Shaping the Future of the Newspaper
ANALYSING STRATEGIC DEVELOPMENTS AND OPPORTUNITIES IN THE PRESS INDUSTRY

STRATEGY REPORT
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5.6

Pricing Strategies

Pricing is a key strategic tool in the battle for increased circulation.
Different practices adopted around the world can be utilised to increase reader loyalty and profitability

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Executive Summary

Price: One of the four “P’s” of Marketing, along with product, promotion and “place”, or distribution. Add to that a fifth “P”, prospecting. Without sales, marketing is bankrupt. It seems strange in our industry, that price should sit along product, as a subset of marketing. But in newspaper companies, the two are seen as equally important. In our industry where our product – the newspaper – defines what we are, what we do and what we stand for, other strands of marketing fall into second position.

Yet pricing is far more than simply the mechanism by which we generate revenue for our content. As this report goes on to outline, price is a statement of our value. It is a mechanism by which we encourage and reward loyalty. Price is also something that differentiates one newspaper from another.

It is true to say that for most newspapers, a cover price is a means of generating revenue. We distribute and market newspapers for a cost, charge our readers a price for reading, and the revenue generated contributes, in part, to the other costs of the newspaper in terms of content generation and organisation, printing and production.

The majority of newspapers charge their readers at the time of purchase, which in turn tends to be close to the time of reading. Could any other news medium do this? Imagine you are sitting at home this evening, and as the news is about to start on television, or radio, you are invited to insert coins into a slot. Would you pay? Of course not! And few others would. That people are willing, day after day, to pay for their news at the point of consumption speaks wonders about the power of news in print, to inform, entertain, influence, and contribute to the value of citizens’ lives. That their newspaper is then passed on to friends and family members who also enjoy it, only strengthens the newspaper’s cachet.

For a minority, typically readers in wealthier markets newspapers are bought by subscription, and a range of pricing mechanisms exists for this. Commitment to subscription is seen by many in our industry as the perfect relationship. A buyer who is tied into six – or seven-day delivery and payment should be the ideal customer. Yet subscription models are proving increasingly challenging as subscribers confess to less time for reading. Behind many apparently stable circulations are subscription machines frantically managing churn levels in the 40, 50, 60 percent or higher, only to maintain a façade of readership.

Which is worse? A reader who reads a newspaper they haven't paid for – or a reader who subscribes but no longer reads?

There are two answers to this question. The most obvious one is that a subscriber who doesn't read is a cancellation waiting to happen. One of the problems that is apparent in the culture of subscription-based newspapers, is the belief that loyalty is the responsibility of the circulation department. Without journalists producing content that raises the demand for daily readership, any mechanical encouragement of reader loyalty will ultimately fail. Price can achieve only so much.

The second answer is that media generally, and newspapers in particular, are uniquely a dual-revenue business model. Circulation is vanity. Advertising is sanity. Every editor likes to boast about a high circulation figure. But for most newspapers, in mature markets at least, the vast majority of revenue comes from advertising. And of those revenues generated, typically only a third of circulation revenue contributes to other costs in the business, while more than 85 percent of ad revenues are left after cost of sales.

So price is also a tactical tool that can be geared to maximizing advertising revenues. The final chapter of this report demonstrates how price elasticity can be measured. One of its clear conclusions is that while sales and market share can be deeply affected by changing price – an increase in price results in a decline in sale and vice versa – a lowering of price will rarely result in so much additional sales as to offset the loss in copy revenue. However if such an increase in circulation is accompanied by a consequential increase in advertising revenue, then such a strategy can be beneficial. The modelling of such a scenario is beyond the scope of this report, but this author has seen many such bipolar strategies work to maximise revenues across both revenue streams.

Some players in the industry argue that cover prices must be maximised, since, they argue, increasing price rarely results in a parallel decline in sale, therefore overall revenues and profitability must go up. In addition, some publishers argue that a higher cover price supports the notion that the customer is paying for something of real value.

The irony in all this is that, as the final chapter in the report shows, measuring price elasticity is a relatively simple matter, yet few seem to do it. Such modelling can be applied to both single copy and subscription pricing, though with both cases, the impact of promotions or incentives should also be considered.

Subscription pricing is perhaps where our industry has gotten itself into its biggest mess. Or should one say discounting? As newspapers have desperately sought six- or seven-day purchase, they have offered bigger and bigger incentives. These have normally taken the form of an introductory discount, or incentive offer. Readers in over-canvassed markets have learned to play the system, by cancelling and then renewing in order to benefit from the offer.

The mistake here has been two-fold. First, the offers undervalue the newspaper by substituting some secondary benefit. Second, the strategy fails to acknowledge the advertising value of the reader. This is not about price, but about promotion.

The way to maximise price is to continually review and revise the offer. An interesting aspect of newspaper pricing is that in seemingly similarly valued economies, newspaper prices can vary enormously. Two countries with similar average incomes and living standards can demonstrate remarkably different levels of cover price. Yet variations in these prices show similar changes in sales purchase. This is because the reader does not see the price point per se as the deciding factor. Rather, they see the variation in price over time, relative to the perceived value and benefit of the product.

The best way to increase price is to boost the perceived value of the newspaper. And all of the evidence suggests that this has more to do with maximising and promoting the value of the content of the newspaper, and any additional surrounding offers, rather than the variation in the price itself.

We spend too little time evaluating our worth and working on improving and marketing our content, and encouraging our readers to return day-in, day out. As long as we give readers more of what they need and want, the more they will be willing to pay.

1. Overview of industry pricing

By Aura Iordan

1.1 The role of price in newspaper positioning

On the cover of each newspaper in the world, alongside the key elements of the newspaper's brand, its masthead and edition number, the price is shown as a symbol of the newspaper's value. Which other news medium can command a price, for 20 to 30 minutes of information, entertainment, and knowledge? Price has come to symbolise the relationship between the reader and his or her newspaper.

How did the price of the newspaper evolve over time? What are the market forces that influence price? How do market interruptions including competition and the popularity of free publications impact price? These are some questions which this report will try to answer using statistics, publishers' case studies, and economists' opinions.

When readers pay the price for a newspaper, this serves as proof of the newspaper's value. Price is the guarantee that readers are interested in the content of the newspaper, and that they read the publication page after page, including advertisements. This is one of the standard explanations paid newspapers offer to advertising agencies when they talk about what differentiates their circulation from the "distribution," sometimes higher, of free dailies. Thus, newspapers try to transform price into a competitive advantage.

Because the newspaper business has two sources of revenue – sales and advertising – it is difficult to analyse the industry using the classical models of pricing and costs. Each market has its own strategies, and publishers may intentionally sacrifice pricing in order to maximise the number of readers who appeal to advertisers.

The emergence of free dailies proved that it was possible to reduce the equation to a single-source revenue model. Free daily newspapers can no longer be disregarded , if success is measured by public appeal to a product.

In a pragmatic way, price is also something else for a newspaper: an important part of its revenue. Any newspaper is independent if it is financially healthy. Varying from country to country, between 15 percent to 80 percent of newspaper revenues come from sales of copies through either subscription or newsstands. with a higher percentage in emerging, developing markets and a lower one in mature, wealthier markets.

Historically, cover price revenue was the driver of the industry, since advertising represented only a small fraction of total revenue. For centuries, the number of copies read was not a measure of audience but of actual revenue generated.

Price is no longer always a driver of profitability. In many cases, the revenue left, after deducting the costs of marketing, distribution, customer service, and commissions, is less than the value of the cover price. In these situations price is often a driver not of distribution volume but of reader value.

Price is also considered an expression of the value a reader attributes to the product. But with the latest changes in the media industry and especially in the media-consumption habits of readers, this theory might be challenged: even though readers value the information newspapers provide, they are less and less willing to pay for it; either in terms of money or time.

1.2 Newspaper market, wealth, media landscape trends and pricing concepts

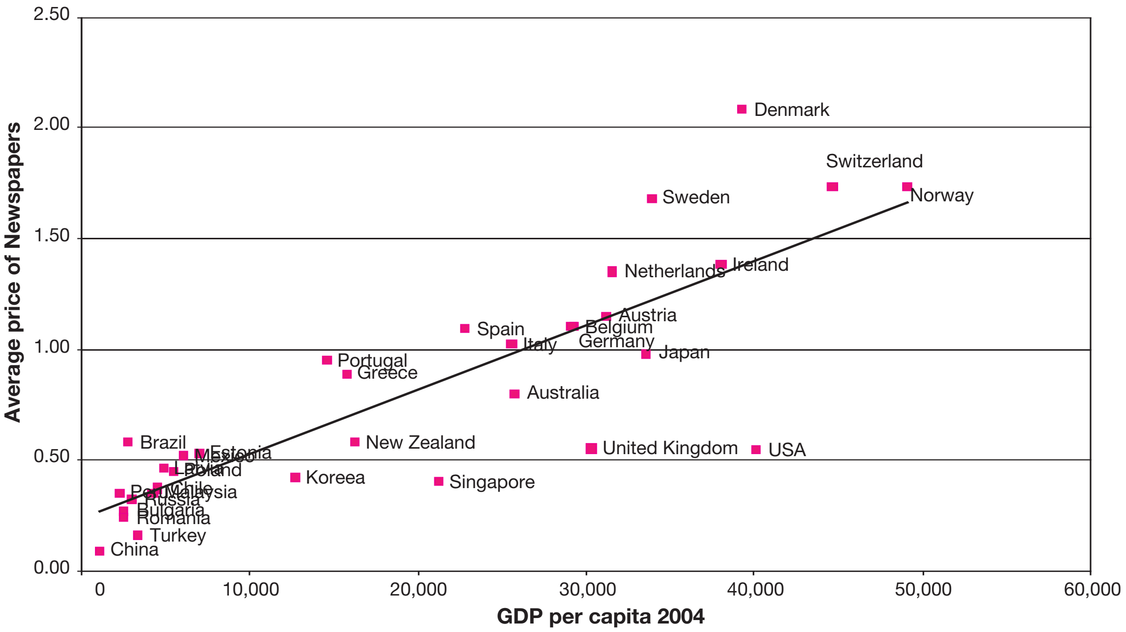
How is the pricing strategy for the newspaper industry related to the country's development and wealth? The rule of thumb would be, as for most products, that the richer a country, the more expensive the newspapers. This is clearly demonstrated in the chart below right.

In general, newspapers are more expensive in richer countries. The United Kingdom is an exception as the market is very competitive with 12 daily newspapers fighting for supremacy every day. The United States, a country with 300 cable channels on TV, also bucks the trend.

Except for the US and UK, no country with GDP greater than $30,000 (USD) has the average price of the newspaper under $1. No country under $10,000 income has a price higher than 60 cents to 70 cents (USD). This would lead us to the conclusion that citizens of rich countries pay more to acquire media. But in reality, the wealthiest citizens pay less in relative terms for newspapers than poorer ones.

The chart below shows the correlation between the percentage of a citizen's

Average price of newspapers vs. GDP per capita



Source: WPT 2005 for price averages (Price is obtained as an average of the cover prices for the first 10 most circulated newspapersfrom the market. It is expressed in USD) – GDP data: Zenith Optimedia Advertising Expenditure April 2005 monthly income required to purchase a newspaper and the copies sold per 1,000 inhabitants – in other words the relationship between accessibility of press and its success.

a. The press in all countries with a penetration of more than 300 newspapers per 1,000 adult inhabitants costs less than 1.5 percent of readers' monthly income.

b. Countries in which someone has to spend more than 1.5 percent of his monthly revenue do not have a penetration rate of more than 150 newspapers per 1,000 inhabitants.

