Preview 2010

Newspapers' Outlook on Ad Revenue Growth and Strategic Initiatives

By Ed Strapagiel

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Kubas Consultants surveyed over 500 daily newspaper executives and managers on their expectations for advertising revenues and what strategic initiatives they intend to undertake in 2010. The survey was conducted in late November 2009, when plans and budgets for the new year would have been substantially in place.

Executive Summary

2010 Advertising Revenue Outlook: The Year of the Bottom?

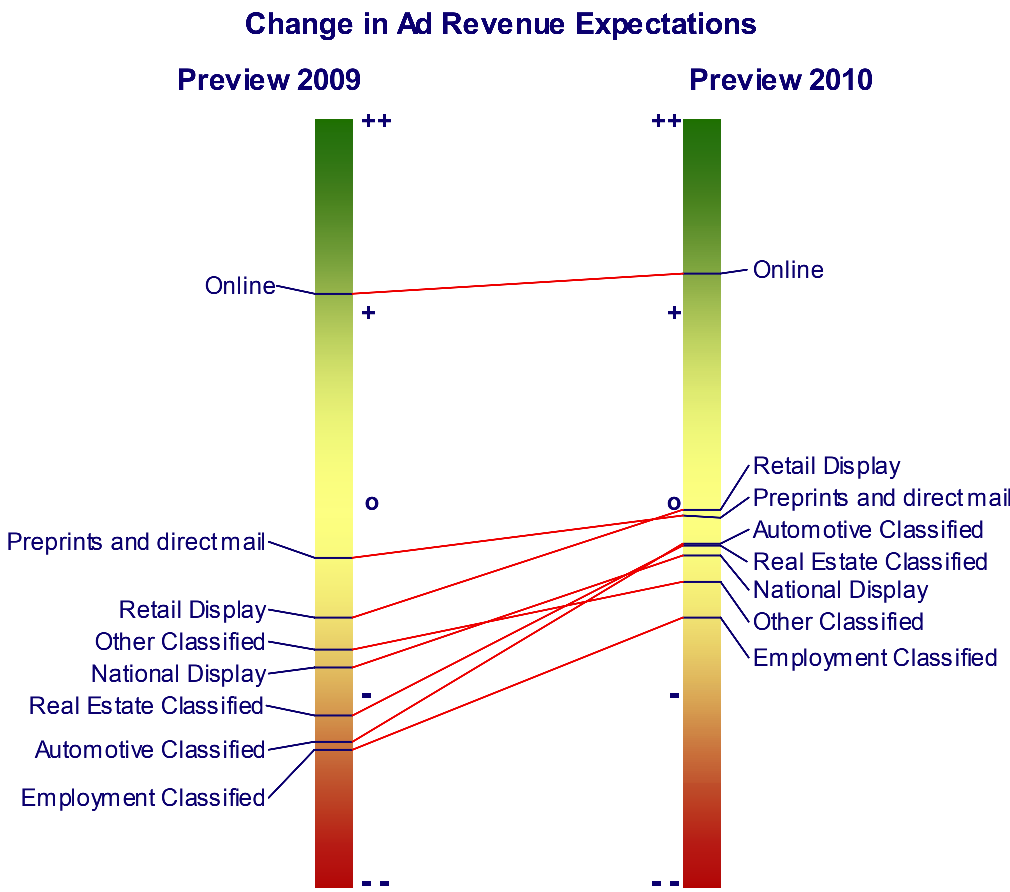
- "Improvement" is expected in all categories of newspaper advertising revenue in 2010. In all cases except online however, the improved outlook amounts to "declining less quickly", rather than positive growth.
- While online ad dollars are expected to grow in 2010, the current outlook is about the same as it was a year ago. According to Newspaper Association of America (NAA) figures however, newspapers' online sales actually declined in 2009, and past optimism was misplaced.
- Employment classified is expected to be the weakest category in 2010. The outlook for both retail ROP and distribution (preprints and direct mail) is for a slight decline. Real estate, automotive, national and other classified are expected to decline moderately. Even so, newspaper executives and managers are significantly less pessimistic than a year ago.

