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<td><strong>Author(s)</strong></td>
<td>Prasad, C. S. G.</td>
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The Newspaper Business

By

C S G Prasad
THE NEWSPAPER BUSINESS

by C.S.G. Prasad

Newspaper publishers buy boiled pine trees at wholesale and sell them at retail -- Ben H. Bagdikian

By 1990, publishers of mass circulation daily newspapers will finally stop kidding themselves that they are in the newspaper business and admit that they are primarily in the business of carrying advertising messages -- A. Roy Megary, publisher, Toronto Globe and Mail

Introduction

Neither of these two descriptions of a newspaper's essential business is particularly complimentary. In fact, both are at severe odds with the image that journalists and publishers have of their profession. But which ever way a newspaper is described, the fact remains that it has to be profitable to survive -- just like any other business. A newspaper, thus, has to be a business enterprise, albeit a strange one in some ways. It is, therefore, quite appropriate to discuss the business side of a newspaper's functioning in almost as much detail as its editorial side.

Newspaper economics

A newspaper is probably the only product in the world to be sold below cost of production. Bagdikian's description about boiled pine trees quoted above continues thus: "Publishers are engaged in a strange act. They sell their boiled pine trees for about one-third less than what they pay for them. It seems part of a magical performance: publishers sell their raw material for less than what they pay for it and they make billions of dollars in profit." Newspaper economics is about how this miracle takes place.

Before commencing a detailed discussion of newspaper economics, it is necessary to say a few words about start-up costs of newspapers. Given the technological imperative for any new newspaper today to go in for computerised phototypesetting and web offset printing,
these initial costs are quite high. As a benchmark, it may be pointed out that the *Indian Post*, a morning broadsheet which started publishing from Bombay, India, in March 1987, invested close to US$ 5 million on a computerised phototypesetting system (the Atek system). A modern 4-colour web offset press probably costs about twice as much again. Just the bare machinery needs thus add up to US$ 20 million or so. This is a major investment and even an established newspaper is not exempt from it: it will have to, if it is at present locked into linotype and rotary presses, incur this cost over a period of time as a modernisation cost. Outlays of this dimension, then, need to be kept firmly in view in any discussion of newspaper economics. However, a discussion of the economics of existing newspapers can assume that capital and/or modernisation expenses are a recurring feature and then proceed to discuss the other aspects of the newspaper business without getting bogged down in discussions of merits of competing systems, etc.

The first element of a newspaper's expenses is staffing costs. These are a strange phenomenon. Whether a newspaper sells next to nothing or it sells a lot, a certain minimal staff level is absolutely essential. As a newspaper grows, it adds on frills, but even when it is born it has to have a staff complement that could be a daunting financial burden.

The Hyderabad (India)-based morning broadsheet *Newstime* started publication in January 1964. At the end of three years of its existence and when it had not yet broken even, it had the following journalistic staff:

1. Executive Editor
2. Assistant Editors
3. Subject Editors (foreign, family, sports and business)
4. Sunday magazine Editor
The monthly salary bill for these 79 employees amounted to almost Rs 200,000 or US$ 16,600 (US$ 1 = Indian Rs 12).

In addition, Newstime used the advertising, circulation and printing staff of the parent company, sharing them with the Telugu-language daily Eenadu, the largest circulated Telugu newspaper in India. Eenadu's stringers also filed for Newstime. The costs of the common staff were divided between the two papers in a way advantageous to Newstime but were still of the order of US$ 12,000 a month. In addition, Newstime had to pay for its video terminal operators, paste-up artists, etc., an additional US$ 5,000 a month. In all, the staff costs amounted to US$ 34,000 a month.