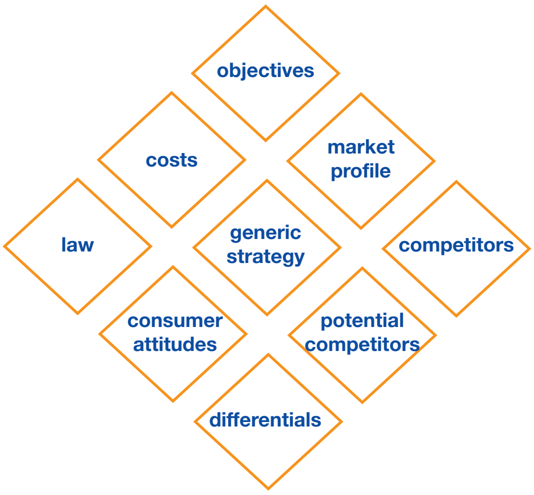
While the daily price of a newspaper is relatively tiny, the cost mounts up over a week, month or year, becoming $25 to $35 per month or several hundreds dollars annually.

An editor exasperated by questions like "Why do you have so much advertising" may answer: "A newspaper without advertising would cost you $20." Even with advertising the newspaper might need to collect up to $5 per copy to cover all costs and be a profitable business.

1.3 Pricing policy

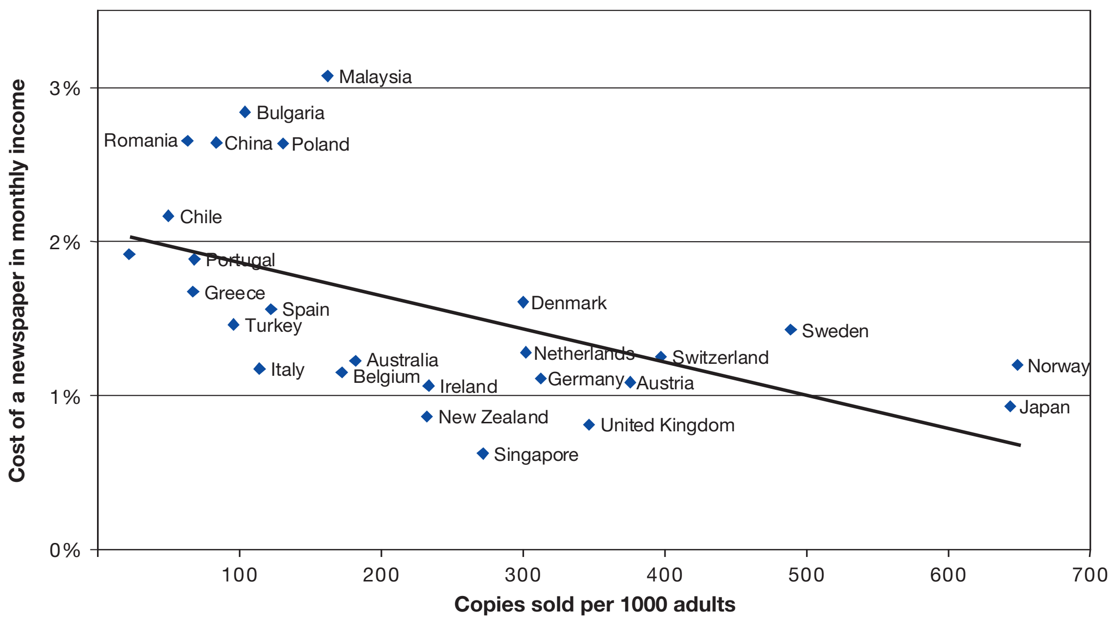
Pricing is a complex activity within the organization. Philip Kotler identified the multiple factors that have to be considered when establishing the pricing policy.

Factors that determine pricing policy



Source:
Marketing Management, Philip Kotler

Monthly price of newspaper as percent of monthly income vs. copies sold per 1000 adult population



Source: WPT 2005, Zenih Optimedia

The influence of each of these factors on pricing is discussed below:

Object	Meaning	How it applies to newspapers
Generic Strategy of the Company	Low Costs Differentiation Focus	By differentiation newspapers try to bring value to the title, such as unique columnists. In focus strategy, newspapers concentrate on certain audience segments or niche products such as business titles or sport newspapers.
Company Goals	The short- and long-term goals	If the goal is to increase the market share, then the publisher may lower the price, as did The Times in the UK. Maximising profit may translate into price increases.
Market profile	Monopolistic (close to perfect competition) Monopoly Oligopoly (few players with comparable power)	Type of market determines price strategy. In monopolistic markets players fight for shares and they may enter price wars. In monopoly markets, one player dominates the battlefield and rules the price. Oligopoly markets may turn into price wars or competitors may enter mutual agreements to maximize profit.
Competitors	Competitors' objectives	Goals of competitors may determine reactions of publishers. A newspaper may not want to lose market share so it enters a price war or may not believe in price elasticity and reacts passively to competitors' changes in price.
Potential competitors	Product substitutes Newspaper website News portals Free dailies	Any product substitute influences pricing policy: cost of website may be included in the cost of subscription or not. All the information available for free on search engines and portals causes publishers to have mostl free websites.
Differentials	Brand name and unique characteristics differentiate a title and makes it valuable for readers	Unique columnists and strong brand names are examples of features that count to readers and that they are willing to pay for.
Consumer attitudes	What price means in consumers' minds	Readers attach a meaning to price. Sometimes price means the value of the product. Understanding consumer attitudes is essential in understanding demand elasticity.
Law	Competition law regarding pricing. ABC rules	Law may influence price through anti dumping and anti-monopoly laws so price may not be decreased under a certain level of cost. ABC rules limit the discounts that publishers can adopt
Costs	Cost as a measure of price	Even though less and less considered as a determinant indicator in establishing price, unit cost is essential to understanding unit contribution.

At the very core of pricing policy is the **company generic strategy**. A comprehensive definition of the competitive strategy of a company is given by Michael Porter: "Competitive Strategy is the search for a favourable competitive position in an industry. It aims to establish a profitable and sustainable position against the forces that determine the industry competition".

Porter identifies **three generic strategies** a company can pursue (see Chart):

1. Cost leadership: Company becomes the low-cost producer in the industry. To pursue such a strategy in the newspaper industry the company should find some cost advantages in:

• people costs (lower salaries than the industry average)

• printing (economy of scale due to preferential cost of paper for companies with high consumption or with high negotiation power with printers).

The result of such a strategy is a very standardized product targeted to a mass market. Free newspapers are the extreme form of low delivered costs (LDC) but there are many companies that conquer markets (especially emerging ones) though this strategy.

2. Differentiation: Company seeks to be unique on some dimensions that are valued by buyers. Such "uniqueness" is usually expensive so the company charges a premium price for it. Differentiation can be on the product itself, distribution system, or the marketing approach.

3. Focus strategy rests on the choice of a narrow segment to be served. It is the case of financial or sport newspapers

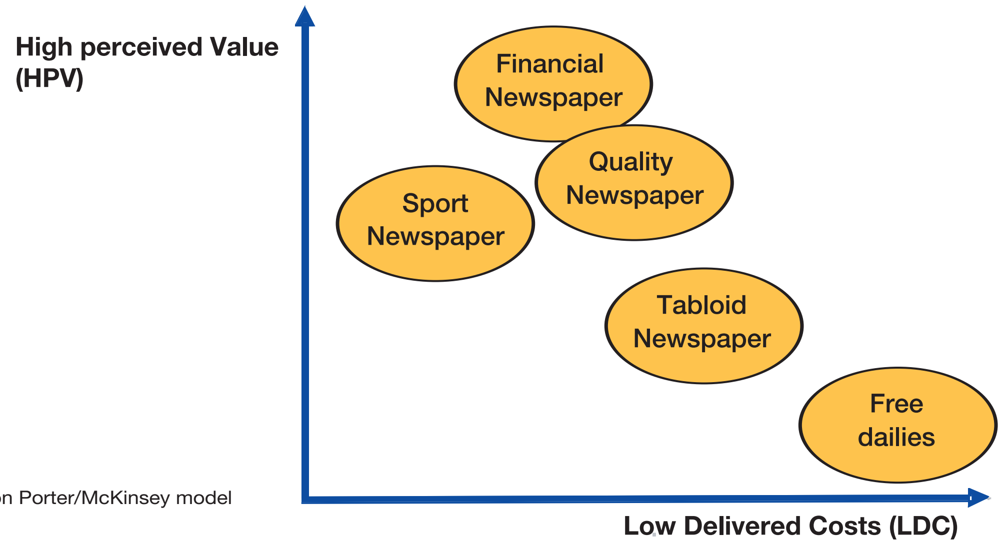
As the second and third strategies require higher costs than the first one, the McKinsey consultancy firm proposed a new approach for generic strategies.

Porter's Generic Strategies

		Competitive advantage	
		Lower cost	*Differentiation*
Competitive scope	*Broad Target*	1. Cost Leadership	2. Differentiation
	Narrow target	3A. Cost Focus	3B. Differentiation Focus

Source: Michael E Porter: Competitive Advantage, Creating and Sustaining Superior Performance

Positioning newspapers on Porter/McKinsey Model



Source: SFN on Porter/McKinsey model

But the direct relationship between price and positioning is not deterministic. Quality newspapers, which are obliged by competition to make high investments in content, are sold at low prices. This is the case in the UK, where The Times was for a long time a cheap newspaper due to its price war.

Ironically The Sun, the sister paper of the Times, also dropped its price, prior to the Times' discounting. At the time, many assumed the mass-market Sun would benefit more from the discounting than the up-market Times with its wealthy readership; but the opposite turned out to be the case. Why? Because in the UK market, the more up-market the reader, the less loyal they are and the lower their average purchase frequency. Initially at least, the discount did not attract many new readers; it simply encouraged infrequent readers to buy more often.

The adjacent chart represents newspapers on the HPV / LDC grid. This positioning can be different from market to market: there may well be three sport newspapers in a market positioned differently. New trends in the media industry challenge this classic strategy grid, because the big dilemma for publishers is to move from expensive quality press to quality press distributed cheaply.

Newspaper prices of “tabloid” and “serious” newspapers in different countries

Country	Type	Title	2000	2001	2002	2003	2004
Denmark	tabloid	**Ekstra Bladet**	1.37	1.52	1.59	1.59	1.75
	serious	**Politiken**	1.59	1.75	1.82	1.82	2.28
	tabloid	**Bild**	0.41	0.41	0.45	0.51	0.51
Germany	serious	**Frankfurter Allgemeine Zeitung**	1.15	1.06	1.47	1.69	1.69
Poland	tabloid	**Fakt**				0.2	0.2
	serious	**Gazeta Wyborcza**	0.51	0.36	0.64	0.5	0.5
	tabloid	**Super Express**	0.49	0.33	0.41	0.4	0.3
Switzerland	tabloid	**Blick**	1.11	1.11	1.11	1.34	1.34
	serious	**Tages-Anzeiger**	1.63	1.86	1.86	1.86	1.86

Note: in this case tabloid means tabloid-style, not compact size. Prices are in USD – Source: WPT 1999-2005

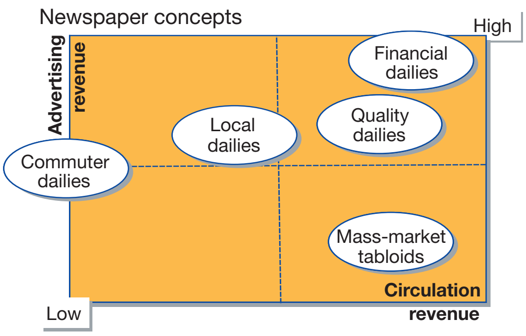
Classic marketing texts state that price is a declaration of positioning for a product. Generally true in the case of newspapers: small price equals popular product, high price equals high-end product.

