

Preview 2007

Daily Newspapers' Outlook on Ad Revenue Growth and Strategic Initiatives

By Ed Strapagiel

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Kubas Consultants surveyed over 200 daily newspaper executives and managers on their expectations for advertising revenues and what strategic initiatives they intend to undertake in 2007. The survey was conducted in late November 2006, when plans and budgets for the new year would have been in place.

Synopsis

2007 Advertising Revenues

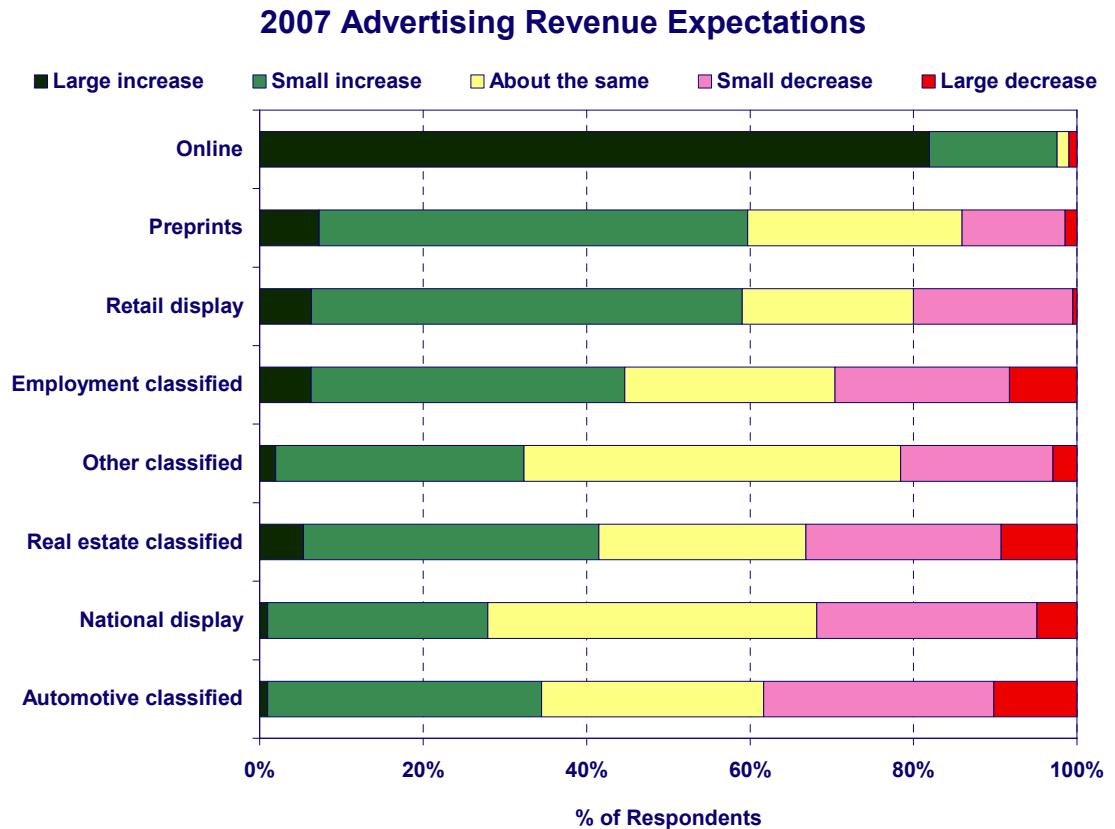
- On net, there is some optimism regarding newspaper advertising revenue growth in 2007. More executives and managers project increases rather than decreases in 6 out of 8 ad revenue categories.
- Not surprisingly, large increases are expected for Online revenue in 2007. Preprints are seen as the second most promising growth area, followed by Retail display.
- Newspaper executives and managers project continued decline in Automotive classified, expected to be the poorest performer in 2007. The next weakest area is National advertising, the outlook for which is mostly flat.
- Retail display, Employment, and Real Estate bear watching over the course of the year. While the current outlook is positive for these categories, emerging market and economic trends may limit their potential in 2007.

2007 Strategic Initiatives

- In terms of strategic initiatives for 2007, over 80% of daily newspapers have definite plans to work on their Online offering, and almost all the rest are considering it.
- Majorities of executives and managers also indicate definite plans in the areas of targeted publications and cost control.
- Improving pricing structures and physical format reduction are also significant but secondary areas of strategic initiative in 2007.
- Relatively small numbers of newspaper executives and managers indicated 2007 plans for modular advertising, free dailies, and broadsheet to compact conversion. The number of titles potentially affected however could still be high by historical standards.
- Large newspapers are the least optimistic regarding ad revenue trends, the smallest papers are the most optimistic, and mid sized papers are in between. Nevertheless, all three groups have roughly similar plans regarding strategic initiatives in 2007.

Guarded Optimism on Ad Revenues

Daily newspapers' outlook for 2007 advertising revenues is shown below. Revenue categories are listed from best to worst based on a weighted score.



Daily newspaper executives and managers anticipate revenue increases in 6 out of 8 categories in 2007, based on the balance of opinion of “increase” over “decrease”. While this is a generally positive picture, only Online is a clear winner. In many other categories, significant minorities of executives and managers have a negative outlook.

