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Advertising: The Lifeblood Of Newspapers

By

Cyril D Pereira
Advertising: The Lifeblood of Newspapers

By Cyril D Pereira

Very few newspapers begin life with the primary purpose of being vehicles for advertisers. Newspapers launch themselves with much more noble objectives than that. The problem is, noble objectives, by themselves, do not guarantee publishing success - or indeed, survival.

Newspaper history is littered with the carcasses of titles that came to grief very quickly when editorial evangelising wasn’t matched by sound commercial logic.

The Newspaper as a Business Entity

Newspaper executives seldom see themselves as primarily engaged in economic activity. No, newspapers tend to parallel the sort of priesthood culture that makes the industry, like the Catholic Church, mysterious, inscrutable and wholly self-righteous. It breeds legends of heroic editors battling governments and their own management, and maverick proprietors pushing selected political cronies at election time.

The internal hierarchy and organisation of newspapers reinforces this artificial divorce of operative function from economic purpose. Almost universal is the distinction between the 'Editorial' and 'Commercial' operations of the business, with the cooks carrying on under the master chief like they have nothing whatever to do with the restaurant, the restaurant owner, or indeed, with the customers!

The reality of the matter is that unless newspapers are financially healthy, they cannot remain in business. They cannot become healthy unless there is a market for the product; even when there seems a steady demand for the product, many newspapers buy boiled coniferous wood from Canada, put black ink on it and give it away to the public for less than it costs! This is where the scramble begins for advertising dollars to keep the show on the road.

The Revenue Streams Available to Newspapers

Two distinct revenue streams exist for daily newspapers: circulation revenue from sales to readers, and advertising revenue from sale of 'space' within the columns of the paper.

Circulation revenue derives from the cover price of the paper, multiplied by copies sold, less commission to agents. Commission to agents varies from 30-40% of the cover price. In many developed countries, governments actively inhibit price increases of newspapers on the premise that universal affordability is essential to the functioning of a democracy. Furthermore, the obsession with circulation growth as the key
yardstick of success within the industry, leads many managements typically to keep cover price as low as they can, not to jeopardise circulation sales.

In a competitive newspaper environment, newspapers prefer to juggle their advertising rates to make up for shortfalls in their cover price rather than risk negative growth in circulation. Newsprint constitutes the single biggest item of cost in the business: between 40-50% of the total cost of the product. In the last 12 months, newsprint costs have rocketed from US$450 to US$695 per tonne. For a medium sized newspaper, consuming say 15,000 tonnes of newsprint per annum, this adds US$3.7 million to annual operating costs!

In a situation of rising newsprint costs, marginal newspapers dependent largely on circulation revenue are finally brought to the dividing line between life and death: raise cover price to stay in business and risk losing readers to rivals or hang on till the bank forecloses. Ironically, it is the 'popular' press with the mass readership that is more heavily dependent on circulation revenue than the 'quality' press with generally smaller circulation bases. Given a situation where a rapid escalation of newsprint cost cannot immediately be matched by an industry-wide adjustment of cover prices, the popular press will find itself supporting a cost recovery deficit magnified by the circulation size.

Fortunately, in many developing countries, government involvement in the media extends to such a degree that the sanction to adjust cover prices for survival is easily obtained, thereby preserving the weak along with the strong.

In the regional context, in Malaysia for example, Utusan Melayu would fall in the 'popular' press category, with the New Straits Times traditionally holding the 'quality' press leadership until the Star caught up with it. But that situation has been swiftly corrected by the government. In Indonesia, Kompass is quality press with Pos Kota the supreme example of popular press. In the Philippines, the Manila Chronicle and the Manila Times are consciously trying to position themselves as quality newspapers, leaving the popular sector to the Star and the Bulletin.

In Singapore of course everything is very tidy when it comes to media: there is no need for competition and all decisions are scientifically computed to satisfy the greatest good for the greatest number. An interesting concept of a 'popular' English language newspaper is now being hatched for readers who do not traditionally read English language newspapers. For students of newspaper history, this will be a fascinating experiment.

Industry studies in the UK indicate a pattern of average circulation reduction of 2-3% for a cover price increase of 10%. Conversely, a 10% increase in real disposable income raises demand for national newspapers by 1-2%. General cover price increases of national newspapers have also been observed to affect the consumer buying pattern of other reading materials: readers first cut down on general interest magazines, then Sunday newspapers and finally their second national daily - if they are two-paper households.
The degree to which 'quality' newspapers and 'popular' newspapers depend on circulation revenue relative to advertising revenue, is a very interesting indicator of the differing economic structures between the two broad categories of newspapers: circulation revenue comprises between 60-70% of total revenue for the 'popular' press. The situation is reversed for the 'quality' press: circulation revenue only accounts for 30-40% of total revenue, while advertising revenue assumes prime importance.

The publishing strategy therefore for the 'popular' press is to have a cover price that yields a healthy economic return, an editorial formula to ensure mass appeal and rigorous cost control to yield a satisfactory profit margin. Egghead journalism has no place in this environment. Blood, guts, fore, tits, scandal, gossip, innuendo, glory, patriotism and religion are the stuff that sell this category of newspapers.

Why Does the 'Quality' Press Attract Advertising Revenue?