There are some markets in which this theory of positioning is true as concluded in the above table. In Denmark, Germany, Poland and Switzerland, tabloid-style newspapers, which are targeted at the mass market, are cheaper than serious dailies.

The chart bellow positions the different types newspapers considering revenues from advertising and circulation. Financial newspapers are obviously in the most advantageous position, managing to attract the highest revenues from advertising and charging the highest prices.

Strategic goals of the company are the next to consider when deciding on the pricing policy. A company can decide either to maximize profit or to grow market share.

Business models for newspapers



Source: SFN/WAN

A- Maximizing profit:

The price is high trying to “skim” the market. The price is increased in order to increase revenues and profits. It is a dangerous policy when considering the elasticity of demand as it might result in decreased circulation which can affect the readership and consequently the advertising revenues. But it is possible when the competition is weak and the player has a dominant position.

Case study : Pricing strategy
Maximizing profit

The Irish Independent is the leading Irish newspaper in circulation and readership. Published by The Independent Group, a media company that strongly dominates the market, The Independent newspaper is one of the best business models of a profitable newspaper that manages to maximize its revenue from circulation with a high price strategy.

The most challenging competitor of the Irish Independent is the Irish Times.
The newspapers adapted their strategies to each other and to the Irish market conditions. The pricing strategic choices made by The Irish Times have been totally different from those made by the same title in UK. While in the very competitive UK market The Times was for a long time in fierce competition, which resulted in a long and “financially bleeding” price war to gain market share, The Irish Times decided to “skim” the market in terms of pricing, together with its competitor The Independent and to maximize profitability.

Source: WPT 2001-2005

According to the Audit Bureau of Circulations, it had a daily circulation of 129,035 for the broadsheet version and 52,045 for the tabloid version during the first six months of 2004.

Irish newspaper market

Years	2000	2001	2002	2003	2004
The Irish Independent circulation (000)	168 £0.85	169 £0.85	170 £1.27	169 £1.50	176 £1.50
The Irish Times circulation (000)	116 £0.85	120 £0.85	117 £1.27	116 £1.50	115 £1.50

Source: WPT 2001-2005

In 2004, the paper launched a tabloid version (although stapled together, unlike a typical tabloid) – the "Metro Edition" – aiming to capture the Dublin commuter market. The launch was a success; with some media analysts questioning whether the paper might not abandon the broadsheet layout altogether and simply produce a tabloid version.

The Irish market is an oligopoly with few powerful players dominating the market. As the advertising market is big enough for a steady financial health the players do not engage in price wars. Publishers keep the price of competing newspapers at the same level and everybody is happy making money. But for such a joyful cohabitation, there are certain conditions:

• high readership in the market (91 percent newspaper penetration); no pressure from circulation decrease – 233.7 copies sold per 1,000 adult population;

• players are not fighting for the leading position through price as comparable circulation figures bring enough advertising revenue for the players in the leading positions;

• a model based on high revenues from both circulation and advertising is more convenient for players than a fierce price war that would severely diminish circulation revenues;

In such market conditions, a pricing strategy based on skimming the market and maximizing profit is possible and preferable for players.

B. GAINING MARKET SHARE:

The price is lowered in an attempt to increase the number of readers , coming either from competitors or from non readers. This usually comes under the form of a price war. As outlined above, it happened in the UK in the '90s when The Times managed to almost double circulation. And it happened in emerging markets such as Eastern Europe where international publishers quickly gained market share by launching products which they priced very low. It was the case in:

• The Czech Republic, Romania and Hungary where the Swiss publisher Ringier managed to impose the first mass market paid daily in the market;

• Bulgaria where WAZ dominates the printed media; and

• Poland, where Axel Springer launched a mass market tabloid in the fall of 2003 that quickly became the market leader.

Unlike other products, such as gasoline, and even unlike in the golden age of the press, the newspaper industry is now a "buyers' market" where the consumer has many print choices and also choices on the substitutes market, such as the Internet, mobile and free dailies.

Demand of newspapers is elastic due to some obvious factors:

The newspaper is not a product of basic necessity. You can live without a newspaper, but you can't without bread. Eventually you cannot live without information but you can get it for free and very quickly from radio, TV and the internet. Another factor that explains the elasticity of demand for newspapers is the diversification of information sources.

The modern person does not need to look or fight for information. He may even be wary of it. Companies, governments, media organizations and NGOs all want to offer information. In the U.S., for example, a person is bombarded with more than 300 new pieces of information daily.

In these conditions, the audience, not the newspaper, is in control. The buyer becomes a target of the newspaper and, thus, the barrier of price goes lower and lower.

CASE STUDY :
Newspapers' price elasticity

For Eastern Europe, the Romanian newspaper market is quite competitive. There are 23 national daily newspapers, with 10 of those fighting for supremacy every day. The two sports dailies have been engaged in a price war for more than 12 months.

A potentially big market with 22 million people, Romania has a newspaper penetration of only 46 percent of the adult population. There are 60 daily papers per 1,000 population and a total readership of 1.2 millions. Out of this, the sports market takes 12 percent of total circulation and 25 percent of all people that read newspapers in general also read a sports paper.

Until three years ago only one of these sports titles was taken seriously, as the other one was not appreciated by readers and had a very low circulation. So the leading title had a pricing policy oriented toward profit. This policy helped the owner, an important local investor (Media Pro), to sell it to Ringier,.

Today, the two leading sports titles are backed by powerful publishers:

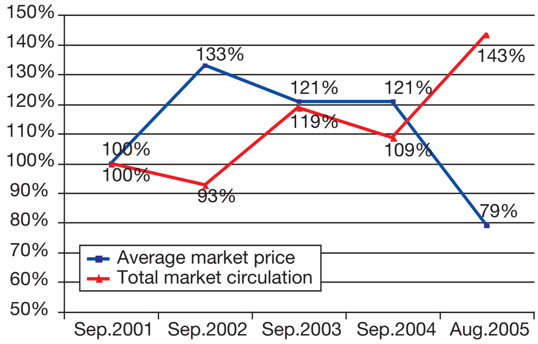
• Pro Sport is published by Ringier, a leading publisher of newspapers and magazines in Switzerland. Ringier has also a very important presence in several countries from Eastern Europe: Hungary, the Czech Republic, Slovakia, Serbia and Romania. Pro Sport was launched in 1997 and Ringier bought the title in December 2002 from Media Pro.

• Gazeta Sporturilor is published by a local media player which also has the second most popular commercial television station in the market and the first-ranked general-interest newspaper. Gazeta launched more than 80 years ago and relaunched in August 2003.

The advertising market in Romania may be too small for two sports newspapers. So, the competition has become more and more aggressive. Since May 2005, a hostile price war has taken place between the newspapers.

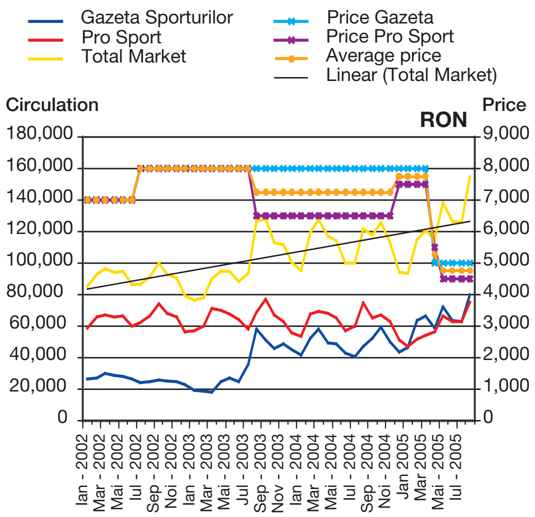
Since the sharp competition between the titles started, the market of sports newspapers changed dramatically. It is impossible to attribute the changes and increase in the market to only one factor but there is no doubt that price decrease was key, in addition to marketing and content initiatives.

Evolution of Romanian Sport Daily Newspaper Market during price war (2001 = 100)



Source: BRAT (www.brat.ro) Romanian Bureau of Circulation Audit

Sport Daily Newspaper Market (monthly evolution)



Source: BRAT (www.brat.ro) Romanian Bureau of Circulation Audit

The price changes have obvious effects on the circulation of each paper and of the total sports newspaper market. Considering months that are comparable to avoid seasonality, the analysis shows that:

• a decrease in average market price of 9 percent meant an increase in the total market share for sport newspapers of 28 percent;

• when the price was constant for both newspapers the market decrease was 10 percent;

• diminishing the average market price by 42 percent resulted in a total market increase of 34 percent.

This example shows that a decrease in the average price of the total sport market determined an increase in the total number of sport newspapers sold. Thus both titles increased their market share calculated as percent of the total newspaper market, leading to steep rises in circulation and readership. The case study also proves the sensitivity of demand against price as readers reacted by buying more sport newspapers as the average price of the market decreased. The two titles either took readers from other newspapers or they simply attracted more readers or increased purchase frequency of their habitual readers.

The effects on the circulation of each title are more difficult to notice as both titles decided to diminish the price at the same time thus the only obvious result being an increase in the total sport market rather than an increase in the circulation of one of the newspapers at the expense of the other.

The competition in the market and its impact on the pricing policy of competitors

If competition is bitter, as in monopolistic markets, the competitors are aggressive and they fight for each reader. In oligopoly markets some mutual price settlements are usually done. This is not an official agreement – as it is forbidden by law – but competitors, having a big enough slice of the market, align prices.

Of course these factors can't be considered independently. You can't have a policy of skimming the market and maximizing profit unless you have a dominant position in the market and no fierce competitors. After all, it is the same company (Independent Group) that has a very high price in Ireland due to its dominant position there, while simultaneously engaging in a price war in the crowded UK market for almost 20 years to gain market share.

Law must be considered in the pricing policy in regard to the dumping clauses in competition legislation. Some price cuts may be considered illegal where dumping policy is severe enough to protect weaker competitors.

Publishers must also consider the rules that establish the level of discount permitted to count copies in reported circulation. In Germany and Denmark the discount can't go lower than 50 percent of the cover price.

Consumer attitudes are also not to be ignored in price decisions. Remember that the viability of free dailies was contested for a long time because of consumer beliefs that low price was automatically associated with low quality. Even recently we found out from a focus group in Poland that customers were not willing to buy a product if it was"too" cheap. Knowing consumer attitudes is essential for decisions regarding price.

But this attitude of associating price with quality has changed lately in regard to media – especially to young consumers who are less willing to pay for media than previous generations. Young people are accustomed to getting many types of content for free in the portable digital age, including news, music, games and other programming.

Publishers responded to this new trend by launching different products from the traditional daily newspaper, including:

• free dailies with different concepts:

– standard products with predominantly wire-service news like Metro
– localized free dailies like 20 Minutes
– targeted free dailies to younger generations like Red Eye in Chicago, USA, or to other niches like business (City AM or FT pm in the UK) or sports

• cheap products using synergies and resources from sister traditional papers (Welt Kompact, News in Germany)

• cheap products targeted to young people (24Sata in Croatia – see case study).

CASE STUDY:
New products for young readers 24Sata, Croatia

Styria Media is the third largest media company in Austria, with 2,400 employees and a turnover of 400 million Euros in 2004. It has been present in the Croatian market since 2000 through acquisition of the leading traditional daily newspaper "Vecernji list".

24Sata is an example of a successful launch of a newspaper for the new generation. The project started in May 2004 with a preparation phase and product development that lasted for four months and continued with implementation phase of six months.

