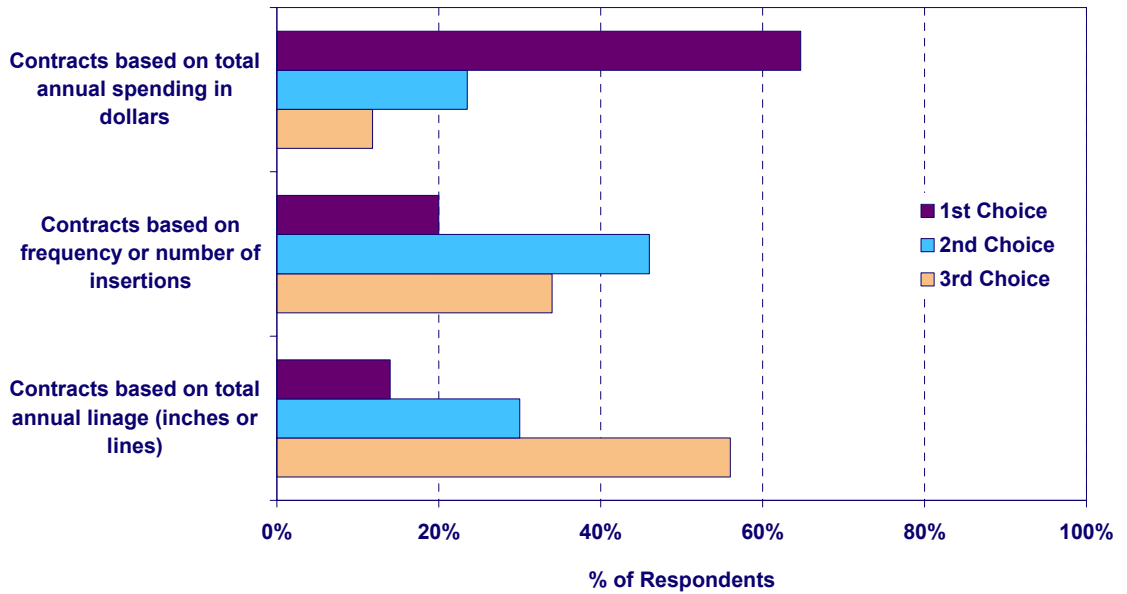
A few newspapers have adopted new approaches for annual advertising contracts and volume discounts, and for packaging and pricing individual ads. Two of these measures are:

- Spending based contracts and discounts, whereby annual agreements with advertisers are based on total dollars to be spent over the year, rather than on the more traditional linage (lines or inches) or “bulk rate” approach;
- Modular advertising and Visual Impact Pricing, with ads offered in pre-set sizes or page portions, such as half, quarter, eighth, etc., and using “magazine style” graduated pricing, whereby larger ads cost relatively less per square inch than smaller ones.

While these methods seem very new and almost revolutionary to newspapers, most advertisers are in fact familiar with them. This is because most other media already use spending based pricing and modular advertising approaches in one form or another.

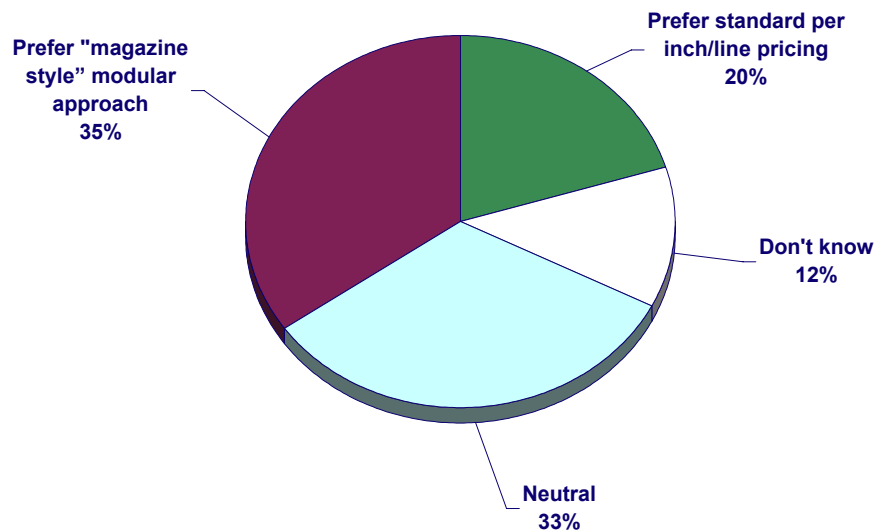
Survey results indicate that there is significant support for both these measures among large advertisers. Overall, most newspapers appear to be behind the market on both scores.

Annual Contract Basis Preference



For annual advertising contracts with newspapers, larger advertisers clearly prefer the spending based approach, as shown in the chart above. It's the first choice for the majority. What most newspapers offer however – linage based contracts – is in fact the least preferred option.

Modular Versus Rate Based Pricing



Larger advertisers also had a net preference for modular advertising and graduated pricing, versus newspapers' prevailing approach of any ad sizing with per line or per inch rates. Advertisers' support for modular seems particularly remarkable given that only a handful of newspapers currently offer it.

Telling Comments

Many survey respondents wrote in specific comments which expand on or convey the flavor of their views. Here's a sampling.

