

Press Support and Company Performance

The Swedish Case

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Newspaper subsidies are a form of state intervention in the economics of competitive markets that provide additional resources or reduce the costs of the industry or specific firms. State intervention includes subsidies, fiscal advantages, and regulatory relief. The mechanisms selected to support the press are nation-specific and produce patterns of intervention reflecting the cultures, political realities, and economic policies of the nations.

This chapter focuses on the financial effects of press subsidies to Swedish newspapers. Descriptions of administrative and decision-making processes of press support in four European nations, including Sweden, were recently made by Murschetz (1997) for a project of the European Institute for the Media. This chapter goes beyond description of the system to focus on the relationship of press support to company economics.

Press support to individual firms affects company economics, allowing firms to use the financial resources to pay expenses or improve their balance sheets. To understand the impact of the support, one needs to consider how it enters and affects the operating statements and balance sheets of firms and the effect it has on the financial performance of the company (Picard, 1995).

Interest in newspaper subsidies began in response to increasing newspaper mortality during the 1960s and 1970s. A number of nations, Sweden included, undertook parliamentary inquiries and conducted policy research as they created new subsidy policies. One of earliest comparative studies of these support mechanisms was made by Anthony Smith (1977) and since that time a number of studies have described and compared national press support policies (Picard, 1985b; Santini, 1990; Holtz-Bacha, 1994; Murschetz, 1997).

Most studies have consisted of mere descriptions of the types of state intervention in nations. Only a few have gone further to seek explanations of patterns and causes. One such study found that patterns of press intervention were related to national economic and industrial policies (Picard, 1985a) and another found that the level or significance of intervention in

newspaper economics differed widely among nations (Picard, 1984). These studies attributed differences among national policies to cultural elements and to economic policies toward industries overall.

Reductions in financial support resulting from economic fluctuations and austerity programs began to significantly reduce the amount of support in Nordic nations during the 1970s (Picard, 1986), and that support and the types of aid continued to decline in the 1980s and 1990s. In Sweden the downward trend in subsidy financing over the past two decades resulted in total subsidies falling from 707 million SKr in 1980 to 514 million SKr in 2000, a decline of about 27% (Weibull, 2002).

A review of the effects of state intervention argued that most types of support simply help pay variable costs rather than fixed costs of newspapers and concluded that aid cannot solve the fundamental economic and market problems of papers (Picard, 1994). If subsidies have little effect on financial situations of newspapers they cannot create long-term sustainability and instead create dependence on the annual handout of subsidies. Subsidies can only support sustainability if they change the financial and market conditions of the recipient. If subsidies are not used to restructure an operation, to expand markets or to acquire cost saving technologies, they cannot solve the difficulties of marginal newspapers (Picard, 1991).

Clear market strategies, improved management practices, and lower cost structures are necessary to improve the conditions of most marginal newspapers. Subsidies can be directed to support such activities (Lichtenberg, 1995).

Two recent studies of Finnish newspaper subsidies, however, have shown that the effects of subsidies do not necessarily serve their stated purposes. Although intended to support diverse viewpoints nationwide, Finnish subsidies have primarily benefited the press of the dominant political parties, have uneven geographic distribution relative to population location, support fewer papers and readers than in the past, and have experienced dramatic increases in cost per circulated copies (Grönlund, Ranniko & Picard, 1999; Picard & Grönlund, 2003).

Part of the difficulties in achieving intended goals with non-selective general subsidies is that they do not change the competitive situation of firms. In fact, if dominant papers in a market also receive the subsidy, it provides an additional revenue stream and gives greater resources that can be put to use to provide advantages against secondary papers in the market.

The literature on the utility of subsidies indicates that state support can be successful in the long run only if it is utilised as more than operating aid to cover losses, if it results in a change in managerial and market strategies, and if it is accompanied by a restructuring of the costs of operations. If used merely to pay operating costs and cover losses, subsidies ultimately lead to resource dependency on the state aid and the firm loses market incentives to improve their product and operations.

The optimal outcomes from the policy standpoint are for subsidies to enhance the condition of papers so that their cost structures and market

situations improve and so that papers make reinvestments that enhance sustainability. Negative outcomes are long-term dependency or overprovision of subsidies that transfer wealth to produce unearned profits.

This chapter examines the role of subsidies in Swedish newspaper economics by combining data on subsidies and newspaper performance. Data for 2001 were obtained from the Swedish Press Subsidy Board's annual report on the economic situation of the press (Presstödsnämnden, 2001) and calculations made to provide further insight into their role in company economics. Karl Erik Gustafsson has been one of the authors of these reports for many years.

