

ADVERTISING REVENUES AT NEWSPAPERS HAVE BEEN VERY STRONG YEARS. TOTAL NEWSPAPER ADVERTISING REVENUES HAVE INCREASED FROM 1990 TO 1999, WHICH EQUATES TO A COMPOUND ANNUAL RATE OF

Advertising Revenues: Is There **STORMY** **WEATHER**

It is often difficult to take the time to look out five years and assess the business strategically. Newspapers are under pressure to put the newspaper out day to day. However, the goal of this article is to focus on the longer term, perhaps three to five years. We have reviewed our work with a range of media and several non-media clients to glean a broader perspective of the advertising landscape.

This article also taps the year-long Horizon Watching Initiative funded by the Newspaper Association of America. NAA's Board Committee on Industry Development and a team of Kannon consultants built a body of knowledge on advertiser, reader and competitive behaviour as well as technological advancements and economic forces that are driving change. We should note that the opinions expressed

in this article are our own and are not necessarily shared by any of the clients with whom Kannon has worked.

We chose to emphasise recent and future advertising trends since advertising represents the revenue that fuels the newspaper business. Advertising is also heavily influenced by important macro forces (e.g., demographics, economics), so a look at advertising also reflects the trends impacting the business overall.

We looked at several key advertising categories — retailers, financial services, telecommunications, automotive, employment, and real estate — to address the questions identified earlier. These major advertiser sectors represent about 70 percent of newspaper advertising in the United States. As such, they are good bellwethers of the future and will provide insight into where newspaper advertising is going.

BUT HOW WELL ARE NEWSPAPERS REALLY DOING? WHAT DOES THE FUTURE HOLD FOR NEWSPAPERS CONTINUE TO RELY ON THE TRADITIONAL ADVERTISING MODEL? CAN BE DONE TO CAPTURE REVENUES IN THE FUTURE?

OVER THE LAST FEW
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BY BARBARA
 COHEN

Ahead?

How Well Are Newspapers Really Doing? The Current Conditions:

As noted, overall newspaper advertising spending in these categories has grown at 4.1 percent a year in the United States, and newspapers have generally felt good about ad revenues over the last few years. However, this is not the whole story. In fact, the truth is much less positive.

As shown in Exhibit A, newspapers have not kept up with advertising growth and have lost share to other media, typically television but also direct mail, magazines, and online. For example, total advertising expenditures for the general merchandise retailer category has grown on average 10 percent from 1990 to 1998. This category includes department stores and discounters. Over this same period, general merchandise retailers increased their spending in

newspapers only about 3 percent. So, since newspapers' rate of growth was slower than the total growth, it lost share.

This share-loss story is the same in home improvement, financial services, food and drug, and automotive categories. TV grew share and, in some cases, so did online.

Monitoring market share — despite many conferences, booklets, and lectures — is still foreign at most newspapers. It is an important construct because it identifies how well the newspaper is doing versus other media in the market in which it competes. Its value is greatest within advertiser categories monitored consistently over time and forecasted.

Let's look at Exhibit B, which is a market share forecast conducted in a local market for one of our clients. This newspaper is expected to lose share overall but particularly in employment, financial services, and real estate. Several retailers in this market are moving to a branding strategy, thus shifting funds to TV. The decline in employment advertising is due to growth in the Internet. By understanding the business at this level, newspapers can take actions to retain and grow the business.

Another newspaper client example may help illuminate this issue. Several advertising segments were identified as vital to defend and others as opportunities for growth. The newspaper created a new and separate business division called Brand Builders to focus on those growth opportunity advertisers who were more brand- and less promotion-oriented. Sales revenues from this lucrative channel have grown from zero in 1994 to US\$4 million in 1999.

Strategically, a business that is losing market share, even in a sector that has grown, is not well positioned to fight for revenues when that overall growth slows. While a high tide may raise all boats, not all fare as well in a storm.

So, is a storm coming?

ABOUT THE AUTHOR

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FUTURE HOLD? CAN
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CONSUMERS WILL DEMAND AN EASIER AND MORE ENTERTAINING SHOPPING OF THE VENUE UTILISED, WITH HIGHER LEVELS OF CUSTOMER SERVICE, SELE

What Is Happening To Core Advertisers?

Forecasting The Weather:

Let's take a closer look at several advertising categories — where they have been and where they are going.

- **Retailer Consolidation: Buying Power**

Important retailer categories will continue to consolidate into regional stores and national players. The consumer electronics, department stores, discounters, and home improvement categories have already done so. Grocery has been moving away from several independent, local players toward a few national and even global companies for years. Supercenters will become even more of a competitive force.