As soon as television supplanted newspapers as the most cost-effective mass reach medium for advertisers of mass consumer products, 'target marketing' techniques were applied by advertisers to match products to specific audience characteristics of newspapers. Newspaper readership showed distinct social class and income differentiation that allowed definition of the total consumer base into target market segments.

Apart from the demographic profile of the readership: age, sex, personal & household income, educational level, profession etc., the geographic distribution pattern also defined the kind of readership a primarily city based distribution is more value to an advertiser of expensive products than a largely rural circulation.

For upmarket advertisers, the quality of readership of a newspaper is far more important than quantity. Sophisticated media research techniques now make available to advertisers and agencies, very detailed data on the readership profiles of each newspaper. Furthermore, depending on the desired set of criteria for a particular target market definition, this database can be interactively manipulated to yield comparative figures for newspapers in cost-efficiency terms, for media evaluation.

Agency media planners have been trained to use independent media research figures on which to base recommendations to their clients. Clients demand factual justification before they approve advertising budget expenditure. The SRG (Survey Research Group) provides an annual independent media research service to several countries in this region, for national newspapers. For regional magazines, the Asian Profiles report has become the accepted standard.

The 'quality' press, by delivering the middle and upper strata of the social pyramid, channels advertising messages to a
quality audience for upmarket products with minimum waste. Upmarket advertisers shun the 'popular' press as being bad for their product image, besides being wasteful in reaching a mass audience that is barely above the poverty line.

It is interesting to observe, in the South East Asian context, how the English language press linguistically defines an upmarket audience, operating within a non-English speaking majority, and yielding disproportionate profits for newspapers in Singapore, Kuala Lumpur, Bangkok and Hongkong.

How To Make More Money From White Space

Media owners with the 'right' demographic and psychographic audience profiles have other options to selling white space in addition to regular ROP display advertising. Classifieds revenue is much more attractive to newspapers for several reasons: it attracts a constant flow of small ads from individuals, and statutory and financial notices from corporations, at a space cost 30-50% higher than the rate for ROP display advertising! All revenues earned are net to the newspaper as no commission is paid to advertising agencies for direct clients. The yield per page of Classifieds is much higher than for equivalent ROP display advertising.

The more successful newspapers generate as much as 60% of their total advertising revenues from Classifieds alone.

Certain conditions seem to be necessary for a successful classifieds market: a dynamic city environment, an affluent consumer audience, high rate of urban drift/migrant renewal, an actively read newspaper with excellent infrastructure for telemarketing. The business pours in over the phone lines: situations vacant, cars for sale and houses for rent, seem to be the most popular categories with the highest turnover.

Both Display and Classifieds advertising is subject to the swings and roundabouts of business cycles. To build up a further source of one-off advertisers regularly throughout the year, thematic special reports are commissioned to provide an editorial environment for specific categories of advertisers. Supplements are very much part of the daily newspaper - for the most part pathetically written and produced, with sub-standard editorial copy filling the spaces between the ads.

There are supplements on X'mas shopping, Going back to school, Travel, Footwear, Photography, Fashion, National days, Exhibitions etc. Newspapers have still to resolve whether these are legitimate reader services worthy of quality editorial effort, or excuses to flog more white space to gullible advertisers. They nevertheless generate millions in additional advertising revenues annual.

The Financial Times of London is probably the best international example of Special Reports that have intrinsic value in being industry references: authoritative, original, expertly written and full value to both advertiser and reader.

Summary
The editorial personality and appeal of a newspaper determines whether it is a 'popular' or 'quality' product. The editor is in effect the brand manager of the product. Unless the editor fully understands the nature of his readers and their reason for buying his product, they will desert him.

The 'popular' press is heavily dependent on circulation revenues for business growth. Such newspapers can pursue mass consumer products like cigarettes, tooth paste, school shoes, fast foods etc where they will face strong competition from TV. Because TV cannot offer segmented audiences, TV will generally be used as a national mass consumer medium, supplemented with the popular press for regional or local advertising for basic necessities.

The 'quality' press will attract a disproportionately high volume of display advertising for upmarket products because they offer a focused reach of the top end of the socio-economic pyramid with minimum wastage. The consumer power of his audience also enables quality newspapers to set relatively higher rates for equivalent space, despite generally smaller circulations.

Where a tightly defined city environment with the conditions necessary for Classifieds communication pertains, this can be a lucrative source of revenue for newspapers. The more fast-moving and dynamic a city is, the more will be the need for an efficient classifieds medium. Where the traditional newspapers fail to provide a satisfactory service, the market will attract free-sheet publishers.

Newspaper marketing has to match the growing sophistication of media buyers and clients who demand research-based selling propositions. Old style sales hype will not cover up fundamental inadequacies in product content, appeal and audience profile. Each newspaper has to decide the type of readership it is aiming for and design the product for excellence in that marketplace. Commercially savvy editors are more vital to survival than novelists and misplaced politicos.

Cyril D Pereira is Group Special Projects Manager with the South China Morning Post, a Murdoch newspaper, in Hong Kong. For its circulation base, the SCMP is rated the most profitable newspaper in the world. Before his move to Hong Kong in 1985, Mr Pereira worked with the major newspaper groups of Singapore and Malaysia for over 20 years.

Mr Pereira's career path has taken him through implementation of new technology, advertising agencies, magazine publishing and general management responsibilities. Before joining the SCMP, he was senior consultant for the ASEAN region, with a Frankfurt-based media consulting group.

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