2010 Strategic Initiatives: Online, Pricing, Cost Control, and More

- The top strategic initiatives for 2010 are all in online, including improvements for both website visitors and advertisers, plus web-based self-serve ad sales. Significant online revenue gains are crucial to "making the numbers" in 2010.
- Improving ad pricing structures and upgrading sales technology are next in line. Both areas have suffered in recent years due to market and financial pressures.
- Operating budgets are likely to continue to tighten. While many newspapers have already become leaner, controlling both staff and non-staff costs remains a priority going forward.
- Although it seems inappropriate for the times, 1 in 4 have plans to start a specialty, niche or lifestyle product.
- Outsourcing ad sales and printing, upgrading presses, and reducing publishing days per week, are not on the radar.

2010 Ad Revenues: The Year of the Bottom?

Last year's Preview report noted a "terrible outlook" for 2009 newspaper ad revenues. This was certainly accurate, although the extent of decline still seems shocking. Preview 2010 reveals rising expectations across the board for next year, as shown below. Despite this brighter outlook, all ad revenue categories except online are still expected to come in below the "0" mark.



If the above is projected to a scale of -25% to +25%, forecast growth rates would be as follows.

2010 Projected Change	
Category	**% Growth**
Online	+15.0%
Retail display	-0.4%
Preprints & direct mail	-0.8%
Real estate classified	-2.7%
Automotive classified	-2.8%
National display	-3.4%
Other classified	-5.2%
Employment classified	-7.5%
Weighted Total	**-0.2%**

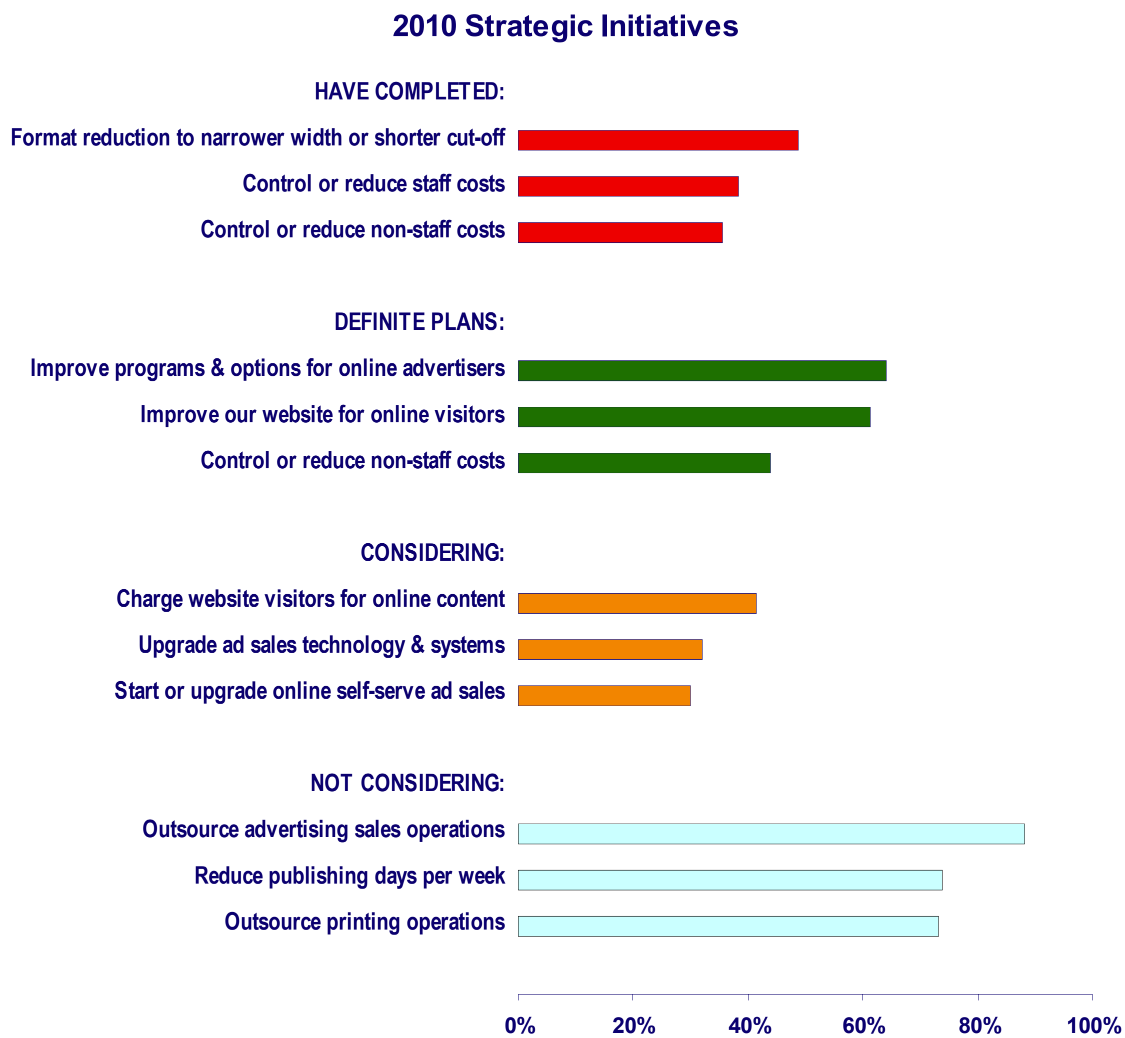
The same exercise last year indicated a 9% overall decline, which is turning out to be not pessimistic enough. Perhaps the above result is a "best case" scenario for 2010.