During this period, this 12-page broadsheet had a cover price of Rs 1.00 and was being sold to main vendors at a 20 per cent discount. It had a circulation of just around 25,000 and was attracting an advertising volume of 24 columns or 1,000 cm a day at an average rate of Rs 30 per cm, giving a daily advertising revenue of US$ 2,500 or a monthly revenue of US$ 75,000. Add to this copy sale figures of Rs 600,000 a month (US$ 50,000), you
get a total revenue of US$ 125,000 per mensem. Staff costs were, then
27.5 per cent of revenues — a high share by any reckoning. And
remember, this figure does not include the costs of foreign
correspondents (Newstime had none), the costs of subscribing to
wire services and payments to free-lance and/or syndicated
writers.

Staff costs as a percentage of total costs or revenues go
down as a paper expands but not by much. This is so for two reasons.
First, as a paper expands, so does its staffing. Foreign
correspondents are added on, editorial writers increase in number
to provide a measure of specialisation that wasn't there to begin
with, and infrastructure staffers like reporters and sub-editors
are recruited in larger numbers to preserve the paper's
competitive advantages, such as they are. Second, as the paper
grows, its staff matures and draws higher salaries and perquisites.
It is also sometimes the case that newspapers generate stars from
within their ranks and then have to pay heavily to retain them.
In all, then, it would be reasonable to assume that roughly a
quarter of a newspaper's revenues go to cover staff costs.

Newspapers have always been, generally speaking, high-volume,
low-margin businesses. It should, then, be possible, at least
as a first approximation, to convert staffing costs as a percentage
of revenues to a figure which is a percentage of total costs.
A figure of 30 per cent of total costs is not an unrealistic
approximation in all but the most shoe-string operation. Large as
this figure is, it is not the largest cost element in a newspaper's
budget. That credit goes to consumables of which newsprint is the
most important.

Day in and day out, newsprint is the main claimant to the
newspaper dollar. In India, the average newspaper devotes roughly
40 per cent of its budget to consumables; of this newsprint accounts for over 95 per cent. The figures for newsprint are much higher in the USA which is one reason why many major newspaper corporations (example, the New York Times) have become newsprint manufacturers in their own right. The New York Times, in fact, consumes as much newsprint as the entire English language press in India every year.

Staff and consumables together account for 70 per cent of a newspaper's expenditure. The balance 30 per cent is made up of all the other items including the costs of advertising and promoting the newspaper, the commissions/incentives paid to major advertisers and vendors, the costs of subscribing to wire services and syndication services, the cost of returns of unsold copies, etc. Some of these items deserve a brief discussion.

Wire service subscriptions are usually on a graduated scale tied to circulation. In India, a new newspaper can subscribe to the two major wire services -- the Press Trust of India (PTI) and the United News of India (UNI) -- for as little as Rs 10,000 each per month. Also by subscribing to PTI and UNI, the newspaper gets services from AP, UPI, Reuter, APP, DPA, Tanjug, Kyodo and Xinhua (among others) through these two agencies. This is quite attractive to new newspapers. The subscription rates, however, go up with circulation and at a circulation level of 200,000 or above, wire service costs become significant.

Subscriptions to foreign syndication services is another substantial expenditure item in the case of most papers. The Deccan Herald, a morning broadsheet from Bangalore, India, subscribes to the New York Times News Service, the Washington Post-Los Angeles Times News Service, the Financial Times service, the Guardian service, Gemini and the King Features Syndicate (for comic strips) at a monthly cost of over US$ 20,000. The Hindu,
Published from Madras, India, subscribes to the New York Times, Christian Science Monitor, Le Monde, Compass, All Sports and several photographic agencies.

Most new newspapers trying to break into tough, competitive markets depend heavily on the drawing power of distinguished free lance writers. Many promote young editorial page writers at considerable cost. Newstime's monthly contributors' bill has averaged above Rs 40,000 (close to US$ 3,400) in the nearly four years of its existence. These costs, however, tend to go down (at least in percentage terms) as the paper becomes older as it then tends increasingly to use its own staffers to write think-pieces rather than commission articles from outside. Papers like The Hindu and the Times of India use outside outside contributors much less frequently than newer papers. Some papers, however, use outside contributions regularly as a matter of policy. Example, The Telegraph, Calcutta, India.

