

Changing advertiser, customer behaviors should prompt the exploration of new directions

# Looking Beyond the Horizon

**N**ewspapers have enjoyed a modest, albeit shaky, recovery over the past several years thanks to a generally improving economy. But profound shifts in our customers' behavior dictates that "business as usual...only better" will not be enough to drive real growth over the next five to 10 years.

Newspapers are facing unprecedented structural change and complexity due to evolving consumer demographics and shopping behavior, transformations within our advertisers' industries, technological advancements, and emergence of new competitors. These trends suggest that newspapers' current business model needs transformation, perhaps sooner than many expect.

NAA's Horizon Watching Initiative, directed by the Board Committee on Industry Development, has been exploring marketplace changes affecting our traditional business model and formulating strategies that will help newspapers capitalize on these trends. Here's what they found:

## RETAIL CONSOLIDATION

Historically, retail has accounted for the largest share of newspaper advertising revenue. But looking forward, traditional retail is expected to shrink as a percentage of total newspaper ad revenue.

Department store sales have been declining 4 percent annually since 2000. Meanwhile, discounters—including mass merchants, supercenters, warehouse clubs and smaller-format dollar stores—have grown 8 percent annually over the same period. Department stores' share of total retail sales has dropped steadily for several years, while discounters' share continues

to climb, reaching 14 percent in 2003 compared with 3 percent for department stores.

Newspapers' share of advertising spending by department stores also decreased significantly, from 71 percent in 2000 to 56 percent in 2003, while spending in television and magazines has grown. Additionally, the percentage of consumers shopping at traditional retail advertisers has significantly decreased, with specialty retailers filling the gap.

Moreover, consolidation within the retail sector—the recent merger of Kmart Corp. and Sears, Roebuck & Co. being just the latest example—is increasingly shifting power to advertisers. In 2002, the top five department store chains accounted for 82 percent of total retail revenues, double their share a decade earlier. When approved later this year, the new Sears Holdings company will be the third-largest retailer in the country.

A similar trend can be seen in the food and grocery category. Ten years ago, the top five supermarkets accounted for about 20 percent of total category revenues; in 2002, the top five supermarkets, which now include Wal-Mart Stores Inc.'s Supercenters, accounted for 43 percent of total grocery revenues.

Traditional newspaper retailers have been losing their market positions to companies that are oriented less to newspapers (see chart, p. 27). As the retail landscape moves to more national and

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regional advertisers, newspapers are increasingly becoming vulnerable to other media that lend themselves more easily to broader geographic buys.

The result has been increased pricing pressures and decreased personal influence with out-of-region decision makers. Additionally, consolidation within the radio, billboard and television industries has improved their positions with increasingly consolidated retailers.

National advertising is emerging as an opportunity for growth. However, the national buying environment has changed, and investment to grow share among newspapers will be needed. Many national advertisers believe they have limited marketing budgets. Marketing decision-makers are therefore being held more accountable for results from advertising investment, while senior management is becoming more involved in the analytics of media effectiveness. National advertising customers and their agencies also are less knowledgeable about local media options.

## CHANGES IN CLASSIFIEDS

Greater consolidation also has led to more sophisticated buyers and users of media. Advertisers are demanding the ability to measure return on investment for their media buys. While newspapers

debate the value of net paid vs. readership, competitors such as direct mail, direct-response cable, satellite television and pay-for-performance Internet offerings are providing advertisers more measured results.

Recruitment, automotive and real estate classified markets are also undergoing significant structural change. In the employment category, online recruitment expenditures exceeded \$1 billion in 2003 and have grown 22 percent annually since 1999, while online share of total recruitment advertising has grown to more than 16 percent.

Almost 95 percent of Global 500 firms have corporate career Web sites, luring prospects directly to their doors. And intermediaries continue to play an important role in employment advertising, particularly in fielding temporary workers to fill temporary shortages and special demands.

The automotive category also is undergoing change.

Compared with large dealerships, small dealers typically spend a greater percentage of their budgets on newspaper advertising. However, the number of franchise dealerships has decreased over the last 10 years. This decline came from dealers selling fewer than 400 vehicles annually; those selling more

increased in number. Large dealers are diversifying ad buys, spending money in outdoor, radio and television.