It is a 56-64 pages, small format (A4), with lots of small photos and small blocks of text, publishing seven days a week, with six local editions, three supplements (TV, cars, games) at half the price of regular newspaper. Despite the small size, 24Sata publishers wanted to avoid the labels associated with many tabloids: tawdry or not serious.

"Our aim is to develop a new generation of tabloid press," says Thomas Dobernigg who was in charge of product development and who worked with Mario Garcia for the design of this new product

"The concept can be summed up in three words – faster, briefer, clearer," he says. "Young people don't write letters, they write e-mails and [text messages]. They even break up with their girlfriends by SMS. We have to take the new reality into account. All the information is available at a quick glance. I wanted it to be as diverse as the internet, as visual as television. It is like you would see on the internet – small units and small boxes of information."

Some characteristics of the new product are:

• emotional headlines

• more up to-date info with a new interpretation

• decreased amount of time to introduce more information

• ability for target group to participate, such as submission of digital photos

• the journalistic concept: all important information was available at the first glance: visual, short, quick, clear, small micro tabloid

• The middle double page contains everything important that happened in the last 24 hours; basic information needed

Seven months after its launch, 24sata – the name means "24 hours" – is the third largest paper in Croatia. It sold 200,000 copies in the first day and now sells an average of 65,000 per day. Thirty-three percent of all Croatians read 24Sata and 11 percent read it every day. Other achievements:

• Paper gained younger readers
• 12th ranked media in advertising sales in Croatia
• 40 percent above advertising projections
• Interactivity success: 120,000 SMS per month
• After four weeks, 82 percent brand awareness.

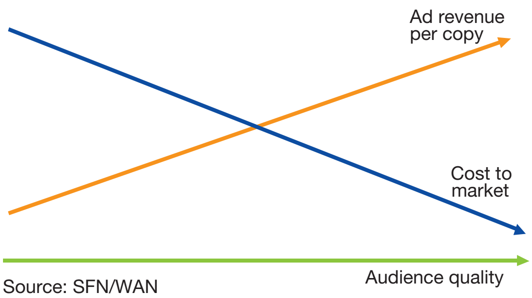
Source: Presentation from Editor&Marketeer Conference, Athens November 2005

1.4 "Free" as a pricing model

The model pictured below shows in a simple and clear way how the media industry in general is changing. Media producers are trying to target the sought-after quality audience by launching targeted niche products or by following the changes in audience behaviour toward media. The higher the quality of your audience, the higher the revenue. Financial newspapers are a classic example for this. But free dailies are also catching a lost generation of readers for newspapers: affluent young professionals.

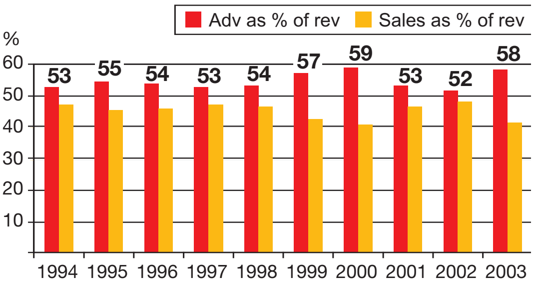
Media providers are also trying to decrease the cost of distributing their products to the market. Television and the internet force all the other media to consider this model based

Renaissance Media Free Time



Source: SFN/WAN

% of advertising and sales in total newspaper revenues



Source: WPT 1998-2004 (average on available countries)

primarily on advertising. So the revenue coming from advertising becomes more and more important.

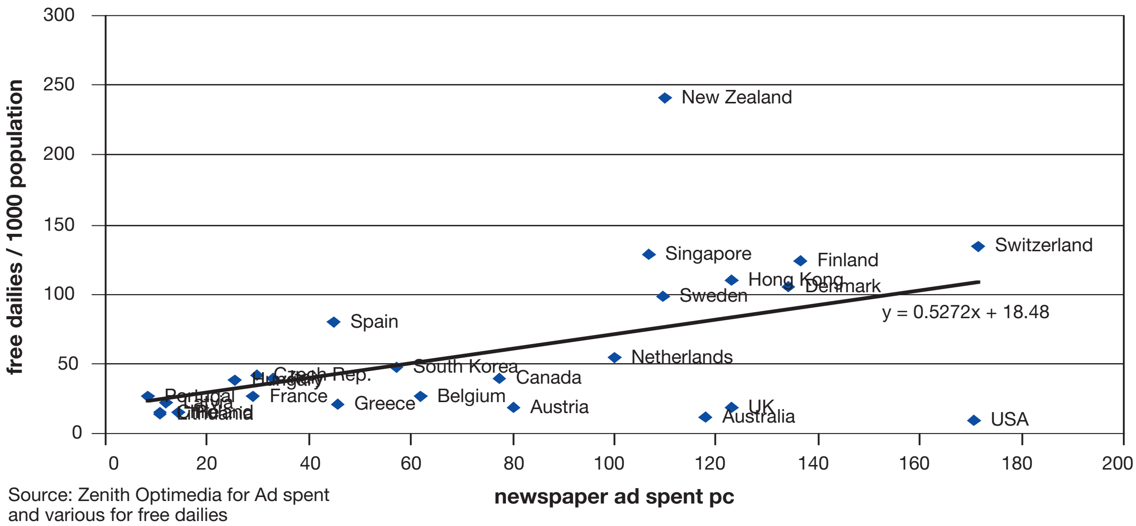
The chart above shows the proportion of advertising and sales within total revenues of newspapers. The numbers are obtained as averages for the countries where the statistics were available (mainly mature markets). From 1994 to 2000, the percentage of advertising increased from 53 percent to 59 percent. 2000 was the best year for advertising, followed by an economic downturn, which also meant a decrease in total advertising. In 2003, the proportion of advertising gained ground again at 58 percent of total newspaper revenues.

This chart is proof of the media trend presented previously: advertising revenue becomes more and more important. This is the ground on which **free dailies** could succeed: the ad market for newspapers increased so much that it makes it possible for free dailies to play on a single-revenue business model, instead of the double model of traditional dailies.

The emergence of so many free dailies is a demonstration of the changing environment for the industry. Not only are the free papers attracting new young readers in increasing numbers, but they also clearly demonstrate that a new business model is emerging.

The success of free dailies lies not only in the fact that they are free. They serve a new demand for content and consumption of the content. It is true, that to date, the financial success and feasibility of the model tends to be in larger communities, usually those where ad spent per capita and newspaper ad spend per capita, in all or parts of the market, is high.

Free dailies / 1000 vs newspaper ad spent pc

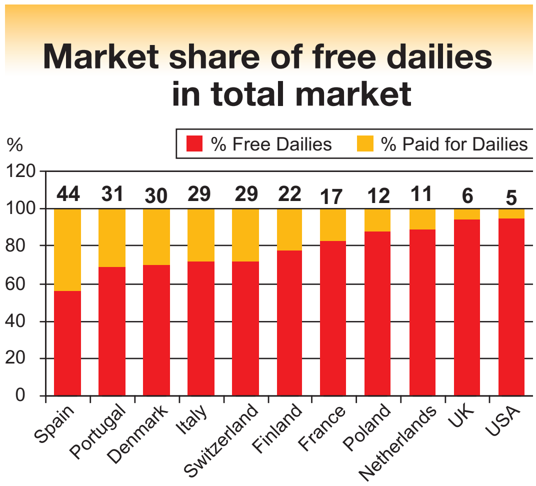


Source: Zenith Optimedia for Ad spent and various for free dailies

Free dailies have a business model exclusively dependent on and defined by advertising. The number of copies distributed increases usually as the revenues from advertising grow. Even if all copies are picked up by readers, the publisher of a free daily would usually decide to increase the copies distributed (and consequently its costs) depending on advertising revenues. So this newspaper advertising spent per capita is one of the most important indicators for a free daily when choosing the market in which to compete.

Considering the ad volume, one would expect the US, the UK and Australia to have more free dailies distributed. Australia has its inhabitants scattered across large surfaces while in the US, free dailies just started to become popular.

We can also measure free dailies' success by their circulation in certain countries. With much more information now available on the distribution of free daily newspapers, we can begin to see the size of the market they represent in a number of countries. The chart shows that in Spain, for example, free daily distribution now represents a huge 44 percent of the market; in Portugal 31 percent, in Italy, 29 percent and in Denmark 30 percent. Their performance is more impressive if we think that they built these numbers in only a decade of existence out of the total 400 years of the newspaper industry.



Source: SFN, various, Piet Bakker website

Free dailies have been regarded with distrust and doubt. It has been predicted that they would fail or rack up huge losses. Yet they have started to change the order of markets as few would ever have expected. Free dailies are a demonstration of how new pricing models can be applied to attract audiences that would otherwise have rejected newspapers, and advertising revenues that more than cover the cost of content and distribution. This new generation of readers has assumed new habits in media consumption. Young people want to have information quickly, at ease and cheaply, or for free if possible. That does not make them unattractive to advertisers.

Free dailies attract this generation by meeting the consumption behaviour patterns of the digital media with the convenience of location in a prestigious and reputable genre of print. What is more, this offers advertisers unencumbered access to a valuable new generation of media consumers who are notoriously difficult to reach by any traditional media form.

2. Newspaper Cover Pricing Strategies

A review of industry practice, by delegates of the WAN/IFRA Leaders Programme

2.1 Executive summary

An analysis of pricing theory helped in answering the first and second research question as the table below demonstrates. It shows the relevant variables and the pricing strategies that can be used in the newspaper industry. (see Table below)

Variable	Strategy
A. Cost structure	1. Pricing in order to meet costs
B. Customer demand schedule	2. Pricing in order to motivate purchase
C. Competitors' prices	3. Pricing in order to meet the competition 4. Pricing in order to pre-empt the competition from entering the market
D. Marketing objective	5. Pricing in order to make a profit 6. Pricing in order to signal quality

Case study analysis and other research within the industry show that a number of strategies are effectively used within the newspaper industry (the third research question). Main conclusions are presented in chart page 22.

Price strategies and the case study results

Based on the case studies, only four strategies are effective:

• Pricing to motivate purchase has proven to be effective in the most extreme manner (free newspaper by Metro);

• Pricing to pre-empt the competition from entering the market has proven to be successful in the Metro case;

• Pricing for profit

• Pricing to signal quality can both reap dividends, under the assumption that a large proportion of the profits are invested back into the content of the newspaper.

We have a proposal that raising price can be used as a way of generating income without having a detrimental impact upon circulation

Price strategies and the case study results

Price strategies (Low price ← → High price)	Case study	Effectiveness
1. Pricing to meet costs		
2. Pricing to motivate purchase	Times London	No
	Metro	Yes
3. Pricing to meet the competition	Times London	No
4. Pricing to pre-empt the competition from entering	Metro	Yes
5. Pricing for profit	The Star	Yes
6. Pricing to signal quality	The Star	Yes

or revenues; evidence shows that price elasticity in the newspaper industry is fairly low.

Increasing price however could seriously damage your business health if you do not invest a proportion of your premium back into content. Suggestions:

- Invest in innovation
- Invest in supplements
- Invest in content
- Invest in editorial excellence.

In essence invest in your centre of gravity and most of all do not cheat the reader for commercial gain, because that is not sustainable.

Our findings suggest that the most enviable positioning lies at either end of the price spectrum. Middle ground contestants need only apply if they come armed with boxing gloves and deep pockets.

In either context price can be utilised as a way of realising differentiation, any move toward the polar extremes should be perceived as a method of engineering substantial and sustainable competitive advantage.

What's price got to do, got to do with it? What's price when you've got a second-hand promotion?