Promotional costs are sometimes quite uncontrollable. The London tabloid press, for instance, latched upon Bingo as a promotional tool and the consequences of this have not all become apparent as yet. Bingo is a rather mindless game of chance. You get a card with some numbers and you buy a particular newspaper which contains the day's winning numbers. If your card and the winning combination match, you get paid a prize, usually in five figures, pounds sterling. According to most impartial observers, while Bingo does push up circulation, the costs often get out of hand. Fortunately, this promotional tactic has not yet become universal. Of course, even sophisticated promotional games like The (London) Times's portfolio investment game cost money. But they at least have the saving grace in that they expect the reader to apply his/her mind to an extent!
The revenues of newspapers are easily described -- they comprise basically revenues from copy sales (subscription revenue) and from advertising (advertising revenue). Some major newspapers like the New York Times earn substantial amounts by selling their reports and other editorial matter to other papers (syndication sales), but papers that earn a significant amount from such sales can be counted probably on the fingers of one hand. For most papers revenues mean subscription revenue + advertising revenue.

Of the two, advertisement revenue is usually by far the greater. This, in fact, facilitates the sale of newspapers to readers at below cost as the difference between cost and cover price is more than made up by advertising revenue. The proportion of advertising and subscription revenues in the total revenue profile varies from paper to paper. In general, the more successful a paper, the higher its advertising revenue and the lower its subscription revenue. According to Ben H. Bagdikian, "newspapers, magazines and broadcasters in 1981 collected $33 billion (in the USA) a year from advertisers and only $7 billion from their audiences." He also says that newspapers in the USA get 75 per cent of their revenues from advertisements.

The actual percentages vary from country to country but the basic trend remains the same. When a newspaper first starts operations, it has to struggle for ad revenues. At that point, subscription revenue is probably as significant as advertising revenue in the total revenue mix. But as the paper gets established, the ratio changes in favour of advertisements and eventually advertisement outgun subscription 60 to 40 or more. This, of course, imposes its own costs on newspapers, of which more later.

Revenue-enhancing strategies

This rather brief description of newspaper economics says very little about the basic problems that newspapers face as business
enterprises. Some discussion of this important aspect is, therefore, in order.

The basic problem is not that newspapers as a group are unprofitable; far from it, in fact. In the USA, according to Anthony Smith's *Goodbye Gutenberg* (New York: Oxford University Press, 1980), newspapers, on the whole, have performed better than most Fortune 500 companies on the basis of any index of profitability -- earnings per share, return on investment, etc. The same is substantially true of newspapers in most other countries. Some papers fail and are forced into liquidation, but the industry as a whole is fairly healthy.

The real problem is that newspapers today operate (or, think they operate) in an uncertain environment. Newspapers in the Third World especially, have to function in an environment bristling with certain fairly well-defined threats. One of these, of course, is television. In the context of fairly wide-spread illiteracy, television is a more practical medium of news dissemination than newspapers in the general Third World context. This diverts advertising dollars into TV and away from newspapers. This is not a process than goes on indefinitely. There always comes a time when the distribution of advertising expenditure stabilises. For instance, in the USA, total advertising was distributed as under in 1978:

<table>
<thead>
<tr>
<th>Media</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Newspapers</td>
<td>29.0%</td>
</tr>
<tr>
<td>TV</td>
<td>20.2%</td>
</tr>
<tr>
<td>Radio</td>
<td>6.6%</td>
</tr>
<tr>
<td>Magazines</td>
<td>5.9%</td>
</tr>
<tr>
<td>Direct mail</td>
<td>13.8%</td>
</tr>
<tr>
<td>All other media</td>
<td>24.3%</td>
</tr>
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</table>

(The proportion of the advertising dollar spent on newspapers had come down from 38.6 cents in 1940 to 29 cents in 1978 but since then it has remained stable. The real sufferers have been magazines.