If Preview results are directionally correct, then 2010 could be “the year of the bottom”. Things won’t get much better, but they won’t get much worse either, according to newspaper industry executives and managers. If the same trend continues, we could see positive gains in 2011.

But there is a fly in the ointment. Much depends on significant gains in online to pave over losses on the print side. This was also the expectation a year ago, but it didn’t happen.

2010 Strategic Initiatives: Online, Pricing, Cost Control

The top three initiatives now considered “Completed”, with no further action on the agenda, all have to do with cutting expenses. This includes format reduction and controlling or reducing both staff and non-staff costs. Perhaps more significantly however, half or more of newspapers may not be done in these areas yet.



The importance of online is reflected in the strategic initiatives for which there are “Definite Plans” in 2010. The top two items, cited by over 60%, concern improving online operations for both advertisers and readers. Newspaper websites do get high traffic in their local markets, but the big issue is how to monetize it.

The third most mentioned area for which there are “Definite Plans” is controlling or reducing non-staff costs. It is apparent that tight budgets will continue to be the case in 2010.

Other areas with “Definite Plans” that were cited by smaller but significant numbers include:

- Improve ad pricing and rate structures;
- Start or upgrade online self-serve ad sales; and,
- Control or reduce staff costs.

The top initiatives cited as “Considering”, but without specific plans yet, are charging website visitors for online content, upgrading ad sales technology and systems, and developing online self-serve ad sales. These are “go forward” areas but may be more difficult to implement or require a significant investment of scarce resources.

Initiatives *not* on the radar are instructive too. Outsourcing advertising sales, reducing publishing days, and outsourcing printing operations are more drastic cost reduction moves, but it appears that most newspapers are not willing to go that far yet.

About Preview 2010

The survey for this Preview 2010 report was conducted online with newspaper executives and managers in late November 2009. Newspapers’ plans and budgets for 2010 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 532 survey replies were received. A normal probability sample of this size has a maximum statistical error of plus or minus 4.2% at the 95% confidence level or 19 times in 20. A breakdown of survey respondents is as follows.

Preview 2010 Survey Respondents			
Weekday Circulation	**US**	**Canada**	**Total**
100K+ Circulation	134	40	174
25K - 99K Circulation	192	24	216
Under 25K Circulation	101	29	130
Circulation not stated	9	3	12
Total	**436**	**96**	**532**

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 2010 survey.

Coming Soon: Future of Newspaper Ad Revenues, 2010 and Beyond

Kubas Consultants is preparing a new report on the future of newspaper advertising revenues and, more importantly, *what to do about it*. We don’t always agree with the prevailing wisdom, by the way. Look for it early in the new year.

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