The traditional newspaper model was founded upon cover price. Over time this model has evolved with the publisher of today placing greater reliance on advertising and ancillary income. This overt commercialisation can lead to credibility issues and the public perception of the industry has changed from that of a news and social commentator to one of a cash generator. Circulation volumes in the developed world are declining. In order to maintain a circulation income stream status quo, it logically follows that cover prices need to increase.

- What are the implications of the aforementioned action?
- Are circulation volume variations intrinsically linked with a variation in cover price?
- Do declines in circulation necessarily culminate in brand amortisation?
- What is the function of cover price in our market today?
- Can price be used to define a company's market and brand positioning?
- Should pricing strategies be looked at in isolation?

The implications of incorrect pricing are cataclysmic to our business model, with the worst case scenario resulting in the downward spiral of circulation revenues in conjunction with softening advertising yields. When price wars were waged in the '90s the only winner was the consumer's pocket. The industry, especially noteworthy within the UK, has more recently placed significant focus and resources upon promotional activity to address circulation declines. This is a tactical solution to a strategic problem. Somewhere along the way we lost sight of our raison d'etre and emotive posturing amongst the major players in the UK marketplace has moved us ever closer to becoming a fast moving consumer good. On the other hand in most countries where subscriptions are the dominant newspaper sale methodology, pricing the product is not used actively to attain marketing goals. The price is set and price movements are based on an annual percentage increase.

The promotional slope is a slippery one that has resulted in both reduced differentiation and brand loyalty. How did we ever arrive at a situation where the success of a daily sale was dependent upon the ability to pick the best disco hits of the 1970s? Whereas the majority of promotion give-aways appear exclusively in the UK, countries such as the Netherlands manufacture customer glue by way of reducing subscriber's electricity bills. In the 1990s the emphasis was on price competition, in 2000 it was gifts. How long before we arrive at [let's identify Desmond for those readers who don't know him] Richard Desmond's premonition that we will soon be stapling £5 notes on the front cover and selling the product for 50p? The emergence of Metro and Evening Standard Lite has further muddied the waters. What debate is there over price when no price exists?

2.2 Theory on pricing

This chapter will give insight into the theory of pricing strategy. It will first describe a number of variables that are important when setting a price in relation to a pricing strategy. Then a pricing strategy matrix is described. Finally, based on the described theory, a model will be presented focussing on pricing strategies in the newspaper industry.

2.2.1 Pricing variables

Theory shows that there are a number of factors influencing the price. They are (Kotler, 1996: 489-507):

• The customer demand schedule: the actual effect in demand of a change in price is the result of the demand schedule which shows the demand for the probable quantity purchased per period at alternative price levels. The more inelastic the demand, the higher the company can set the price.

• Cost variation compared to different output levels: in order to set the price, a company needs to know how its costs vary at different output levels and with different levels of accumulated production experience.

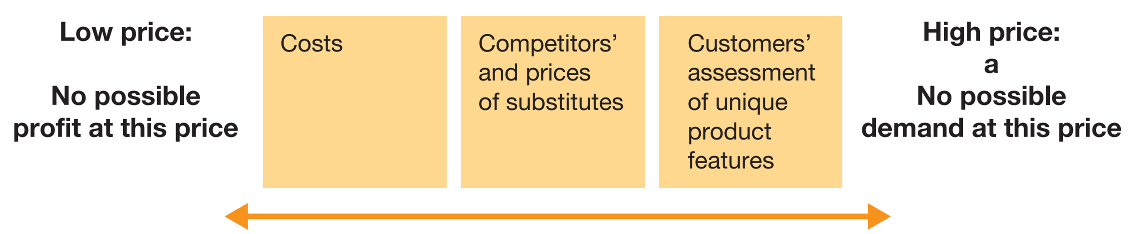
• Competitors' prices: changing or setting the price is also influenced by competitors. Therefore it is relevant to examine the competitors' prices as a basis for positioning its own price.

• The marketing objective: a company can pursue six major objectives through its pricing, they are survival, maximum current profit, maximum current revenue, maximum sales growth, maximum market skimming and product-quality leadership.

The first three of the described variables form the basis for the outside influence of price, the fourth is the result of the marketing strategy chosen by the specific company. By describing the four elements influencing price the first research question is answered.

When understanding the three C's – the customer demand schedule, the cost function, and the competitors' prices – the company is able to select the price. In general it will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Cost sets a floor to the price. Competitors' prices and the price of substitutes provide an orienting point that the company has to consider in setting the price. Finally customers' assessment of unique product features in the company's offer establish the ceiling price (Kotler, 1996: 498). Figure below summarises the three major considerations in price setting.

The three C's – model for price setting



The models described in figure page 23 show the theoretical boundaries that exist. The next paragraph will describe a pricing strategy matrix taking into account the four C's but also incorporating the marketing objective into the model.

2.2.2 Pricing strategy matrix

Based on the model described in figure 2.1 and also taking into account the element of the marketing objective of the organisation, a pricing strategies matrix can be formed.

The four elements are described below:

1. Premium pricing: Use a high price where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists.

2. Penetration pricing: The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased.

3. Economy pricing: This is a nofrills low price. The cost of marketing and manufacturing are kept at a minimum.

4. Price Skimming: Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply.

The described pricing strategies using high versus low price and high versus low quality is developed for the FMCG (fast moving consuming goods) and should be used with caution in the newspaper industry. Robert Picard (2004, p. 62) shows that in the newspaper industry "quality choices run on a continuum between average quality and excellent quality–not between poor quality and excellent quality, because poor quality will ultimately lead to audience abandonment of the publication and because committed journalists struggle against truly poor quality".

2.2.3 From theory to practice: the newspaper industry pricing strategies

Theory has given us a number of elements to work with when looking at pricing strategies. The four variables(cost structure, competitor demand schedule, competitors' prices and marketing objective) can be used as a starting point for creating strategies. Six pricing strategies seem to be relevant and will be examined further in this paper to be analysed in the newspaper industry. (see Table page 22)

When looking at the newspaper industry one important element must be added to the pricing theory described above. Newspaper companies have a second source of income, the advertising revenue. This element will make it possible to price the product even lower on the pricing scale of figure below. The most extreme model in use at the moment is giving the paper away for free and relying completely on advertising revenue. This gives us the two polar extremes used in the newspaper pricing model.

The strategies can result in a high price, a low price or no price at all. Figure below illustrates the pricing strategies and the direction of price within the strategy.

The arrows show the direction of price within the strategy. For instance when pre-empting the competition from entering the market the lowest possible price to ask for a newspaper is zero.

2.1.4 Conclusion

This chapter has discussed general pricing theory and it has answered the first research question by describing the four elements influencing price (cost structure, demand schedule, competitors' prices and marketing objectives). The second research question is answered by presenting the six strategies that can be used in the newspaper industry.

In the next chapter these strategies will be analysed by describing a number of case studies.

2.3 Pricing Strategy A Pragmatic Approach

2.3.1 Introduction

In this section of the report the theoretical analysis will be used to study some practical examples of how pricing strategies have varied in the newspaper industry. The examples outlined below will be related back to the model which has been previously outlined.

2.3.2 High Price Strategy: Case Study – The Star Newspaper, Ireland

In June 2004 a presentation was made at the WAN Conference in Istanbul on circulation winners. The Irish Daily Star (The Star) is a national daily tabloid circulating in Ireland, a country which is unique in Europe because of its proximity to the United Kingdom. Every Daily newspaper title published in the UK, every UK magazine and every UK TV channel is available in Ireland. Why is the Star unique?

- It was the first Irish daily colour tabloid (launched in 1988)
- It charges a price premium to its competitors
- It is a publishing and marketing business–wherever possible other activities such as printing and distribution are outsourced
- It carries the most amount of Irish-sourced content of any tabloid in the Irish market
- It has recorded continuous and sustained sales and profit growth since its inception.

During the period 2000 to 2003, sales volumes increased by 17.3 percent. In that timeframe the cover price increased from 89c to 1.10 (an increase of 23.6 percent). These factors are remarkable but especially when you compare the relative cover prices in the tabloid market, as outlined below:

	The Star	Lowest Priced Competitor	Star Premium
2001	89c	63c	41%
2002	€1.00	63c	59%
2003	€1.10	70c	57%
2004	€1.20	75c	60%

It is the above table which illustrates the company's high-value, high-price strategy. The company has never engaged in price reductions despite the fact that its competitors had reduced their cover prices to 30c on occasions. In addition to the above statistics if we examine the circulation performance from 2001 to 2003 we see that The Star's circulation volumes increased by 8.5 percent and the Sun (the lowest priced competitor) increased by only 4.8 percent. Of course the above statistics are fascinating but how was this achieved?

On the editorial side, there are a number of guiding principles. The paper is the only real Irish tabloid; the Sun and Mirror contain mainly UK content with some Irish content. The Star on the other hand carries approximately 80 percent Irish content with a particular focus on Irish sport. This has a cost implication, but the benefits more than outweigh the costs. The Star's editorial budgets are significantly higher than its competitors by a factor of two or three.

Its key strength has been in its coverage of Irish sport, an area of growing interest since the company's launch in 1988. Every Tuesday the paper has a section dedicated to amateur soccer players and this contains match reports and fixtures, personalising the paper for many soccer enthusiasts. The paper has a defined target audience of young readers and the feel of the paper is light and punchy with a high story count. Every Friday there's a section dedicated to "Going Out" with full entertainment listings.

The paper tends to side with ordinary people against government inadequacies, constantly calling for accountability. The paper also leverages a significant international and UK resource through its 50 percent owner, Express Newspapers. Their particular strength has been in celebrity content as the company is the publisher of OK Magazine.

The Star also used other media such as radio and TV to promote itself. This is done through alliances and co-branded promotions with media partners. The media partners selected must have a young age profile which matchs The Star's own profile. In addition local radio is often used as a PR vehicle for stories that the paper carries every day.

The Star has been positioned at the higher end of the tabloid market and this has led to a much stronger readership profile in terms of social demographics when compared to its competitors. The readership profile has 56 percent in the 15-34 age bracket and 17 percent in the 35-44 bracket. In addition the reader per copy works out at approximately 4.5 per copy, which is very high by Irish standards. One key feature from an advertising perspective is that the demographic profile of the Star exactly matches the profile of the Irish population.

A number of commercial principles are always adhered to and these can be summarised as follows:

• Do not cheat the reader;
• Consumers will pay premium for value;
• Give something back.

In practical terms what this has meant in recent years can be described as follows:

• In 2002, the cover price was increased by 12.4 percent however 56 percent of the additional revenues from the cover price increase were re-invested in the product by way of pagination increases, a new magazine, additional high-profile columnists and increased promotional offerings.

• In 2003, the cover price was increased by 10 percent from 1 to 1.10, breaking the psychological barrier of two coins. Again 56 percent of the additional revenues were re-invested through pagination increases, a new junior soccer section and increased promotional offerings.

• In 2004, the cover price was increased by 9.1 percent and 45 percent of the additional proceeds were re-invested through the introduction of a new glossy soccer magazine every Monday and an 8-week long promotion which gave away football kits to schools.

In conclusion the Star identified a number of key success factors:

• The buyer is willing to pay a premium for value

• Use the broadcast media as a friend

• Keep in touch with readers

• Uphold continuous investment in the product and not merely short-term giveaways;

• Having supportive shareholders.

Relating the above case study back to our pricing strategies as set out in Section 2.3 we can see that this example encompasses two strategies:

1. Pricing for Profit: Profits are maximised by the high cover price. These are not short-term profits but also have a focus on longer-term shareholder value.

2. Pricing to signal quality: The paper has established itself as a premium tabloid. Ultimately this will lead to greater advertising revenues through a much better readership profile than its competitors. By positioning the paper at a higher end of the tabloid market it makes the paper less vulnerable to direct competition on cover price or advertising.