Comparable Third World figures are hard to come by. Nonetheless
indicative figures available for India reveal similar trends. One Indian estimate says that by 1990 corporate advertising could reach Rs 10 billion which will be distributed 55 per cent print and 45 per cent non-print (mainly TV) media. In overall terms, therefore, newspapers as a group do not have to worry.

But this generalisation obscures a specific problem, which is that with the advent of TV on a large scale, newspapers will have to necessarily move up-market in some sense of the term. It works this way: TV takes over the real mass audiences; newspapers just cannot hope to have that sort of a reach. They will, therefore, have to work a different strategy -- they will have to reach specific audiences of interest to advertisers. The point behind this argument is this: TV is an unselective medium by its very nature, except in countries where television set ownership is confined to an affluent minority. Any advertising done through this medium cannot, therefore, be specifically targeted. An advertiser selling, say, Audeman Piquet watches (prices from $10,500) would find it difficult to justify a television spot which will reach an audience which might at best consist of one potential buyer for every 100,000 viewers. But if the same advertiser has the choice of advertising in a newspaper that is patronised by a fair number of potential Audeman Piquet buyers, he would consider his money well-spent.

The phenomenon of newspapers moving up-market has already occurred in the USA and is well on its way to becoming a reality in the Third World. And, as far as English language newspapers are concerned, the print medium is already an up-market vehicle in most Third World countries.

In an uncertain environment, then, newspapers have to operate on the basis of two inter-linked assumptions. First, they
will have to assume that their present prosperity may not last long if they do not move up-market fast enough. Second, they will have to assume that tomorrow's competitive pressures will be higher than those obtaining today. In either case, the only way to ensure a newspaper's continued existence is to maximise earnings while the going is good. The most obvious way of going about this is to maximise advertising revenues. This is already happening in a big way. In the USA for instance, in 1940 daily newspapers averaged 31 pages, of which advertisers occupied 40 per cent, or 12 1/2 pages. By 1980, the average US newspaper had 66 pages of which 65 per cent or 43 pages was advertising (ANPA statistics).

An interesting counter to this argument is provided by Graham Cleverly in his *The Fleet Street disaster: British national newspapers as a case study in mismanagement* (London: Constable and Co., 1976). He argues that the drive for higher advertising revenues has created more losses for newspapers than profits. This argument is based on the following: first, that advertising rates have generally gone up by much less than cover prices or, indeed, the general inflation rates. Which basically means that advertisers are being subsidised by newspaper buyers and there is a point beyond which buyers will refuse to carry advertising costs. Second, that extra advertising in newspapers has cost the newspaper more than it has earned, largely because print and typographic workers have to be paid exorbitant overtime (at piece rate) to print extra pages. (Indidentally, it costs about thrice as much to process a display advertisement as it does to process a news report.)

Cleverly's arguments are valid for Britain in the mid-1970s, but I doubt if they are generally true. This is so, because outside of Britain, advertising rates have risen in step with other costs and there is not much of a subsidy element involved. Further, the
ruinous overtime costs that Cleverly rues are not the norm outside Britain. Even there, the move to Wapping by the Murdoch papers might signal the beginning of the long, slow decline in trade union power.

Despite all this, it would be necessary to keep Cleverly's counter-argument in view all the time because the chase after advertising could often become an end in itself with no general appreciation of the impact of chasing after advertisements on the overall profitability of a newspaper. In general, however, there is no real alternative to increasing the advertising revenue when it comes to revenue-enhancing strategies for newspapers.

This, of course, brings in its wake problems of a very severe kind. The quote from A. Roy Megary at the beginning of this article is a brutal admission of the existence of this problem, which is simply stated: as a newspaper's dependence on advertising revenue increases, so does its susceptibility to pressures mounted by advertisers. Ben Bagdikian documents, in his *The Media Monopoly* (Boston: Beacon Press, 1983), the shameful way in which the tobacco-cancer link was underplayed by mainstream US papers because of pressures from a very influential group of advertisers -- the tobacco companies.

