



Cover Price Hikes: A Strategy To Get Rid Of Proles?

When the Communications Law Centre launched its analysis of newspaper cover prices last April we wondered aloud whether the publishers were cutting their own throats.

Circulation of metropolitan dailies was falling, especially on Monday to Friday, and perhaps the steep increases in prices were driving away readers. The price war among London newspapers, in which a price cut by the *Times* led to massive sales growth, confirmed the nexus between cover prices and circulation.

So why raise Australian prices so regularly and so much more than inflation? New United States data indicates that there may be method in Australian publishers' apparent madness. A study in the latest edition of the *Journal of Media Economics* suggests that 'publishers may be aware of price effects, but they raise prices anyway' (vol 7, no 4).

Researchers William B. Blankenburg and Robert L. Friend studied the effects of business strategies on the circulation of 46 American dailies between 1981 and 1990 and found that 'investment in quality may help circulation but hurt profits, and that aggressive pricing hampers circulation while helping profits'.

Shedding Undesirable Readers

The authors note 'the common assumption that newspapers always strive for maximum circulation because advertising rates are based on circulation, and economies of scale in production invite maximisation'.

However, they say, maximum sales may not mean maximum profits. It might pay to increase cover prices intentionally to drive away certain readers. 'These might be more distant (geographically) or less affluent sub-

scribers; these subscribers do not fit well into the marketing plan anyway. Although circulation would fall, the surviving subscribers could be presented to advertisers as high-quality prospects warranting an increased cost-per-thousand (that is, increased ad rates). In addition reduced circulation means reduced costs.'

'A substantial shift of revenue burdens from advertising to circulation would mean a change in the nature of the newspaper from "mass" to "class", the authors observe.

The study also finds that spending on the news-editorial product was an investment in market share, though detrimental to profits. No relation was detected between promotion expenditures and circulation performance, although that might have been due to weaknesses in the data consulted. Citing four strategies prepared in 1991 by the American Newspaper Publishers Association, the authors note that the most profitable strategy called for sharp increases in circulation prices and a 34 percent drop in penetration by the year 2000.

More Money From Fewer Sales

US findings must be applied warily in the different Australian context, but some startling superficial similarities exist. Australian publishers' rapid and large increases in cover prices match the strategy outlined, particularly as they have maintained the increases in the face of circulation decreases.

The broadsheets, which want to deliver to advertisers a 'reader profile' of wealthier members of society, have generally increased their prices most. Fairfax appears to have increased circulation revenue despite declining circulations; that is, it made more money from selling fewer newspapers. Over

the past seven years, most of the 14 papers which have been closed have been tabloids.

A possible part explanation is simply that Australia's publishers do not fear competition, so can afford to charge higher prices. If people want a paper, they have to pay. Those who can't afford the increases may not be wanted as readers anyway, according to the US study's analysis.

This is a deeply troubling scenario in a market as concentrated as Australia's, since an absence of competition suggests a growing segment of the population may be 'priced out' of the medium that gives a greater depth of coverage than, say, television.

London-style price cutting is impossible in the monopoly markets of Brisbane, Adelaide, Hobart and Perth. And Rupert Murdoch and Conrad Black seem unlikely to transport their UK fight to their duopolies of Sydney and Melbourne, if only because, unlike London, there is no other competition, and so no chance of the consolation prize of wiping out other players before they cease expensive hostilities between themselves.

English Picture

This year's price war among English dailies obscures a longer term picture similar to Australia: steady cover price increases and falling circulation.

The average cover price of a national daily increased 53 percent in real terms between 1970 and 1992, according to *UK Printed Media Review*, an analysis for financial markets by Barclays de Zoete Wedd Research produced in April this year. The average daily price in 1970 was 2.6 pence and in 1992 29.8 pence. The average price for an English Sunday paper increased 14 times over the same period (30 percent in real terms in the 1980s).

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In 1992, total average daily circulation was 14.1 million, the lowest in the 22 year period under review and 10 percent below the peak of 15.6 million in 1988. Average circulation for Sunday papers was 16.2 million in 1992, 30 percent less than in 1970. The UK recession is identified as a major factor in the slump. Price-cutting among quality broadsheets was too recent for the authors to discern its effects in April. However, they cited a 1993 study by ABC/Henley Centre Forecasts which concluded that:

- real price sensitivity of newspaper sales is low - 'cover prices can increase faster than inflation with only a limited loss of circulation';
- price sensitivity is low within a sector (for example, among qualities or among populars but not between those two sectors). However, there is significant sensitivity at the margins to promotions within a sector (for example, buy our paper and win a BMW or a Mercedes or world trip etc);
- 'title loyalty is high and price sensitivity is low - perhaps one fifth the price responsiveness of coffee brands' (that is, for a *Guardian* reader, a far cheaper *Daily Telegraph* is no substitute, and vice versa).

The report includes a table of 'contribution of advertising to total newspaper net revenues 1992' which shows the respective contributions of advertising and cover price:

Title type	Advertising (%)	Cover Price (%)
Popular dailies	32.3	67.7
Popular Sundays	49.8	50.2
Quality dailies	55.4	44.6
Quality Sundays	72.7	27.3

A similar table for the Australian press, also showing how the proportions have fluctuated over the past 10 years, would be particularly instructive and precisely what a PSA inquiry might produce.

The BZW analysis of the UK market is that 'if printed media companies are to grow, it must be in electronic media' and notes with relief that the Major Government began last January a review of the cross-media rules which currently limit newspaper owners to 20 percent of radio and terrestrial TV companies. Rupert Murdoch's recent remarks to *Der Spiegel* magazine that he might back the new UK Labour leader, Tony Blair, may have had more to do with signalling to John Major the potential cost of making the wrong decision on cross-media reform than Mr Murdoch's plans for Mr Blair.

Mr Murdoch's clear implication that his media backs the politicians he chooses may have made the Communications Minister, Michael Lee, recall all those assurances about editorial independence made by News Limited to Lee's parliamentary inquiry into print media in 1991-92. □

Paul Chadwick

At Last: PSA Seeks Inquiry

The Prices Surveillance Authority has formally requested the Federal Government to approve an inquiry into newspaper cover prices. Newly released PSA data supports evidence published in *CU* #101, July 1994, that price increases have far outstripped inflation.

In July, the Assistant Treasurer, George Gear, informed both the Communications Law Centre and the Australian Federation of Consumer Organisations that, while an inquiry may be justified, the PSA had too much work on its plate for him to use his power to order it to inquire (see *CU* 101).

But on 8 August, the *Sydney Morning Herald* reported that the PSA had formally requested the government to let it inquire, so the CLC renewed our request to Gear.

The July edition of the PSA's quarterly *Price Probe* reports: 'Since March 1988, some metropolitan newspapers have doubled in price, while the Consumer Price Index has risen less than 30 percent.'

The PSA research also found that 'advertising volumes declined with slow economic growth in the early 1990s, but increased advertising rates have meant that revenue from advertising is unlikely to have decreased at the same rate.'

The PSA reports 'a significant number of consumer complaints' this year and concludes that it is 'concerned about the trend in newspaper cover prices especially given the increasing concentration of the industry and evidence of improved profitability.'

It has sought comment from the major publishers. We wonder if they will privately tell the PSA more than they have chosen to tell their readers in print about the cover prices issue. □ (Also see page 22)

Paul Chadwick

I used to be a Media Giant - then I lost weight!



MEGAZINE PROPRIETOR