Both of these strategies have proven effective but only where significant editorial investments have been made.

2.3.3 Low Price Strategy:

Case Study
The Times, London

The early to mid-1990s evidenced a number of "price wars" within the UK national newspaper marketplace. Rupert Murdoch was accused of predatory pricing when the broadsheet Times cover price was reduced by some 40 percent to 20p on Mondays and Saturdays.

Jim Chisholm who until recently worked as Strategy Advisor for the Shaping the Future of the Newspaper Project within World Association of Newspapers carried out research on the UK price wars in the '90s and concluded that price cutting as a stand-alone strategy will not work. Chisholm drew his conclusions by studying the effects of the UK price war on both individual titles themselves and the market as a whole. The Times (owned by Murdoch) alone spent STG£20 [define STG]million during the battle, Today (also owned by Murdoch) went out of business, and others (The Independent, The Mirror, The Express) have suffered and lost a lot of money in defending their market positions.

Very aggressive price cutting can be used to try and quash a competitor and this was clearly Murdoch's objective when implementing the Times price cuts. If this is the goal, then newspapers must ask themselves whether they can sustain this price decrease until the competitor closes. In this case Murdoch failed as all of his competitors remained in business.

Chisholm's research concluded that aggressive pricing may build share for individual titles, but it does not build markets on a long run, after the price war stops. Aggressive pricing strategies do not attract new readers and the Times was a classic illustration of this point. By the end of the price war, The Times had a 60 percent increase in circulation however its readership only increased by 20 percent.

The increased sales volumes had come from readers who had previously read the paper for maybe one or two days of the week, but were now buying it for six days. Cover price decreases do not necessarily lead to additional advertising revenues. Following the cover price reductions, the Times had a lot of difficulty in convincing its advertisers that its new readers were worth buying as there is a wariness about price-generated readers. Of course, increasing readership frequency is a key issue for newspapers but similar results can be achieved through other means such as promotions.

Using price to reward loyalty works best if it is a short-term discount attached to long-term loyalty through subscriptions. Newspapers must also ask themselves what they will do to support their sales increases when prices go back up to more economic levels. Unless papers do other things when the price goes back up, the sale goes back down. The research found that the “winners” of the UK price war were not necessarily the price cutters but the product innovators.

For example The Guardian maintained its price while their competitors cut theirs but instead they invested heavily in its product and its brand by re-launching its second section and developing a Saturday offer. At times during the price war The Guardian was over four times more expensive than The Times. The result of their product innovation saw stable circulation, maximised revenues and a strong, healthy brand.

In conclusion Chisholm felt the following about price wars:

1. They build share but do not build markets on long run;
2. They destroy market value;
3. They do not attract new readers;
4. Price is not a stand-alone strategy;
5. Price threatens you as much as your enemy;
6. Price-generated readers do not produce new advertising revenues;
7. The winners are the product innovators.

Relating the above case study back to our pricing strategies as set out in Section 2.3 we can see that this example encompasses two strategies:

1. Pricing to motivate purchase: The Times aimed to boost circulation by price cutting. Its objective was to boost circulation and ultimately readership which would have provided longer term gains.

2. Pricing to meet the competition: Competitors of the Times had to reduce prices to compete and protect their own circulation.

In this case neither of these strategies proved effective and only resulted in a destruction of shareholder value.

2.3.4 Free Newspapers

Case Study

The Metro Phenomenon

Competition from emerging media such as the internet and mobile phones has led to a seismic change in user perception of the value of news. These perceptions have been further questioned by the advent of quality free newspapers such as Metro. The report “Free Newspapers–Threat or Opportunity?” published as part of the READY project, studied the emergence of the Metro as a major force in daily morning newspaper publishing.

Metro – The Idea and Inception

Published for the first time in Stockholm in February 1995, circulation was 200,000 copies and Metro proved to be an immediate success. It quickly became the second largest daily of Stockholm after Dagens Nyheter (353,000 copies). By 2003, its average advertising revenue per issue was 81 percent of the overall average for the Swedish market.

As opposed to being a threat to newspapers, Metro could possibly have contributed to a new interest in newspapers generally. Research shows that before Metro was published in Stockholm, a large portion of this population did not read newspapers in the morning. Already in 1995, readership surveys showed that 75 percent of travellers on the Stockholm underground read Metro daily and that each copy was read by 1.7 people on average.

Following Sweden, the idea was then brought to London by the first editor of Stockholm Metro. There it was adapted by another publisher, Associated Newspapers, thus effectively preventing the Swedish Metro from entering the UK market. In London, Lord Rothermere, proprietor of Associated Newspapers, is sure that if his company had not launched Metro, some other company would have.

As in Sweden, the subway was seen as a natural distribution outlet, so Associated approached the London underground. The underlying concept was simple: a free newspaper without any political slant, but lots of vivid colour and short stories. Metro must take no more than 20 or 30 minutes to read because people don't have a lot of time and they want to be informed quickly, says Lord Rothermere.

Associated Newspapers knew that to attract the right type of audience, Metro would have to establish itself as a quality read. The target market was people who were employed, educated and smart, typically in their 20s and 30s. The aim was to get the target audience to read the paper every day. At the time of the London launch in 1999, around 50 to 60 percent of subway commuters didn't read newspapers; they read books, listened to music or did nothing. Today 70 to 80 percent of commuters are reading Metro.

Metro – A unique editorial concept

Associated Newspapers bet on a no-nonsense news package. There are no juvenile contests, no trivia and no hype – only short concise stories that don't treat ideas superficially. Metro will take news agency copy, but reworks the stories in order to present them from a new angle. Metro aims to keep its front page as balanced as possible with generally one human interest story, offset by a more serious political one. The entertainment section is one of Metro's key attractions. It's all about giving people ideas about what to do that night. Each edition has a 10-page entertainment section, one of the reasons why people take the paper home at night.

To appeal to both advertisers and readers, Metro has a consumer-oriented focus. This means articles such as "The High Tech Gadgets," "Modern Man Needs," "Hot Shopping Tips" or stories about exotic foreign holidays. But Metro is careful not to compete head-on with the sensationalism of the tabloid titles. Metro decided it would use promotions to a certain extent to increase readership frequency. Promotions are used as a way of sampling and as a way of adding value for existing readers.

The editorial costs are kept to a minimum and Metro in the UK started with an editorial staff of 30, now doubling as Metro was rolled out to other UK cities. The editorial team is generally young and has set high journalistic standards for itself. Given Metro's limited resources the paper doesn't do any investigative journalism or breaking stories. Management is betting the paper's apolitical and objective writing style will garner faithful readers. Most British newspapers espouse a political view, making objective news coverage the exception rather than the rule in Britain. Thus Metro effectively filled a gap.

Metro as an Advertising Phenomena

By launching Metro, Associated Newspapers set out to reach a demographic whose preferences may have been somewhat neglected by the newspaper business up to then: commuters. Until then, nobody had effectively targeted the 400,000 subway users who did not read a national newspaper. It was potentially a huge market and one that was still untapped.

Advertisers were sceptical at first, but within weeks they saw people getting into the Metro habit but perhaps more importantly, young, affluent people were reading it. According to research performed by Britain's TGI, more than 75 percent of Metro's readers are in the ABC1 [define please] segment and 77 percent of them are aged 15 to 44. This means that Metro's readership is one of the youngest and most upmarket in Britain, closer to internet users than any other media. With Metro, advertisers can reach 350,000 ABC1 adults every day. The research also found that 85 percent of Metro readership occurs before 9 a.m., often meaning that advertisers see a response by lunchtime.

Metros readers are 60 percent male and 40 percent female, and almost 50 percent of readers say they would consider paying for the paper. The company has done extensive research to determine what neighbourhoods their upmarket target audience lives in and where they work so it can reach them most effectively. Around 10 percent of the ads are regional and 90 percent are national.

Metro's London edition broke even and started producing an operating profit 11 months after its launch.

This case study is an example which combines two pricing strategies:

1. Pricing to motivate purchase: Because the paper is free it has no cost to the consumer. Because Metro is completely reliant on advertising revenues it must get the highest possible readership.

2. Pricing to pre-empt competition from entering the market: First mover in the market should be able to gain competitive advantage and to control the distribution.

For Metro both of these strategies have proven successful as they have established a profitable business from nothing and the barriers to entry are significant.

2.3.5 Other Research: High-Price Strategy

In addition to the outlined case study there are numerous pieces of other research and practical examples on high-price strategies, including:

• Newspaper Society research shows that 35 percent of all UK regional and local newspapers increased their cover prices during the period January–June 2004. This research further demonstrated that those newspapers that chose to increase prices actually achieved greater circulation gains than those who did not!

• The above research would suggest that the regional newspapers are relatively price inelastic, and this was certainly the findings of the research undertaken by Archant Newspapers, a regional newspaper group in the UK. In 1999, Archant commissioned the University of East Anglia to undertake a project to build a pricing model based upon data from its four titles. All four titles were found to be relatively price inelastic. There was a strong correlation between the insertion of supplements and sections and increased sales. Price incentives only have a tactical role to play, either as an incentive for someone to sample the paper or trial home delivery. Both types of incentive are treated as a promotional cost and there is no financial benefit from reducing prices in the long term.

The Archant Group's view is that cover price has no relevance in isolation. It is only one of the two key elements of value – the other is actual or perceived value. Their products deliver high quality relative to the competition consequently a premium pricing strategy has been successful. All of their paid titles are leaders in their markets with little or no direct competition. In conclusion they view the best opportunities for increasing cover prices without sparking a sales decline is by adding value.

• A similar report into price elasticity was carried out by the Wegener Group in the Netherlands. They are a group of nine regional newspapers and the main conclusions were as follows:

– Price elasticity in the Netherlands is low, between -0.2 and -0.3 (a price increase of 10 percent brings a decline in circulation of 2 to 3 percent);

– Of all subscribers 40 percent do not know what the actual price of the subscription is; these 40 percent actually think that the price is below the actual price;

– For single-copy buyers the number of people that say that the price is too high is in decline, while the actual price has gone up;

– Subscriptions to regional newspapers are more expensive when compared to national newspapers, readers feel that they receive extra news though (the regional news) and are willing to pay for it.

• In the early '90s the Newspaper Society in the UK commissioned the Henley Centre to create an econometric model to identify the key factors impacting the sales of regional newspapers. The Henley Centre concluded that there were relatively few. For morning newspapers the factors were: Increased affluence (positive), cover price (negative), recession (negative), social factors such as lifestyle (negative), and competition from free newspapers (negative).

The Henley Centre went on to examine what successful newspapers had done to buck the general downward trend. Again the results were predictable but nonetheless illuminating. Successful newspapers typically had:

– Long-term investment–such as full access to colour, high-tech printing facilities; low staff turnover and stable editorial / managerial structures; and long-term perspective.

– Value for money – higher story count, colour, high minimum pagination, high number of supplements, extensive edit ionising[define], good physical quality

– Editorial – as above, plus extra pagination; focus on lifestyle issues; general disinclination to include long, in-depth articles; supportive of local communities but not aggressively campaigning. The influence of advertising and promotions were less obvious but these are activities that regional newspapers find hard to measure, so the jury remained out.

All of the above examples are consistent with the 10 traits of circulation winners as identified in "The Shaping the Future of the Newspaper" Project:

1. Take the long view in terms of business success;

2. Have a clear definition of your audience–its needs, interests and aspirations;

3. Take the best stories to market before competitors;

4. Gain circulation today, worry about profit tomorrow;

5. Work with other circulation winners to integrate strategies;

6. Treat readers as customers and give them what they want;

7. Hire young journalists to imbue your paper with fresh blood;

8. Target all age groups, particularly older readers;

9. Target women readers;

10. Watch out for "moments of truth" when you have the chance to do something radical or risky and take the chance.

2.3.6 Other Research: Low-Price Strategy

Additional examples of low-pricing models are outlined below:

• In 2002 a new look Daily Mirror slashed its cover price from 32p to 20p; within hours the Sun followed suit by matching the price cut. This cost the Sun £21 million in lost revenues in three months. Despite this massive financial cost, circulation volumes had only grown by 4 percent over the prior year.