In the Third World context, in an important study, which was part of a major research project on communications, done at the Latin American Institute for Transnational Studies (ILET), Mexico, Noreene Janus and Rafael Rancagliolo ("Advertising, Mass Media and Dependancy") provide the following figures based on another study by Melena Brockmann for ILET. The figures are based on an analysis of several Latin American papers published on 6, 8 and 10 September, 1977:
<table>
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<tr>
<th>Newspaper</th>
<th>% space devoted to</th>
<th>Total bought space (%)</th>
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<tbody>
<tr>
<td>La Prensa</td>
<td>36.5</td>
<td>63.5</td>
</tr>
<tr>
<td>(Nicaragua)</td>
<td>57.7</td>
<td></td>
</tr>
<tr>
<td>El Mercurio</td>
<td>49.7</td>
<td>50.8</td>
</tr>
<tr>
<td>(Chile)</td>
<td>43.2</td>
<td></td>
</tr>
<tr>
<td>La Nacion</td>
<td>35.7</td>
<td>64.3</td>
</tr>
<tr>
<td>(Costa Rica)</td>
<td>40.5</td>
<td></td>
</tr>
<tr>
<td>El Imparcial</td>
<td>52.2</td>
<td>47.3</td>
</tr>
<tr>
<td>(Guatemala)</td>
<td>38.3</td>
<td></td>
</tr>
<tr>
<td>Tiempo</td>
<td>35.2</td>
<td>64.8</td>
</tr>
<tr>
<td>(Colombia)</td>
<td>37.7</td>
<td></td>
</tr>
<tr>
<td>Excelsior</td>
<td>44.4</td>
<td>55.6</td>
</tr>
<tr>
<td>(Mexico)</td>
<td>36.7</td>
<td></td>
</tr>
<tr>
<td>El Heraldo</td>
<td>53.1</td>
<td>46.9</td>
</tr>
<tr>
<td>(Mexico)</td>
<td>36.1</td>
<td></td>
</tr>
<tr>
<td>El Comercio</td>
<td>37.0</td>
<td>63.0</td>
</tr>
<tr>
<td>(Ecuador)</td>
<td>33.7</td>
<td></td>
</tr>
<tr>
<td>La Nacion</td>
<td>34.7</td>
<td>65.3</td>
</tr>
<tr>
<td>(Argentina)</td>
<td>33.2</td>
<td></td>
</tr>
<tr>
<td>La Nacion</td>
<td>30.3</td>
<td></td>
</tr>
<tr>
<td>Institutional+</td>
<td>1.8</td>
<td></td>
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"Institutional" covers all institutional announcements, such as, announcements of share issues, bond or loan issues, etc.

The trends indicated by this table have only accentuated with time since 1977 when the study was done. Janus and Roncagliolo draw the following conclusions: first, that in most cases, the space available for pure journalism is reduced to less than half the space available. Second, that the sources of media revenue have shifted: revenues contributed by the sale of media products have declined while dependency on advertising revenue has generally increased. Their summing up, while obvious, is still worth quoting at some length:

"Once the media become a central part of the business of advertising, their history and role become inseparable from the history and role of advertising. Indeed, once this happens, the mass media cease to be concerned primarily with information and entertainment, devoting
increasing attention to selling, responding to the wishes of
the advertisers who finance them rather than to the needs of
those who read, watch or listen to them.

"The newspaper, as we know it today, is a merchandise which is
sold below its cost of production. This fact suggests that the
real commercial good produced by journalists, rather than being
the physical object of the newspaper itself, has come to be the
creation and broadening of markets. Many years ago, the magazine
Printer's Ink verified this relationship, stating that: 'the
enterprises's [newspaper's] future depends on its ability to
manufacture consumers in addition to products.' Mass media are
precisely manufacturers of consumers."

There is no need to labour this point further but a couple of
brief observations are in order. First, in the context of the
freedom of the press, it is usual to discuss the role of governments.
Fears of government interference in the free functioning of
newspapers are based on real enough facts. And when a government
is also a major advertiser, the scope for abuse of governmental
authority is enormous. But in the context of the discussion above,
any discussion of a free press must take into account the very
real pressures exerted by private advertisers. While there have
been a number of valuable studies in this area (examples: Bagdikian
and JanusRoncagliolo quoted above), it is all too often the case
that private interference in the functioning of newspapers is
totally ignored.

