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An enduring success story: The little newspaper that could

Free newspapers, or those charging a modest cover price, may be the way of the future.

Raising a paper's cover price may lead to a loss in the number of readers

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THE textbook on newspaper economics is being re-written in different parts of the world, where – over the past few decades – publishers have challenged conventional wisdom with innovative ideas and bold entrepreneurship. This has often been followed by spectacular success.

One new chapter deals with format, with tabloids taking hold as viable second dailies in many major cities where one newspaper ruled the roost formerly, disproving the old "Natural Monopoly Theory of Newspapers".

Another new chapter is being written on pricing. In Sweden, the Modern Times Group (MTG) had a good idea in 1995 when it decided to start giving its tabloid newspapers away to Stockholm commuters.

This proved so popular that MTG now circulates 8.5 million copies daily in 15 countries, most recently entering the Hong Kong market in 2002.

The publisher wanted to come to Singapore too; and in 1999 was reported to be negotiating with local transit companies. However, its attempt reportedly foundered on its inability, as a foreign owner, to obtain a publishing licence here.

Instead, the free commuter newspaper market was pioneered by MediaCorp, which began publishing TODAY almost as soon as the Government allowed limited competition in 2000 to the Singapore Press Holdings' (SPH) monopoly, followed swiftly by SPH itself publishing *Streats*.

The unfamiliar competition is cutting sharply into the revenues of *The Straits Times*, which has brought not only lamentations from some of its columnists, but also resulted in some curious strategy on the part of SPH.

SPH decided recently to increase its cover prices across the board, including a whopping 20-cent hike for *The Straits Times*.

Not only does this defy all economic logic, but it ignores the lessons of history and could prove nothing less than financially suicidal in a competitive market.

The result of the SPH price hike may be a shake-out in this value-conscious market, with many of its readers refusing to pay more and opting for the free alternative instead. Increased readership for the free newspapers (like TODAY) could then result in a boost in their advertising lineage, leading to a circulation spiral in reverse, this time with *The Straits Times* coming off second best.

From the days of the Penny Press in 1830s New York, the increased demand for newspapers that results from price cuts has been seen far and wide. Mr Rupert Murdoch was able to more than double the circulation of his *Times of London* in the mid-1990s by halving its cover price.

SPH, however, made the fatal error of pricing the short-lived *Project Eyeball* at 80 cents in 2000, leading to its rapid closure given the lack of buyers.

MTG may have the best idea of all, with many seeing free newspapers as the way of the future. Newspapers that do charge a cover price, gain very little of their total revenue – typically only 20-25 per cent – from circulation sales anyway.

Increasing the cover price may lose more circulation revenue than it gains, as many readers may refuse to pay the higher price. Advertising rates vary according to circulation, so a price hike may carry a double whammy.

Yet some media economists doggedly insist, despite all the evidence, that newspapers are "price-inelastic" and that demand will suffer little from an increase in price. It seems we are about to test that theory in Singapore.

Perhaps a monopoly newspaper can set its price at will, but not under competition. This is the classic advantage to consumers of a free market.

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This is what has happened in Malaysia, where the *New Straits Times* has been far surpassed by the tabloid *Star*.

If economics is the "dismal science", then media economics surely qualifies as a dismal guessing game, since so much depends on the whims of consumers and, more importantly, on the wants and needs of advertisers.

Supply and demand in the "marketplace of ideas" are especially dependent on such incalculable factors as credibility and trust.

But market forces can only work their magic if freedom of choice is allowed to prevail.

The Natural Monopoly Theory of Newspapers was repealed decades ago in my country – Canada – but not before it was used as an excuse to stifle competition in many cities across North America.

It was used as a justification for exempting newspapers from competition laws, allowing them to go into business together as Joint Operating Agreements, setting prices jointly and splitting the profits.

In Canada, we were resigning ourselves to the reality of the "one-newspaper town" with the closure in 1980 of second-place newspapers in several major cities, which not even a Royal Commission could remedy.

But soon a chain of splashy *Sun* tabloids started up to fill the competition void; and they caught on like wildfire.

Their smaller size lent itself to a commuter readership; their summary coverage satisfied a busy audience; and their pithy perspective – as opposed to the boring broadsheets – attracted a loyal readership.

More importantly, the younger demographic they appealed to just happened to be one that was untapped by advertisers, and they soon grew fat with advertisements for consumer electronics aimed at an audience with disposable dollars.

The "little newspaper that could" is not only an enduring success story, but it is also now one of the most prosperous newspaper chains in Canada.

As a result of the success of tabloids, the Natural Monopoly Theory of Newspapers has been eclipsed by a new paradigm of market segmentation and product differentiation.

Any publisher with a bright idea that attracts the right readership and who can deliver those eyeballs to advertisers can make money. A small size is no longer a drawback, in corporate structure as in publication format. In fact, it may be an advantage in encouraging innovation and entrepreneurship.

Some major American dailies are even shedding readers deliberately in their quest for a better audience demographic with which to attract advertisers, as the *Los Angeles Times* was criticised for doing recently.

The solution to the media problem in Singapore is not to go back to the old days of a monopoly. Media businesses must be allowed to manage their own affairs, or mismanage them as the case may be. Left alone, market forces will sort things out.

A market approaching four million in population is more than large enough to support at least two newspapers, but neither will be as profitable as a monopoly daily. Get used to it.

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