Of particular interest in this review are the financial results of firms and the industry with and without the subsidies, comparisons of papers based on their operating results, the ratio of subsidy to self-produced income, and the amount of subsidy per circulation. These indicators provide information about the importance of subsidies to newspapers, whether subsidies support operations or profits, the dependence of firms on subsidies, and results relative to circulation.

Subsidies and Newspaper Economics in Sweden

A general press support system exists in Sweden to provide additional financial resources to economically weak newspapers. The aid is provided to secondary papers in markets with the intent of preserving multiple newspapers in communities to enhance political and social discourse. The subsidies account for about 3 percent of the overall turnover in the Swedish press (Weibull, 2001), but provide a substantial amount of the income for many papers. A small amount of selective special purpose subsidies are available, but these are relatively insignificant to the industry as a whole.

Newspapers in Sweden can be divided into three general categories: non-daily publications appearing 1-2 days per week; daily publications appearing 3-6 times per week; and 7 days per week publications. Newspapers published 6 days per week represent the largest number of papers (40% of the total), followed by papers published 1 day per week (32% of the total).

Because the intent of the study is to examine the financial situations and performance of recipients of the primary support mechanism, this section considers the situations of papers in different publication categories that receive and do not receive general subsidies.

1-2 Days per Week Newspapers with General Subsidies

In the group of 36 papers published 1-2 times a week that received general subsidies, none achieved an operating profit without the subsidy.

However, 17 papers (47.2%) achieved a total operating profit of 4,871,000 SKr with the subsidy, and the average per paper was 296,529 SKr.

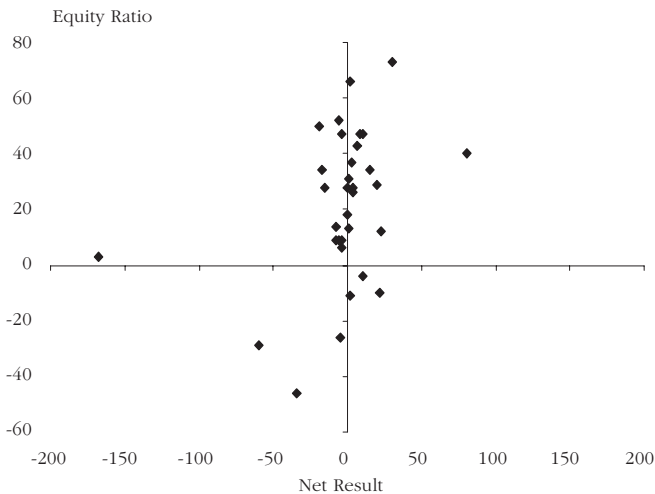
The average ratio of subsidy to other income was .566, with a range from .129 to 2.38. Fourteen of the 36 papers (39%) had ratios exceeding 1, and 3 newspapers had ratios exceeding 2, meaning that the newspapers received twice as much income from subsidies as from readers and advertisers. The subsidy per copy of circulation averaged 503 SKr and ranged from 134 SKr to 1017 SKr.

After financing adjustments, 19 papers (52.8%) achieved net profits totalling 5,102,000 SKr, an average of 268,526 SKr, with the subsidies accounting for 100% of the profit. Although the average paper receiving financing achieved a -3.3% net result, the profitable papers received an average of 12.8% net return.

In this category of papers, then, there has been a transfer of wealth via the subsidies that goes beyond the basic needs for continuing operation of slightly more than half of the recipients.

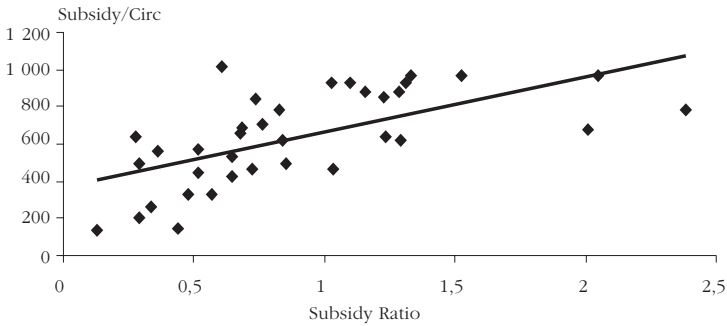
Plotting the papers based on their net margins and equity provides a graphic illustration of their performance and solidity (Figure 1). The most desirable location, of course, is with a positive net result and relatively high equity ratio. The figure illustrates that most 1-2 days per week papers receiving subsidies have positive equity ratios, although about one-third are below desirable solidity levels.¹ Most papers are relatively tightly grouped within or near positive net results and positive equity ratios. About one-third of the papers achieved profits and were financially sound in terms of their equity.

Figure 1. Plot of 1-2 Days per Week Papers Receiving Subsidies by Equity Ratio and Net Results



When the papers are considered in terms of subsidy per circulated copy and the ratio of subsidy to operating income, there is a clear trend that papers receiving higher subsidies per circulation also receive more income from subsidies than operations (Figure 2).