A second point worth mention is that one form of advertisement,
namely classified advertisements, does not bring in its wake the
same pressures as do, say, institutional advertisements. This
is so because classifieds are placed by several individuals none
of whom is singly powerful enough to pressure a newspaper. The
obvious inference from this would be that newspapers should try and increase their access to classifieds in their main circulation areas. This is more easily said than done. Reason: in a multi-newspaper market, classifieds go predominantly to the most influential paper as the advertiser would like to maximise returns on his investment in the advertisement. Examples: in the Madras city area, The Hindu mops up 90 per cent of the classifieds, leaving only 10 per cent to the Indian Express and other papers; similarly in the Bombay metropolitan area, the Times of India gets 85 per cent of the classifieds leaving 15 per cent to the four other English language morningers and three eveningers.

Essentially, it is clear that the main revenue enhancement strategy for newspapers will have to be to increase advertising revenues. Which, in turn, would open up possibilities of advertiser pressure on newspapers. The future of newspapers as unbiased information sources might well depend upon their ability to walk the tight rope between journalistic ethics and responsibility on the one hand and commercial viability on the other.

One revenue-enhancing strategy, while its total contribution might never amount to much, is worth considering as it reinforces editorial independence rather than undermining it. This is the development of syndication services. The Financial Times and the New York Times are each estimated to generate close to ten per cent of their operating profits through sale of their syndicated news products. This is essentially a matter of developing and nurturing quality journalism. Efforts in this area might not always lead to syndication sales but they would certainly lead to better newspapers.

Job printing has been cited as one way of, if not earning high additional revenues, at least reducing the high cost that a newspaper incurs by keeping its presses idle for most of the day.
Most modern offset presses can easily handle up to 50,000 copies an hour and average newspapers at best use three to four hours of press time a day. So, job printing makes economic sense. Unfortunately, however, in most Third World situations, job work is usually given to sheet-fed presses rather than too web-fed presses. This is so because the size requirements of most job works can be handled economically only by sheet-fed presses. This being the case, it is difficult to conceive of job printing becoming significant as a revenue earner for newspapers.

Rather more likely would seem the separation of the printing and editorial/typesetting aspects of a newspaper. What could happen, at least in multi-newspaper centres, is the creation of central printing facilities, not necessarily owned by newspapers, which will cater to the printing needs of several newspapers. In San Francisco, both the Chronicle and the Examiner share a single printing plant. This has not always succeeded, of course.

For instance, even though both The Times and the Sunday Times in London came under a single management after Rupert Murdoch bought them, they maintained separate printing shops. But, in general, the move towards shared printing facilities seems the way to go.

No discussion of newspaper economics can be complete without a brief mention of newspaper budgeting procedures. Surprisingly, these are non-existent in many papers. There is, of course, an annual money figure indicated for various departments in newspapers, but most of these budgets, especially editorial department budgets, are almost always exceeded in practice. This is so because no one can really predict what news will break when or where or indeed how much it will cost to cover it. All this does not excuse the total absence of budgeting systems in most papers. This is obviously an area that cries out for immediate attention.
One particular evil that needs to be exorcised is the ignorance in which many line heads are kept of their department's budget. It is rare indeed for a chief reporter to know what money is available to his department. Usually, if something big breaks, he has to rush to the editor to find out just how big a team he should put together to cover it. This will obviously have to change.

Many newspapers are blissfully unaware of what they are actually spending every day or year. Indeed, they do not even know what they are getting for whatever they are spending. This has been meticulously documented in Cleverly's book cited earlier. He quotes a telling admission from the Daily Telegraph's annual report as a typical case in point: "the [example] is even more poignant, and comes from the Daily Telegraph, and refers to their process department:

'In this department we pay a "House extra" of £5 10s per week, but are far from clear what we get for it.'"