On Rate Increases and Circulation

- *Their prices continue to increase yearly while readership continues to decline. This model is becoming less attractive each year.*
- *Increases in costs and decreases in circulation mean lower ROI for clients. At some point, that lower ROI causes advertisers to look elsewhere.*
- *They need to take into consideration that their readership is down compared to other mediums and they need to be more competitively priced. An increase each year just because that's what they have always done may not be the best move for them if they haven't increased their readership or have not been able to justify the increase.*
- *Rates should be 4% less this year. As circulation, ad effectiveness, and rates work against the advertiser, we will invest in other media more quickly.*
- *If you are going to try to justify increases based on the cost of newsprint, then you had better come calling with a price reduction when newsprint is way down in cost.*
- *Don't cover up paid circ losses with artificial circulation from third party.*

On Pricing Issues

- *Need rates grids to be more standardized.*
- *Color charges are too expensive and have very little explanation to accompany them.*
- *For display, consider section/day of week pricing. Consider sliding scale for color based on ad size.*
- *Unbundle from other products ... it is very annoying to have online and other magazine style products bundled with daily inch rates.*
- *Papers should not "force" us to be on-line. Lately papers are increasing pricing and adding on-line component. The on-line portion is not an option – even if it is not desired.*
- *Not to link online pricing as a mandatory fee attached to display ad cost.*

On Preprint Distribution

- *SUB ZIP, SUB ZIP, SUB ZIP*
- *Sub-zip zoning and smaller zones overall.*
- *Be more open to Zip and Sub-Zip zoning and speed up the implementation.*
- *Provide ACCURATE and HONEST circulation information, and stop distributing excess copies due to declines into unapproved, unselected zip codes. Don't know how they get away with this – seems like FRAUD.*
- *Offering TMC in all newspapers. Not all of the newspapers we use offer this option and we would use it in all cases.*

Customer Service and Sales Reps

- *Apparently training at newspapers is an issue, since customer service seems to be non-existent in many situations.*
- *Train the sales people on the products available and as well as the circulation and demographics. Also, the sales people need to be trained on their own Marketing Department's capabilities.*
- *Reps should be more as focused on service as they are on sales. Shouldn't be so hard to get questions answered.*
- *Better sales reps and more contact from them.*

Communications

- *Listen to what we need and stop selling us products we don't need.*
- *Talk to your customers more often.*
- *Please research a client before pitching an idea to them.*

Other Service Issues

- *Their invoices are very hard to decipher. It feels deceptive as to trying to match to contract rates.*
- *As an industry newspapers need to improve their invoices to reflect information the company paying the bill has.*
- *They have to be more responsive with regards to cost estimates, forms, etc. Currently, once something goes into their financial departments for bid it takes weeks to get through.*
- *Ad placement/position and color are major issues for us and the newspaper does not seem to be addressing them.*

Partnering

- *They never seem like an advertising partner.*
- *Most newspapers, or the companies which own them, do not establish themselves as a partner ... As a fairly large advertiser, I feel that newspaper reps and companies take our money and do not really think through how they can help improve our business.*

About This Report

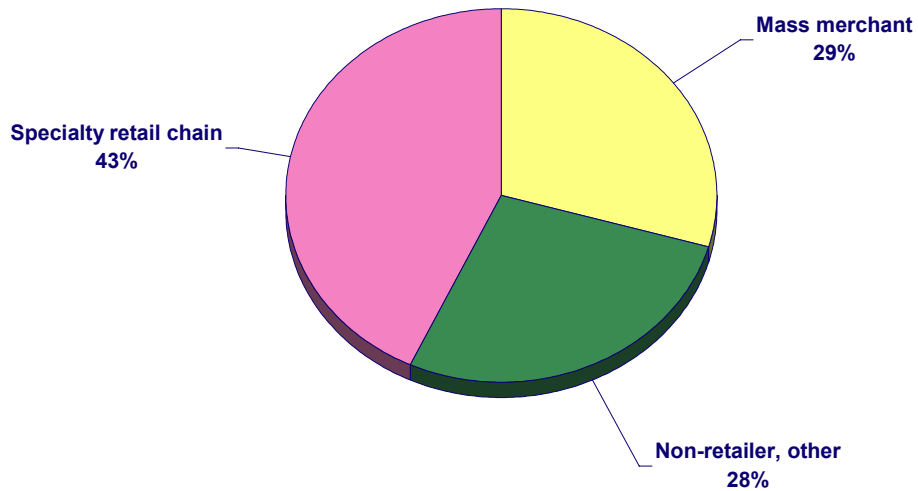
This report is the result of a cooperative effort between Newspaper Services of America (NSA) and Kubas Consultants.

- NSA manages newspaper advertising on behalf of its clients, which include large retailers and major companies. NSA plans and places \$1.6 billion in advertising annually, and is the largest single buyer of newspapers in the US. For more information, please go to www.nsamedia.com
- Kubas Consultants specializes in newspaper sales and marketing issues, advertising pricing, and publishing strategy. The firm has 30 years experience and has worked with newspaper clients across the U.S., Canada, and internationally. For more information, please go to www.kubas.com.

The study is based on a survey of current NSA clients and agency partners as well as other major U.S. newspaper advertisers, and was executed online in March 2007 by Kubas Consultants.

Results are based a total of 51 survey respondents. While this may appear to be a relatively small sample, it represents some of the largest newspaper advertisers in the U.S. and their spending power. The distribution of survey respondents by company type is as follows.

Survey Respondents By Type



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