As consolidation within the retailer sectors continues, newspapers will be faced with fewer and bigger customers. This will result in increasing pricing pressures on newspapers as leverage has shifted to the buyer from the seller. It will be difficult to maintain the double-digit price increases some newspapers have become dependent on to make profit goals without significant push back from advertisers. Looking across three markets of different sizes, pricing actions had dramatic impacts on both revenues and lineage (Exhibit C).

A second important implication of a consolidating retailer landscape is the move to more national and regional buys. It is difficult for newspapers, which are essentially the local building blocks of a region, to sell themselves easier as a unit. Revenues are vulnerable to media that lend themselves easier to broader geographic buys. Consolidation within the radio, billboard, and television businesses has improved their positions with increasingly consolidated retailers.

A third implication is a greater number of out-of-region decision-makers who are more difficult for newspapers to influence. Personality and persuasiveness give way to zip code-based circulation penetration charts.

- **Multi-Channel Retailers: Bricks & Mortar Plus**

Due to technological advancements and the increasing time constraints of consumers, retailers are currently, and increasingly, utilising multiple channels — “brick and mortar” stores, catalogs, web sites, kiosks, etc. — enabling consumers to choose where they want to shop. Consumers will demand an easier and more entertaining shopping experience, regardless of the venue utilised, with higher levels of customer service, selection, and information. Advertisers will retool strategies to fully exploit the opportunities afforded by new digital and interactive media and seamlessly integrate online and offline shopping into a multi-channel model of customer service.

A retailer client we worked with two years ago was

moving aggressively toward e-commerce, driven by systems manufacturers, technology consultants, and marketplace hype. An “Outside-In” evaluation of their product category suggested that the stand-alone online approach they were pursuing was likely to fail since the target consumers wanted to be able to return the product easily and go to a location for advice on installation and use. The retailer continued to pursue an e-commerce strategy but is now integrating the effort with marketing and operations with their stores.

This shift to Bricks & Mortar Plus reinforces the need for retailers to invest in brand equity. An emphasis on promoting the store name as a brand itself will create a shift in media budgets and usage. Retailers will continue to increase their emphasis on private label programmes, especially within the department and specialty retail subcategories. As the value of the brand increases, the probability of a successful multi-channel approach improves.

Some retailers will find that the Internet channel will virtually take over their category. Due to the high degree of household penetration and familiarity of most consumer electronics, price, and brand will be the key attributes to purchasing decisions. We expect that the Internet will grow as the dominant consumer electronic sales channel.

- **The Marketing Intensive Service Sector**

Let's review two illustrative business services: financial services and telecommunications. Financial services advertising in newspapers has grown 14 percent on average over the last few years, reflecting deregulation and the convergence of banking, insurance, and securities services under one umbrella. And that growth is expected to continue.

Traditional players will enter new services such as brokerage, securities underwriting, and insurance. Conversely, new competitors — such as insurance companies and brokerage houses, as well as non-financial companies such as discount retailers — will enter the market offering banking products and services. Online trading and banking will continue to alter the financial services landscape, with Internet-only competitors emerging as a threat.

Financial services advertisers have been refining their media mix. A 1997 survey of bank marketing expenditures was conducted by the Bank Marketing Association. It suggests that banks now spend 46 percent of their media budget with newspapers. Direct marketing represented 21 percent. Newspaper penetration is highest among smaller banks, those with US\$25 million to US\$50 million in assets. The story is very different for banks with US\$5 billion or more in assets. For these banks, direct marketing has the

NEWSPAPER ADVERTISING GROWTH
VS. CATEGORY ADVERTISING GROWTH

EXHIBIT A

highest share of the media mix at more than 33 percent, while TV and newspaper are both at 30 percent.

The telecommunications business is expected to continue to be marketing intensive. Prices are expected to decline for all types of traffic as competition intensifies among current and potential players in the market. The lines between local, local-long distance, long distance, and even wireless will eventually blur. Therefore, there will be a consistent, if not increasing, investment by telecommunication providers to grow market share and brand.

Telecommunications also has a significant amount of revenue in the small business sector. While large businesses can buy directly from manufacturers and set up their own network or buy at great discount from service providers, small businesses are often stuck with modified consumer plans.

Reaching these small businesses is a special challenge for the telecommunications companies.

In recent work with a European telecommunications client, the challenge was to build a marketing positioning that could cross both small business-to-business and consumer markets. One of the recommendations included greater use of targeting of the message and the media under an umbrella positioning. This resulted in a windfall for newspapers since direct marketing is less pervasive in Europe given limitations on databases for privacy reasons.

• **Employment**

As long as the U.S. economy continues to be strong, the job market will remain healthy. Companies will continue to grow, especially in the high-tech arena, and workers with highly marketable skills will literally be able to sell themselves to the highest bidder. The future will likely see very little loyalty between employers and employees.

The employment industry will become even more diversified, with employers using multiple channels, such as temporary agencies, search firms, newspaper and online advertising, as well as in-house recruitment services.