It is easy enough to dismiss damaging evidence like this saying that most of it is atypical. It would, however, be extremely foolish to do so. Most newspapers have no control over their budgetary or fund disbursement procedures and is something that would normally be thought a sine qua non for efficient management.

Taxation and valuation of newspapers

The direct taxation of newspaper corporations in almost all the countries of the world is not much different from the taxation of other corporate entities. As far as this writer is aware, newspapers are not eligible for any special concessions but then nor are the targets of discriminatory tax imposts. Newspapers have one advantage though. They are able to deduct almost all their expenses for tax purposes. This is not always the case with
other corporate entities. Frequently, however, imposts directed at some other industry impinge adversely on newspapers. Three years back, the annual budget of India allowed any corporation to deduct only 60 per cent of its advertising expenses for tax purposes. This had the effect of depressing total advertising through news media.

Newspaper problems lie essentially in the area of indirect taxes and postal levies. Any levy on printing equipment, newsprint or other consumables affect newspapers disproportionately for two reasons. First, newspapers are high-volume, low-margin businesses wherein the scope for further shaving already thin margins is limited. Second, the costs of consumables as a percentage of a newspaper's total expenditure are already too high for further increases to be received with equanimity. Postal rates are never as low as newspapers want them to be. More often than not, they are high enough to discourage individual subscribers from subscribing to an outstation paper by post. This is an area in which newspapers will have to keep on badgering governments for moderation.

The valuation of newspapers is an esoteric area of study. Not many newspapers in the world are publicly quoted. As such, their value, as corporate entities, is somewhat problematic. In the USA, however, most newspaper corporations are publicly held as a result of which newspapers are subject to the same Wall Street logic as other corporations. That is, they have to show some pre-defined quarterly growth at all costs failing which their share value goes down. More importantly, they become sitting ducks for any takeover attempt. The general trend in the US seems to be value newspapers at 12 times earning or above.
Business office – editorial interaction

In the context of the need for newspapers to enhance revenues and in the light of the dangers associated with revenue enhancement through the generation of more advertisements, what would be the ideal type of interaction between the business office and the editorial department of a newspaper? The ideal business office, if such an animal exists, would maintain an arms length relationship with editors because it does not want to compromise the latter's independence. It is always possible to bring editorial sensationalisation and overplaying to the attention of editors in a gentle fashion and for amends to be made. This does happen occasionally. In 1986, there was a series of colliery accidents in one part of India. At least two newspapers reported that these accidents were due to negligence on the part of the colliery management when no case for negligence could be established. The business office pointed this out gently and the error was rectified. But such is not always the case.

It is more usual for the business office to look over the shoulders of the editors as it were, and in general be as disagreeable as possible. Business pages of newspapers are often filled with puffery of the most blatant kind disguised as news. A case in point: a major Indian corporation in all sorts of trouble suddenly announced that it was going in for collaboration with an American biotechnology company to produce anti-cancer drugs through the recombinant DNA route. All newspapers, under prodding from their business offices, reported this news straight. There was no questioning about whether genetically engineered anti-cancer drugs had in fact already been produced, or whether indeed there was any prospect that such a technology, if available, would be licensed to an Indian textile company. The result of all the brouhaha was that the company
question got a lot of valuable free publicity and its share values shot up. Special newspaper sections on travel, food and real estate are so uncritical of their advertisers that it is often embarrassing to read them. The point is that substantial areas of newspapers have been given over to advertisements — paid ones being separated from one another by unpaid ones. These acres of newsprint are a wasteland of no value whatsoever to the reader. B.O.M. (business office must) is the most dreaded set of initials when attached to any communication from the business office to the editorial department.