The Internet appears to be supplementing automotive advertising more than replacing it. Of the different media, the Internet replaced dealers' in-house brochures for the largest percentage of users. In a study of 1,000 recent auto purchasers, six of 10 cited the dealership as an extremely/very useful source of information, while the percentage of purchasers citing the Internet as extremely/very useful nearly doubled, from 24 percent in 1998 to 43 percent in 2002.

As with other categories, the real estate sector is becoming more concentrated. Perhaps more so than any other category, listings are moving online. Brokers and agents are increasingly placing listings across multiple Web sites other than their own. According to a 2003 National Association of Realtors study, real estate agents and the Internet were the two information sources rated as most useful, while yard signs and the Internet were the two vehicles most favored by agents to market homes for sale.

Clearly, consumers are comfortable having their local needs met by providers from outside their markets. Monster and other specialty "national" recruitment sites have shown that they can

**The NAA Board Committee on Industry Development has identified seven recommendations for success, most of which the industry has acknowledged but often been slow to act on. For a more detailed examination of the recommendations for change, see "Building New Business Models" at [www.naa.org/horizon](http://www.naa.org/horizon).**

**1. Embrace "Local" as Our Unique Value Proposition.** Newspapers must understand, exploit and communicate the value of their local brand. Newspapers must invest as though the information they provide is worth a currency as valuable to many consumers as their money: their time.

**2. Make Customer Insight a Competitive Advantage.** Newspapers must aggressively invest in systems and data to know their customers intimately and own the connection to local consumers. A consumer-centric database will allow the newspaper to tailor products and services to advertisers. The promise of targeted advertising and marketing programs can become a reality only by having information on which to bundle different offerings.

**3. Demonstrate and Improve Advertisers' Return on Investment.** It is imperative that newspapers upgrade the credibility and usefulness of advertising metrics to demonstrate the effectiveness of the medium, and they must work with advertisers on how to use newspapers to increase the ROI of their entire spending mix.

**4. Turn the Classified Businesses Upside Down.** Positioning the Internet as the core platform to accept, store, manipulate and disseminate classified advertising should result in more revenue per order, new revenue

streams and significant cost savings, and will enable newspapers to develop better products, compete with new entrants and enhance advertiser satisfaction.

**5. Reinvent Pricing Frameworks and Diversify Revenue Streams.** Competitors have forced newspapers to rethink their pricing capabilities, so newspapers may need to reevaluate pricing structures relative to how they provide value. Newspapers will need to tap into the Internet's direct response capabilities and more effectively deliver consumers to advertisers.

**6. Provide Efficiencies for Readers and Advertisers.** Not only is self-service advertising working for our competitors, but it is also becoming the standard way to operate. At the same time, readers want help making their hectic lives easier. Newspapers should serve an integral role in providing information and services that help consumers make decisions about everyday needs.

**7. Invest in the "Right" People and the Quality of the Organization.** Newspapers cannot remain competitive without a commitment to build organizational capacity and effective people management. Organizational policies may need to be restructured to support and encourage risk taking and innovative idea sharing.

serve local job hunters and advertisers looking to hire locally.

AutoTrader's print materials have fed its national online presence to help buyers find cars in their own neighborhoods, and eBay has created marketplaces across the nation and across town. Craigslist has grown to be the marketplace for apartments, used furniture and jobs, among many other categories, by building on its content and the local proximity of its participants.

**KNOWING YOUR CONSUMERS**

Changes in the demographics of the U.S. consumer are well documented. The middle class has been steadily eroding for 20 years, while affluent and low-income households have increased. According to the U.S. Census, four of 10 consumers by 2010 will be at least 45 years old, and about one-third will be 25 or younger.

The population also is becoming more ethnically diverse. By 2010, the Census forecasts, about one out of every two children will belong to a racial or ethnic group such as Asian and Hispanic. As a result, the market will continue to become more divided (see chart). The need for targeting, therefore, will be driven by continued fragmentation of the country across ethnic, income and behavioral lines.