However, as employers and job searchers grow in their sophistication and comfort with using technology in job-seeking efforts, ongoing online job searches may become the prevalent method of recruitment, with the traditional

1990 TO 1998

Advertiser Categories	Total Ad Spending Growth	Newspaper Ad Spending Growth	Media Share Gainers
General Merchandise	+10%	+3%	TV
Consumer Electronics	+13%	+34%	Newspapers / TV
Home Improvement	+9%	-5%	Magazines / TV
Food and Drug	+6%	+1%	TV
Financial Services	+24%	+14%	Online / TV
Telecommunications *	+16%	+8%	Broadcast / Online
Employment	N/A	+14%	Online
Automotive	+12%	0%	TV
Real Estate	N/A	+5%	Direct Mail / Online

Source: Advertising Age; NAA; Kannon Consulting, Inc.
Note*: Telecommunications data only available from 1996-1998.

ILLUSTRATIVE NEWSPAPER
MARKET-SHARE FORECAST

EXHIBIT B

Advertising Category	Share of Total Media Spending		
	Today	3 - 5 Years From Now	Difference (% Points)
Financial Services	59%	45%	-14
Employment	56%	44%	-12
Real Estate	52%	43%	-9
Retailers	47%	41%	-6
Telecommunications	33%	27%	-6
Automotive	16%	15%	-1

Source: Kannon Consulting, Inc.

use of recruiters and search firms restricted to executive and senior management recruiting. While the average weekday newspaper classified audience is significantly higher than the average online job board traffic, we would be remiss in not reviewing the threat to employment.

Consumers are clearly moving toward the Internet. For a recent newspaper client, a study was conducted on media use by topic among lighter readers with families, an important target for many advertisers. When asked the media source used most often for jobs and employment, 80 percent of light reading families said the newspaper. The Internet was cited by 12 percent of these light readers as the media used

NEWSPAPERS NEED TO RE-EVALUATE THEIR MARKETING AND SALES SUPPORT. THE LATEST TECHNOLOGY NEEDS TO BE TAPPED TO MAKE THE SELLING PROCESS MORE

most often for jobs and employment. While this is a much smaller penetration, it has grown from virtually zero just a few years ago (Exhibit D).

• **Automotive**

Although the automotive sector is expected to continue to post healthy volume results, the car sales industry will be buffeted by the rise of the Internet, consolidation, and a tightening of franchise laws.

Not only has the Internet grown as a sales, distribution and marketing channel, but, most notably, it has made car buyers more conscious of what constitutes a fair price and better able to check prices without shuttling among dealers. These informed consumers give dealers with low cost and low overhead the advantage, because they can afford to sell cars at reduced prices.

Electronic options for purchasing vehicles are increasing. There are new direct sellers such as CarsDirect.com and CarOrder.com and lead generators including CarPoint and Autoweb.com. Hybrid alternatives such as Auto-by-Tel offer consumers both options of buying direct or with a dealer. Looking forward, we expect the hybrid model to be the winning approach following the Bricks & Mortar Plus model discussed earlier.

The automotive industry will continue to see consolidation as a few key automotive dealerships buy up local dealers to create national chains that can share advertising budgets and back-office staff to build national brand names at relatively low costs.

Traditional dealers are expected to continue to use their muscle in state capitals to strengthen franchise laws. Even in markets where the laws have not been tightened, the laws already make it hard for national dealerships, automakers, and Internet companies to expand their retailing efforts. So, it is unlikely that all dealers will disappear, but those who survive will be bigger and stronger.

• **Real Estate**

The real estate industry will continue to experience restructuring and consolidating; agent ranks will likely be reduced by about 10 percent over the next several years.

Real estate Internet sites will continue growing, sponsored by agents, brokers, and associations. However, as consumers rely on Internet information services for pre-purchase information about communities, schools, pricing, and finance options, Realtors will need to refocus on other, non-automated services, such as price negotiation, and position themselves accordingly. Real estate-related online advertising is expected to increase on average more than

100 percent a year over the next five years. Most of this increase will occur with technology allowing for low-cost video presentations of homes.

Consumer demographics — especially age distribution — are one of the major factors affecting the U.S. housing market. The fastest growing age group is comprised of consumers 45 to 65 years old; this is the age group that is most likely to trade-up to larger and more upscale, as well as vacation housing. The housing market for seniors is also expected to continue growing; many homeowners approaching retirement age have both the financial ability and the desire to remain homeowners for as long as they are physically able. However, the percentage of households headed by 25 to 34 year olds, which tend to be first-time buyers, is shrinking; as a result, the market may experience a slowdown in demand for smaller, starter homes.

• **Emerging Advertisers**

Many non-traditional advertising categories are emerging, such as business-to-business and dot.com companies, presenting us with new revenue opportunities.