A good business office must leave the editors free to develop quality in the expectation that quality, assisted by promotion, will suffice to sell the product. And once the product sells, advertising follows naturally in its wake. Even when this does not happen, the business office will just have to redouble its efforts and hope for the best. There is no other way to run a newspaper that has some pretensions to quality. But what usually happens is something else again — direct interference in editorial matters. There are exceptions to this bleak scenario, obviously. One well-known exception is the New Yorker magazine. After the magazine published Jonathan Schell's searing "The village of Ben Suc" in its issue of July 15, 1967, it lost a lot of advertising and its profits fell from $3 million to $1 million. But the owners and the business office supported the editorial team without reservations and the magazine was nursed back to health fairly expeditiously. One magazine industry executive was asked if any other newspaper corporation would have behaved the same way. His reply: "Are you kidding? One bad year like the one New Yorker had in 1967 and either the editorial formula would change or the editor would be out on his ear. It happens regularly."
This is a problem that every newspaper has faced, is facing and will face in the foreseeable future. One recent example: Mr S Nihal Singh, the first editor of the Indian Post, had to quit within three months of the paper's launch when the owners apparently felt that his brand of serious journalism wasn't bringing home the bacon. He had been promised non-interference for at least three years. Another example: Ms Amrita Abraham, elevated to the editorship of the Bombay-based Sunday broadsheet, The Sunday Observer, resigned within 48 hours of her elevation. The reason: once again interference in editorial freedom. Sic transit gloria mundi.

Cost-cutting

The reduction of costs in newspapers is not an easy task for one very simple reason. As noted above, most papers do not know what they are spending. How, then, are they going to cut costs? There are, however, some fairly well-established cost cutting mechanisms which most newspapers will have to adopt to survive. The best-established, of course, is modernisation followed by elimination of surplus staff. This essentially affects print room staff, but the savings to newspapers are substantial. For instance, Anthony Smith (Goodbye Gutenberg, cited above), points out that a new press installed in a major American newspaper reduced staff requirements from 75 to just three. The capital costs of modernisation are often daunting but there are surprisingly low cost solutions available if one looks long and hard enough. In the case of Los Angeles Times, for instance, when the paper shifted to phototypesetting, it did not immediately discard its rotary presses. Instead, it modified them for use with plates made through a new injection moulding process. The cost tag for modifying the presses was a surprisingly low $125,000. But it is not always politic to reduce staff and so there is some
sort of a point beyond which staff reductions cannot be pushed further.

Cost savings would, then, have to come from other measures most of which tend to be incremental. But all of them eventually add up to something substantial.

One area of cost reduction that needs to be looked into in Third World situations is in consumables. Newsprint costs escalated dramatically in the 1970s but American newspapers are now able to get more revenue per ton of newsprint than before the price increases took place. This has been achieved by making newsprint thinner and by reducing page sizes ever so slightly. Similarly, ink jet technology has reduced the consumption of printing ink substantially. A copy of Los Angeles Times today consumes less than a fifth of an ounce of ink as against nearly half an ounce barely two decades ago. Savings from such unspectacular, incremental changes might look small, but in the long run, they all add up to substantial total amounts saved.

The wrong way of going about cutting costs would be to reduce journalistic staff and depend more heavily on wire services and syndicated material. This, however, seems to be happening with distressing frequency these days. One Hyderabad-based morning broadsheet with a dominant circulation in the city has no editorial or editorial page writers on its staff. Its editorials are written by sub-editors and all its editorial page contributions come from outsiders or syndicated services.

Conclusion

The newspaper business is not an easy one. The long-term revenue prospects for individual papers (as against the industry as a whole) are not without elements of uncertainty. At the same time, extraneous pressures impinge rather seriously on editorial independence and integrity. In such a situation, it has become essential to run a newspaper as a business while at the same
time maintaining its chastity, so to speak. On how well this rather difficult mix is attained in practice would depend the future of the newspaper industry.

One further point that deserves attention is the economics of newspapers in the Third World. This is not an area in which data availability is unproblematic. In fact, as far as this writer is aware, such information as is available is anecdotal and not quantitative. A detailed quantitative study of selected newspapers would be essential to generate a database on which intelligent discussion can be based.

ABOUT THE AUTHOR

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