An ever-growing array of leisure options also is competing for consumers' time. While a greater percentage of consumers watch television and listen to the radio rather than read a newspaper daily, online games and other computer activities are major leisure-time preferences among 18-to-25-year-olds. Among younger consumers, free time tends to be spent on entertainment or social activities.

Fundamental changes in consumers' shopping attitudes and behaviors also have occurred. "Value" has become the new hallmark for consumers, as pragmatic shoppers discover that they can find reasonable quality at "everyday low prices." Moreover, online shopping is expected to continue to grow as broadband access increases.

**RECOMMENDATIONS FOR CHANGE**

In light of these fundamental drivers of change, the challenge for newspapers is to determine how their current product mix, pricing structure, talent levels and

**ILLUSTRATIVE RETAILER CHANGES, CAGR\* 1997-2002**

**Fastest Growing Retailers**

- Whole Foods Market **+87%**
- Dollar Tree **+30%**
- Abercrombie & Fitch **+25%**
- Williams-Sonoma **+20%**
- Wal-Mart **+16%**
- Charming Shoppes **+19%**

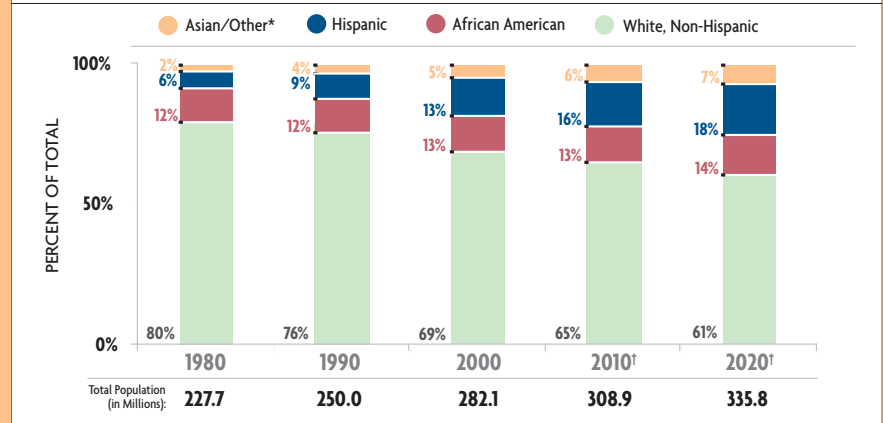
**Slow Growth/Losing Retailers**

- Winn-Dixie **-1%**
- Kmart **-1%**
- Federated Dept. Stores **Flat**
- Sears **Flat**
- May Department Stores **+2%**

\* Compound Annual Growth Rate

Source: National Retail Federation

**U.S. RACIAL/ETHNIC DISTRIBUTION, 1980 TO 2020†**



\* Note: Asian/Other includes Asian American, American Indian, Alaska Native, Hawaiian and other Pacific Islanders.  
 † Estimated  
 Source: U.S. Census Bureau, 2004

technology structures need to evolve.

Newspapers have shown the ability to change their offerings, such as the evolution of subscription packages, addition of color and higher reproduction values, and targeted direct market products. Increased flexibility in preprint delivery, redesign of the print product, and introduction of Web-based and specialty products are further examples.

Newspapers also have made crucial changes to deep-rooted economics and infrastructures, such as new web width on printers, experiments with outsourcing, clustering of properties around centralized operations, and new and upgraded printing facilities.

Additionally, newspapers have several strengths and assets to leverage, including strong local brand awareness, well-established relationships with local advertisers, significant promotional capabilities, high penetration of affluent and well-educated consumers, and broad audience reach with both online and print properties.

Given that multiple drivers of change are altering the traditional newspaper business model, newspapers must reorient their business, redefine their competitive advantage and develop a portfolio of new products and services that will capture new revenue opportunities.

Newspapers are competing in a true paradigm shift. To maintain and grow their market position, newspaper managers must build the business models capable of winning. ■

*For more information on advertiser and consumer trends, and perspectives on the changing newspaper business model, visit [www.naa.org/horizon](http://www.naa.org/horizon).*

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