• In Ireland, both the Sun and Mirror engaged in predatory pricing throughout the '90s in order to boost their overall circulation volumes. "Dumping" copies at a cheap rate in Ireland was seen as a cheap way of buying circulation outside of the mainland UK. In recent years these have tended to be for a much shorter period of time due to the lack of success and in the last 18 months there have been no price cuts. The funds which would have been used in this manner have now been diverted into promotional offerings such as CD or DVD giveaways.

• Also in Ireland, Associated Newspapers used pricing and promotion in order to establish a foothold in a competitive Sunday market. They bought a title called Ireland on Sunday which was selling approximately 50,000 copies when it was bought. Since then an investment of approx 50 million has been made in tr ying to establish the brand.

A low price of 50c per copy, compared to 1.50 for its competitors was used for a period of six months in order to establish the product. This pricing strategy together with extensive promotions saw the circulation rise to 150,000 copies within one year. However this has not translated into real advertising gains as advertising buyers see many of the customers as being disloyal and only interested in promotional gimmicks. This experience is a similar issue to that experienced by the Times in London following their price cuts in the 1990s.

The company continues to lose substantial amounts of money as the reported circulation sale needs to be supported with promotional giveaways. The frequency and quality of the promotions needs to be continuously increased in order to support its sales levels. This high cost promotion model together with the failure to attract substantial advertising revenues remains a serious impediment to long-term financial viability of this project.

2.3.7 Research questions

The research objective of this paper was to give insight in effective pricing strategies and in understanding the implications of a change in price. The research questions were:

• What theoretical variables influence price and should be taken into account when designing a price strategy in the newspaper industry?

• From a theoretical perspective, which pricing strategies can be used in the newspaper industry?

• Which of the strategies have proven to be positively effective in practice within the newspaper industry?

The first research question was answered in chapter two. The theoretical variables influencing price strategies were the following:

• The customer demand schedule;
• Cost structure;
• Competitors' prices;
• The marketing objective.

The second research question is also answered in chapter two. Based on theory and on the pricing variables the following six pricing strategies were proposed. (see Table page 21)

The strategies then were placed on a line showing the direction of pricing. (see Chart page 24)

The third and most important **research question** was discussed in chapter four. Based on the case studies and the analysis of research material form the newspaper industry the following conclusions can be drawn in relation to the pricing strategies. (see Chart page 22)

Price strategies and the case study results

Based on the case studies only four strategies are effective:

• Pricing to motivate purchase has proven to be effective in the most extreme manner (the free newspaper by Metro);

• Pricing to pre-empt the competition from entering the market has proven to be successful in the Metro case;

• Pricing for profit and pricing to signal quality can both reap dividends, under the assumption that a large proportion of the profits are invested back into the content of the newspaper.

We have identified a number of salient cover price case studies and linked these back to theoretical pricing strategy models.

So what have we learnt?

Pricing is not the hot topic that it was during the 1990s. Publishing companyies have migrated toward competing on a non-price, non-content basis. When was the last time that you saw the major focus of a marketing campaign based upon the product in isolation?

The marketing gurus have taken over the asylum, where once the campaign focused on pagination, we now talk about CDs, where once we focused on the lead story we now talk about DVDs, where once we extolled the virtues of our feature writers we now talk about crockery.

Our examples show that in many case raising the price can generate income without negatively impacting circulation or revenues, provided that some of those revenues are reinvested in the editorial product.

The launch of Metro and its consequent credibility within the marketplace has proven to be the only other successful example that we have encountered in our studies. These findings would suggest that the most enviable positioning lies at either end of the price spectrum. Middle ground contestants need only apply if they come armed with boxing gloves and deep pockets.

3. Tracking and measuring the impact of price

by Jim Chisholm

Most newspapers are keen to increase cover price as a means of increasing profits. Publishers and circulation managers know that an increase in price may result in a reduction in circulation. Some even reduce price as a means of increasing sale. But few are able to predict the impact that so called price elasticity has on either sale or market share.

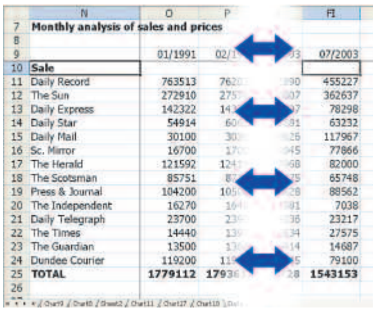
Yet measurement of price elasticity is relatively easy and accurate, and can provide detailed information to support decisions on changing price either up or down.

This chapter provides a methodology for tracking the impact of previous price changes, thereby anticipating what might happen in the future.

The key requirement is a good history of both sale and cover price changes. It is astonishing how few newspaper keep historical records of their competitors' sales and prices. Some don't even have records of their own past! If you don't have a system of recording sales and prices of your own and competitors' newspapers, introduce one today.

Step 1

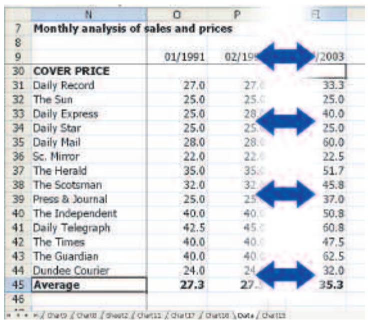
Monthly sales



Monthly analysis of sales and prices

	N	O 01/1991	FI 07/2003
10	**Sale**		
11	Daily Record	763513	455227
12	The Sun	272910	362637
13	Daily Express	142322	78298
14	Daily Star	54914	63232
15	Daily Mail	30100	117967
16	Sc. Mirror	16700	77866
17	The Herald	121592	82000
18	The Scotsman	85751	65748
19	Press & Journal	104200	88562
20	The Independent	16270	7038
21	Daily Telegraph	23700	23217
22	The Times	14440	27575
23	The Guardian	13500	14687
24	Dundee Courier	119200	79100
25	**TOTAL**	**1779112**	**1543153**

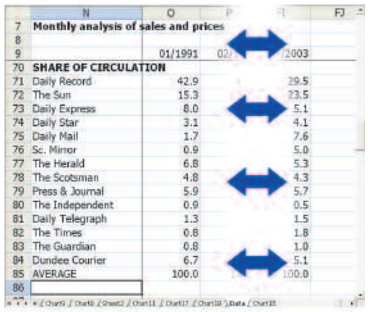
Average price



Monthly analysis of sales and prices

	N	O 01/1991	FI /2003
30	**COVER PRICE**		
31	Daily Record	27.0	33.3
32	The Sun	25.0	25.0
33	Daily Express	25.0	40.0
34	Daily Star	25.0	25.0
35	Daily Mail	28.0	60.0
36	Sc. Mirror	22.0	22.5
37	The Herald	35.0	51.7
38	The Scotsman	32.0	45.8
39	Press & Journal	25.0	37.0
40	The Independent	40.0	50.8
41	Daily Telegraph	42.5	60.8
42	The Times	40.0	47.5
43	The Guardian	40.0	62.5
44	Dundee Courier	24.0	32.0
45	**Average**	**27.3**	**35.3**

Circulation share per month

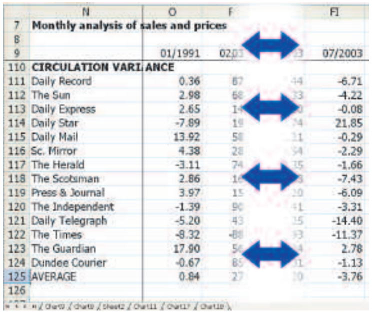


Monthly analysis of sales and prices

	N	O 01/1991	/2003
70	**SHARE OF CIRCULATION**		
71	Daily Record	42.9	29.5
72	The Sun	15.3	23.5
73	Daily Express	8.0	5.1
74	Daily Star	3.1	4.1
75	Daily Mail	1.7	7.6
76	Sc. Mirror	0.9	5.0
77	The Herald	6.8	5.3
78	The Scotsman	4.8	4.3
79	Press & Journal	5.9	5.7
80	The Independent	0.9	0.5
81	Daily Telegraph	1.3	1.5
82	The Times	0.8	1.8
83	The Guardian	0.8	1.0
84	Dundee Courier	6.7	5.1
85	AVERAGE	100.0	100.0

Step 2

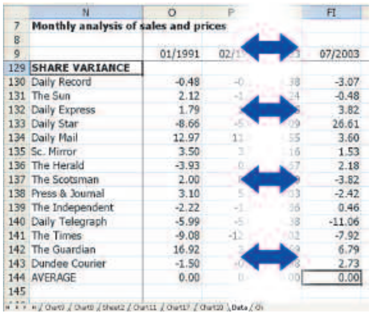
Year on year circulation variance



Monthly analysis of sales and prices

	N	O 01/1991	FI 07/2003
110	**CIRCULATION VARIANCE**		
111	Daily Record	0.36	-6.71
112	The Sun	2.98	-4.22
113	Daily Express	2.65	-0.08
114	Daily Star	-7.89	21.85
115	Daily Mail	13.92	-0.29
116	Sc. Mirror	4.38	-2.29
117	The Herald	-3.11	-1.66
118	The Scotsman	2.86	-7.43
119	Press & Journal	3.97	-6.09
120	The Independent	-1.39	-3.31
121	Daily Telegraph	-5.20	-14.40
122	The Times	-8.32	-11.37
123	The Guardian	17.90	2.78
124	Dundee Courier	-0.67	-1.13
125	AVERAGE	0.84	-3.76

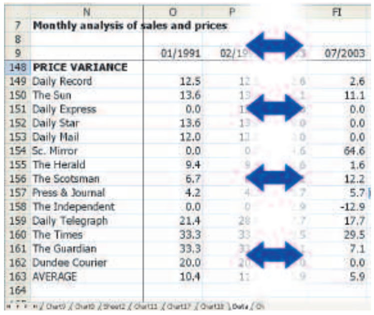
Year on year share variance



Monthly analysis of sales and prices

	N	O 01/1991	FI 07/2003
129	**SHARE VARIANCE**		
130	Daily Record	-0.48	-3.07
131	The Sun	2.12	-0.48
132	Daily Express	1.79	3.82
133	Daily Star	-8.66	26.61
134	Daily Mail	12.97	3.60
135	Sc. Mirror	3.50	1.53
136	The Herald	-3.93	2.18
137	The Scotsman	2.00	-3.82
138	Press & Journal	3.10	-2.42
139	The Independent	-2.22	0.46
140	Daily Telegraph	-5.99	-11.06
141	The Times	-9.08	-7.92
142	The Guardian	16.92	6.79
143	Dundee Courier	-1.50	2.73
144	AVERAGE	0.00	0.00

Year on year price variance



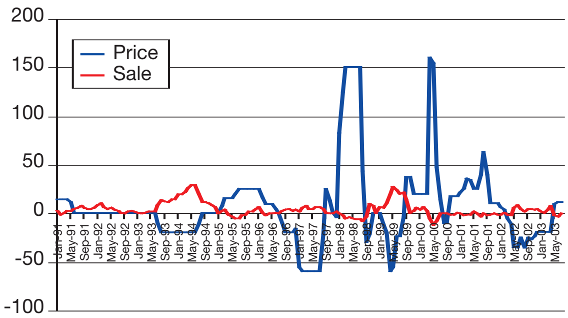
Monthly analysis of sales and prices

	N	O 01/1991	FI 07/2003
148	**PRICE VARIANCE**		
149	Daily Record	12.5	2.6
150	The Sun	13.6	11.1
151	Daily Express	0.0	0.0
152	Daily Star	13.6	0.0
153	Daily Mail	12.0	0.0
154	Sc. Mirror	0.0	64.6
155	The Herald	9.4	1.6
156	The Scotsman	6.7	12.2
157	Press & Journal	4.2	5.7
158	The Independent	0.0	-12.9
159	Daily Telegraph	21.4	17.7
160	The Times	33.3	29.5
161	The Guardian	33.3	7.1
162	Dundee Courier	20.0	0.0
163	AVERAGE	10.4	5.9

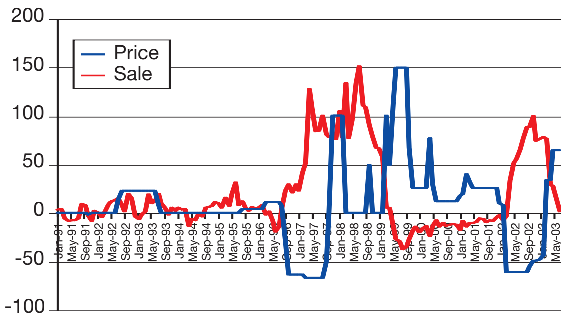
Step 3

Comparison year on year variances in price and circulation

The Sun



The Mirror



STEP 1

Produce a simple spreadsheet listing all the titles in the market and their underlying sales (without bulk or sponsored copies), by sales period–ideally by week, alternatively by month.