High Expectations For Online

Daily newspapers have very high expectations for Online advertising revenue growth in 2007, with over 80% of executives and managers forecasting a large increase. Perhaps the only question is “How big is big?”

According to Newspaper Association of America (NAA) figures, online growth may have already peaked, in Q1 2005, when the year-over-year gain was 40%. This has cooled in every successive quarter since, to 23% in Q3 2006. Still, even this rate of growth would be “red hot” compared to anything else in newspaper advertising.

Growth In Retail and Preprints

Retail display and Preprints (which are mostly retail) are also expected to grow on net, with those looking for increases out-numbering those anticipating decreases by factors of 3-to-1 and 4-to-1 respectively.

While the outlook for Preprints seems sound, in our view, expectations for Retail display may be optimistic. In the last four years, Retail display advertising revenues have been essentially flat, even though store retail sales have been increasing 5% to 7% per annum. There is a growing “disconnect” between retail sales and retail ad spending in newspapers.

Mixed Outlook For Classified

Daily newspapers appear to be looking forward to at least modest revenue gains in most Classified advertising categories in 2007. The number of executives and managers expecting an increase exceeds those forecasting a decrease in each of Employment, Real Estate and Other (private party, legal notices, business opportunities, etc.).

Strong growth in Employment and Other classified advertising should not be expected in any event, due to the slowdown in the overall economy now underway. This has its underpinnings in the cooling off of the housing boom, which may also adversely affect Real Estate advertising in 2007.

The most pessimistic 2007 outlook however is in Automotive classified. A total of 38% of survey respondents forecast a decrease, the worst rating for any ad revenue source. Automotive likely deserves this assessment given its poor performance in 2006, with ad revenue down 14% after the first nine months, according to NAA. One can only hope that auto dealers' sales margins will strengthen enough to hold on in 2007 – even a flat ad revenue trend would be an improvement, and would beat newspaper industry expectations.

National In Neutral

National advertising is the only other revenue category in which expectations for “decrease” exceeded “increase”. The most popular choice however was “about the same”, indicating a flat trend.

Even this lackluster outlook implies a slight improvement for National compared to this year. According to NAA, daily newspapers' National advertising revenue was down nearly 6% for the first nine months of 2006.

Budget Watch

Retail display, Employment, and Real Estate are all areas from which newspaper executives and managers expect gains in 2007. These categories however are vulnerable to potentially adverse trends in the overall economy. Daily newspapers will have to watch these closely as the year progresses, if they expect to meet budget targets by next December.

Online is still a small portion of total ad revenue, and whether it grows 25% or 35% may not matter much if core print advertising categories languish.

Focus on Online, Targeted Publications, and Cost Control

Daily newspapers executives and managers intend to be very busy next year, undertaking a variety of strategic initiatives across many areas of operations. Preview 2007 survey results below illustrate what's on the agenda.

2007 Strategic Initiatives



Several themes are apparent. Even the items at the bottom of the chart could be significant.

Much More Online

Over 80% of newspaper executives and managers say their papers have definite plans to expand their online operations, in terms of both content and advertising programs. And most of the rest are considering doing so. Actually, we would have been surprised if the results were any different.

In contrast, initiatives to grow core print advertising revenues are less prevalent. Nevertheless, it is still the print side of the business that must underwrite online development.

Working On Targeted Publications

A majority of daily newspaper executives and managers have definite plans concerning targeted publications, both lifestyle (74%) and distribution (60%) based products like zone editions. Adding, deleting, combining, or reformatting titles may be involved.

Overall, this appears to be an area that needs attention. Daily newspapers publish many types of ancillary products – TMCs, EMCs, zone editions, shoppers and pennysavers, specialty classified products (real estate, employment, etc.), lifestyle, alternative, or special interest titles (health, entertainment, etc.), magazines, free dailies, community papers, and so on. It can be difficult to evaluate the real contribution of these products, because of the problem of fully allocating costs under joint operations, and the potential for cannibalizing revenue from the main daily.

Targeted publications represent an opportunity to earn incremental revenue by serving readers or advertisers that the main paper misses. On the other hand, they are sometimes an exercise in delivering cheaper advertising at higher cost.

Cost Scrutiny To Continue

A majority of daily newspaper executives and managers also have definite plans to control or reduce costs in 2007, in both staff (54%) and non-staff (65%) areas. Staff reductions have been on-going in the newspaper industry for several years, and there are also long-standing efforts to improve efficiencies and shave costs in all areas of operations.

For 2007, the prognosis is “we’re not done yet”.

Attention To Advertising Pricing

About 40% of newspaper executives and managers have plans to improve pricing programs and rate structures, and as many are considering it. While only 13% plan to adopt modular advertising, another 35% have it on their radar.

These numbers are more modest than for other initiatives, but represent areas which are more periodic or one-time efforts, rather than on-going development such as online. Even if only 13% of dailies introduce modular ad sizing and pricing, it would be a substantial addition to the base of newspapers now doing so.