Business-to-business marketing in the United States is immense, with spending in 1997 at about US\$73 billion. About one-quarter of this went to measured media. While newspapers accounted for less than a 20 percent share of measured media spending, the actual dollar figure amounted to US\$3 billion, close to what the entire telecommunications industry spent in total marketing in 1998.

Furthermore, newspapers' share of the media budget may see continued increases in the future as business-to-business advertisers seek more targeted alternatives to marketing their products and services. Additionally, business-to-business marketers consider newspapers one of the most effective media for building brand identity.

Dot.com advertisers are a growing source of revenues for traditional media as Internet-based entities strive to build recognition offline. While newspaper advertising spending among traditional marketers is expected to decrease over the next several years, dot.com advertisers are expected to offset this decline slightly.

What Should Newspapers Do? Charting The Course:

To navigate the future seas of advertising successfully, newspapers need to address four imperatives:

1. Invest in a portfolio of local and regional products and services: To meet the changing needs of advertisers, newspapers must offer more than just ROP and insert advertising. We must develop programmes so advertisers

COMPOUND ANNUAL GROWTH RATE OF
REVENUES AND LINEAGE 1994 TO 1997

EXHIBIT C

can target customers, build brands and drive traffic. Marketing services like direct marketing, online advertising, e-commerce and local event sponsorships can not be viewed as second-class services.

Newspapers should be open to selling these in conjunction with other providers. Publishers are often concerned that the margins in these services are not as high as the core business. While few businesses enjoy the traditional double-digit margins of the core newspaper, the profitability of the services are often hurt by the subscale internally built operations.

Many newspapers that have strong local market household databases have not built or even used business-to-business databases. A good business-to-business database could be incorporated into advertising and direct marketing packages for telecommunications, financial services, and other services businesses with significant business-to-business components.

Providing direct marketing is one important way to help advertisers target. As cable companies move to household-specific messaging, newspapers will need to assess their own delivery operations as well as the role of niche publications, perhaps even in non-English formats.

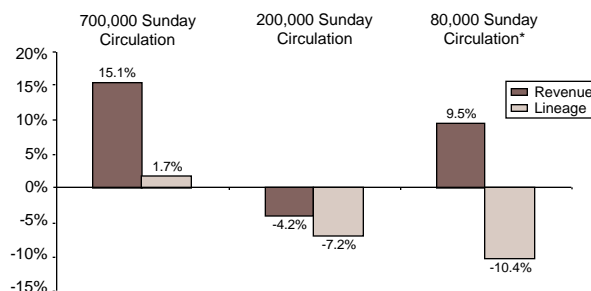
2. Upgrade how these products and services go to market: Re-evaluate your marketing and sales support. In advertising sales, the latest technology should be tapped to make the selling process more customer-oriented. Sales training and reward systems should be checked to be sure they are aligned with the business strategies.

In circulation, hard issues like the future of seven-day subscriptions and Monday/Tuesday newspapers need to be addressed. Telemarketing approaches need to be truly used as a direct marketing channel and not just a telephone bank. In promotion, newspapers need to build enduring copy and positioning strategy, not just occasion-based commercials.

Many newspapers still go to market the same way they did 10 years ago. Few successful industries say that today, and even fewer expect to say it in five years.

3. Re-engineer operations to ensure lower costs: Newspapers need to take advantage of new technologies to streamline operations and costs. Opportunities with ad production and in the pressroom are clear. But so should using the Internet to communicate, invoice, and collect payments. The pressure to hold prices will only grow, so newspapers need to re-engineer how the work is done. Ten

Three Newspapers by Sunday Circulation



Source: Kannon Consulting, Inc.
Note*: Data only available from 1995-1997.

ILLUSTRATIVE NEWSPAPER
MARKET-MEDIA USED MOST OFTEN

EXHIBIT D

Customer Segment: Married With Children

Topic	Competitive Position — Source Used Most Often	
	% Selecting Newspaper	% Selecting Internet
Jobs/Employment	80%	12%
National Business/Economy	35%	21%
Stocks/Mutual Funds	45%	26%
Health/Medicine	40%	21%

Source: Kannon Consulting, Inc.

percent headcount reductions alone will not be sufficient.

4. Establish a long-term vision and monitor progress and market changes: Newspapers have annual budgeting processes. The challenge is to get beyond the year-to-year approach to a vision of what the newspaper will be in the future within the local market. Who really are the competitors locally — a suburban newspaper, a local entertainment online player? Which advertisers are vulnerable? Tracking local market share is a start.

No one really knows the future. Charting unknown waters and being prepared for changing weather requires an objective understanding of where you are now, setting a course and monitoring progress.

There are clearly dangerous storms ahead as advertisers' needs change and industries restructure. The strong economy is a siren song tempting newspapers to do little. It is a melody newspapers should ignore and instead plan for the uncertain seas ahead. ■