Produce a parallel table showing the cover price by title and month.

Calculate the market share of each newspaper by dividing each newspaper's sale by the total sale for the market.

STEP 2

Calculate the year on year variances in sale, market share and cover price. It is important to calculate year-on-year share, rather than variance from one period to the next (week or month), because seasonality has to be removed from the measurements. (More complex models that adjust for this can be developed but are not presented in this study.)

STEP 3.

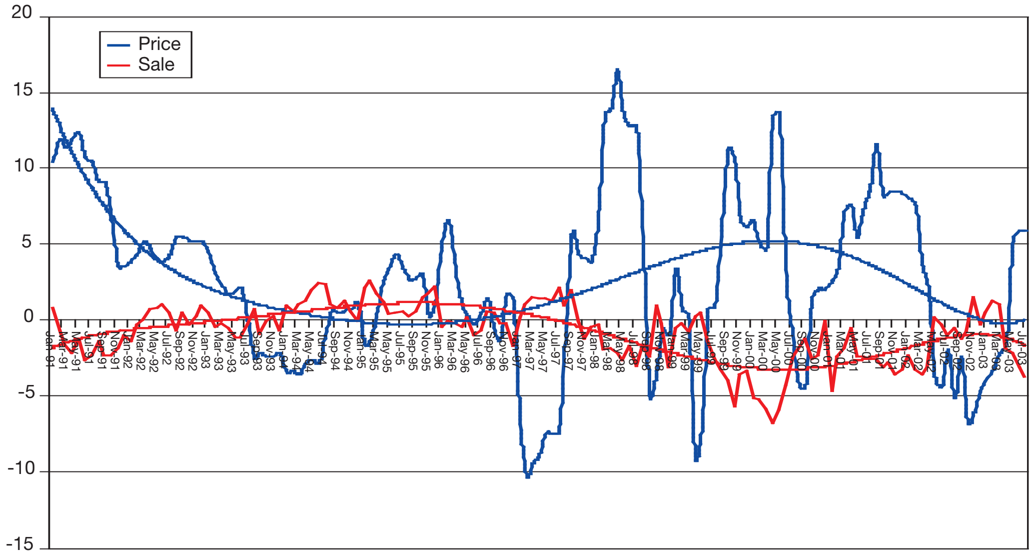
Produce graphs showing the variances in share along side the variances in market share. This will show in simplistic terms the relationship between changes in price and market share, over time.

As you can see from the below graphs as the price rises and falls so the circulation market share changes in the other direction. This is true both of titles, and to a lesser extent the market as a whole. If the average price of newspapers falls, so the total sale of newspapers is likely to rise. This is why it is important to measure the impact price has on share rather than simply on sale, because the actions of the competitors also has an effect on how the overall market performs.

The graph below shows the relative impact of average market price, and average total sales. This time the monthly figures are supported by lines showing general trends.

Once again one sees that as price fluctuates so sale changes in the reverse direction. Note that the fluctuation in sale is a lot less pronounced than that of price.

Comparison year on year variances in price and circulation Market averages



STEP 4.

Correlate the relationship between price changes and sales changes. In the past this involved producing complex calculations that correlated these relationships. Today one can simply produce what is called an "XY chart" in Microsoft Excel. This chart shows the change in price in the X (horizontal) axis, and the change in market share in the Y (Vertical) axis.

The charts above also show a range of other useful information. The point "A" shows the underlying pattern of sale when prices are stable. So the newspaper on the left shows an underlying growth in share of 4.1 percent, while that on the right shows one of 23 percent. In the case of both these newspapers however circulations were also being boosted by high levels of promotion, and price was certainly not the only factor encouraging greater sales.

More complex models can be built to track other factors such as TV advertising, promotions, or reader incentives such as competitions or CD giveaways. It is thereby possible to model and predict up to 90 percent of the factors that influence sale.

Such analysis can also be used to calculate the relative difference in sale and price among the different newspapers.

Summary

Ultimately the pricing and sales performances of all the newspapers in the market can be shown on a single chart, as in the example page 37.

Here one can see that The Mirror has seen the biggest rise in share (Though as the table at the top shows it was by far the smallest selling title in the market). This was due to high investment in other forms of marketing.

The Mail and Scotsman show the strongest relationship between price change and sales impact, shown by the steepness of the lines.

In fact this analysis shows the following:

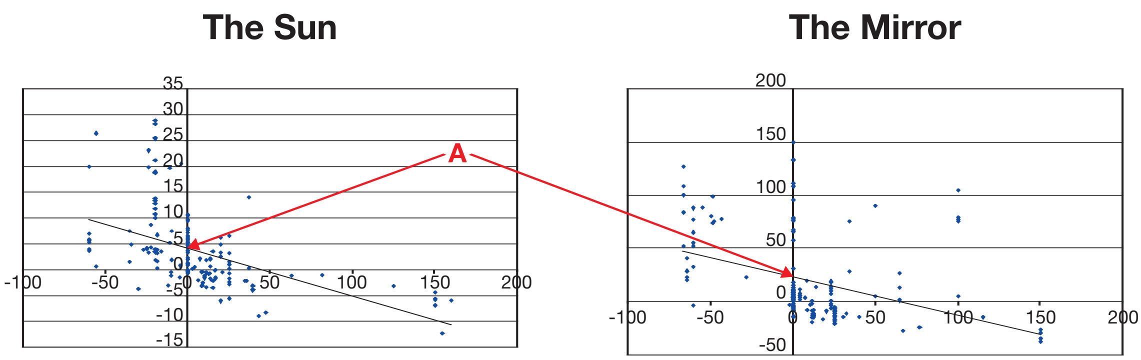
Comparison of pricing effects by title

	Relative impact of price on sale	Underlying sales performance
The Sun	-11%	3.4
The Mirror	-38%	22.4
Daily Mail	-51%	19.8
The Scotsman	-44%	0.8
Daily Record	-15%	-3.3

The Daily Mail enjoys the greatest level of price elasticity, for every 1 percent change in price, sales change in the reverse direction by 0.51 percent. For The Scotsman the difference is 0.44 percent for every change in price of 1 percent. The Mirror also showed the best underlying growth (that is with price affecting sales, with an underlying growth of 22.4 percent).

Step 4

Correlating the impact of pricing changes on circulation changes



Conclusions for this form of analysis

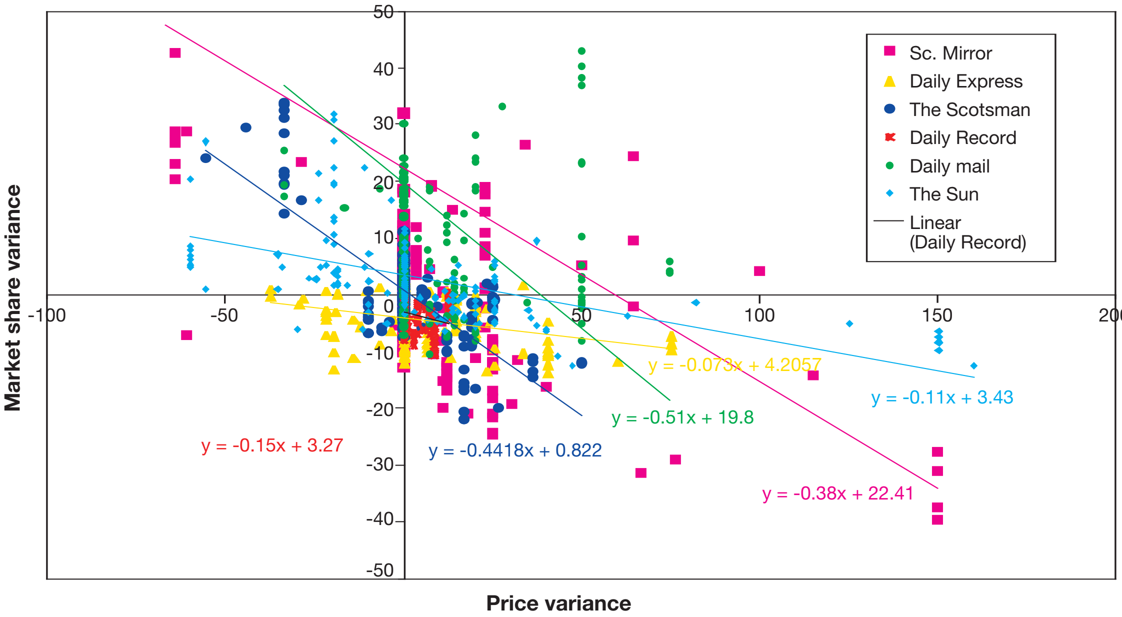
Such an analysis is a simple, fast and powerful way of tracking the impact of price changes on each title over time. In fact the analysis showed the following:

• The market leader, The Daily Record, rightly did not become involved in a price war, preferring to retain its higher price.

• The smaller newspapers gained most in terms of growth, partly through pricing, partly through promotion, and partly through product development, but price discounting was a costly way of increasing small amounts of market share.

• No newspaper's relative impact on sale was more than 100 percent. This means that when prices are increased, sales do not decrease by the same amount, therefore additional revenue is generated. When prices fall, revenues fall, because the increase in sale does not compensate for the decline in price.

Correlating the impact of pricing changes in circulation



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PART 3. Tracking and measuring the impact of price

Industry sources, supplied by the Scottish Daily Record and Sunday Mail.

THE PUBLISHER

World Association of Newspapers
7 rue Geoffroy St-Hilaire
75005 Paris, France
Tel.: +33 1 47 42 85 00
Fax: +33 1 47 42 49 48
E-mail: contact_us@wan.asso.fr

WAN CEO, Timothy Balding
WAN Managing Director: Ali Rahnema
WAN SFN Project Manager: Martha L Stone
mstone@wan.asso.fr

THE CO-AUTHORS

Aura Iordan,
SFN Business Analyst

Jim Chisholm,
Newspaper Consulting Group

EDITOR

Carl Sullivan

PAGE DESIGNERS

Michael Dunbar, Marianne Audouard