More Format Reduction, and “A Little” Compact Conversion

Nearly 50% of daily newspapers are planning or considering a format reduction in 2007, by narrowing their web width and/or reducing cut-off.

What about the rest? In many cases, other dailies have already shrunk their papers in recent years. Those still contemplating the move appear to be the group that follows industry leaders. To be fair however, it may take some years to achieve format reduction due to press equipment issues.

Only 4% have definite plans to take the more extreme step of converting from broadsheet to a compact format, like tabloid or Berliner. Projected out to the industry however, this could potentially involve roughly 50 titles, if all plans are in fact executed. That would make 2007 a banner year for compact conversion.

More Free Dailies

Just 14% of newspaper executives and managers have definite plans concerning a free daily product. Although this appears to be a small number, it could potentially *double* the number of free dailies, if all the plans go through.

Bigger Is Not Better

There are some differences and similarities by newspaper circulation size.

100,000+ Circulation

- The largest newspapers are the least optimistic regarding 2007 ad revenue growth. A decline is forecast on net in 3 of 8 categories, and the prospects for Automotive and Real Estate are seen as particularly negative. While Retail display is still anticipated to be a growth category, the margin is much more modest than what small and medium sized papers indicate.
- Intended strategic initiatives for 2007 are roughly the same as average. Large newspapers seem to be even a little more committed to developing online content, and are relatively more interested in considering modular advertising and free dailies.

25,000 To 99,999 Circulation

- The 2007 ad revenue outlook from medium sized dailies is “in the middle”. Declines are expected in 2 of 8 categories on net, but by relatively small margins. Views on Retail display and Employment ad revenue trends are somewhat more optimistic than average.
- Strategic initiatives planned for 2007 are not much different from both smaller and larger newspapers. Somewhat more medium sized publications have plans to improve pricing structures, but somewhat fewer are considering modular advertising and conversion to a compact format.

Under 25,000 Circulation

- Small dailies are the most optimistic about 2007 ad revenues, and on net expect increases in all 8 out of 8 categories. Outlooks for Retail display, Employment, and Automotive seem particularly optimistic compared to medium and large newspapers.
- In terms of strategic initiatives for 2007, there are somewhat fewer plans on developing online content and on controlling non-staff costs. On the other hand, smaller dailies are a little more likely to have plans concerning modular advertising and format conversion to a compact size.

Different Outlooks, Similar Strategies?

There are some major differences of opinion by circulation size concerning 2007 advertising revenue growth prospects. By comparison, the differences in strategic initiatives planned or under consideration for 2007 are minor, and often just normal statistical variation. So the situation is that the future is not expected to be the same for all, yet all intend to do much the same thing about it. Perhaps the differences will be at a more tactical level.

About Preview 2007

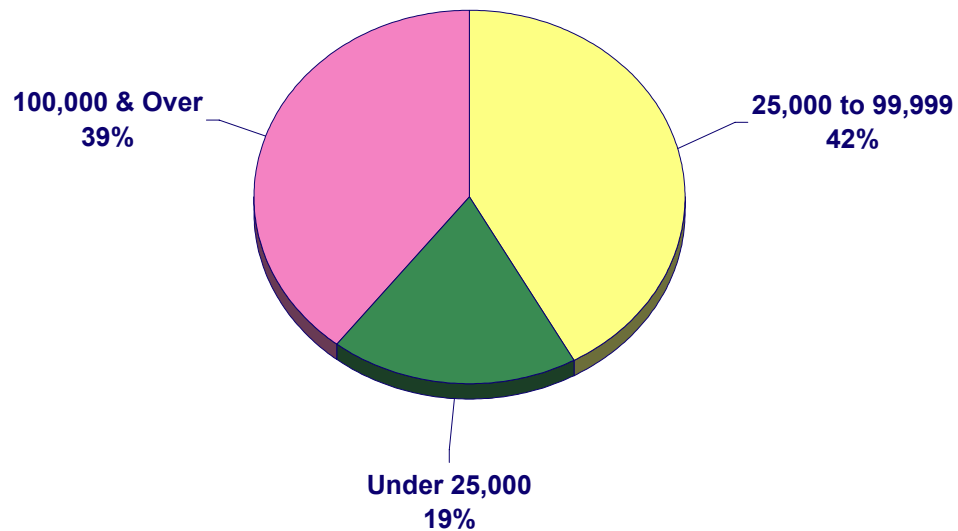
The survey for this Preview 2007 report was conducted online with daily newspaper executives and managers in the second half of November 2006. Newspapers' plans and budgets for 2007 would have been substantially in place by this time.

Participation invitations were sent to both U.S. and Canadian daily newspapers. Assuming replies in proportion to the number of titles, the response would be 93% American and 7% Canadian.

A total of 207 survey replies were received. A normal probability sample of this size has a maximum statistical error of plus or minus 6.8% at the 95% confidence level or 19 times in 20.

The survey was conducted on an anonymous basis to ensure confidentiality. Weekday circulation data was collected with the following result.

Survey Respondents By Weekday Circulation



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

Preview 2008?

Will there be a Preview 2008 next year? Your support and encouragement would be helpful in this consideration, so please let us know if this report has been useful.

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