Figure 2. Plot of 1-2 Days per Week Papers Receiving Subsidies by Subsidy per Circulated Copy and Subsidy Ratio



3-6 Days per Week Papers Receiving General Subsidies

Thirteen papers published 3-6 days per week received subsidies. None achieved operating profits without the subsidy but 6 (46.2%) achieved a total operating profit of 8,738,000 SKr with the subsidy, an average of 1,456,333 SKr per paper.

The average subsidy ratio was .273, with a range from .167 to .512. The subsidy per circulated copy averaged 848 SKr, and ranged from 559 SKr to 1318 SKr.

After adjustments for financing costs, none of the subsidised papers achieved net profits without the subsidy, but 7 papers (53.9%) achieved net profits of 12,152,000 SKr, an average of 1,736,000 SKr per paper with the subsidy.

In the category of 3-6 days per week papers, then, there is a transfer of wealth that goes beyond the basic needs to continue operation to more than half the papers.

The financial performance of papers in this category in terms of net result is much more varied than in the 1-2 days per week category, but most have acceptable or excellent solidity (Figure 3).

As in the case of 1-2 days per week papers receiving subsidies, there is a trend of the paper with the highest subsidy per circulated copy receiving a higher proportion of the income from subsidies (Figure 4).

Figure 3. Plot of 3-6 Days per Week Papers Receiving Subsidies by Equity Ratio and Net Results

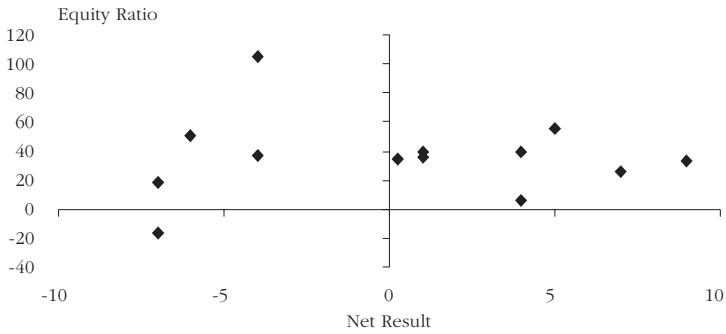
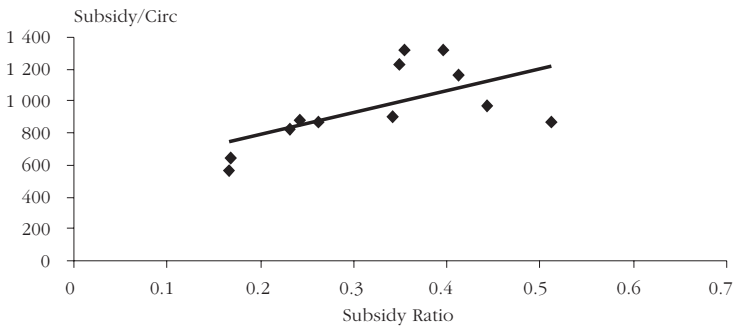


Figure 4. Plot of 3-6 Days per Week Papers Receiving Subsidies by Subsidy per Circulated Copy and Subsidy Ratio



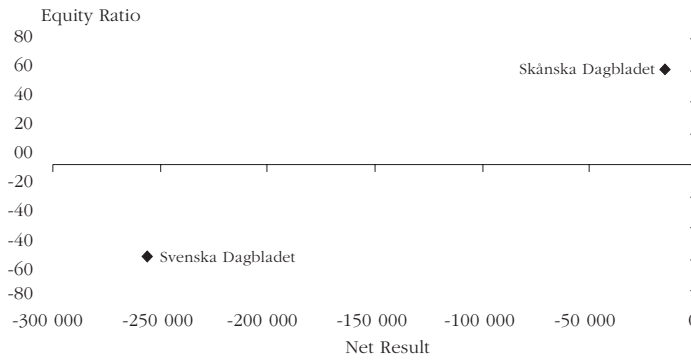
Large City Papers with Subsidies

Two large city newspapers, *Skånska Dagbladet* and *Svenska Dagbladet*, received general subsidies. Both produced operating losses with and without the subsidy included. When financing costs were considered, the two combined produced net losses of 271,115,000 SKr. In these cases there is no transfer of wealth beyond the needs to maintain operation.

The subsidy ratio averaged .158, with *Svenska Dagbladet* having a .098 ratio and *Skånska Dagbladet* a .466 ratio. In terms of subsidy per circulation the average was 871 SKr, with *Svenska Dagbladet* receiving 375 SKr per copy of circulation and *Skånska Dagbladet* receiving 1367 SKr.

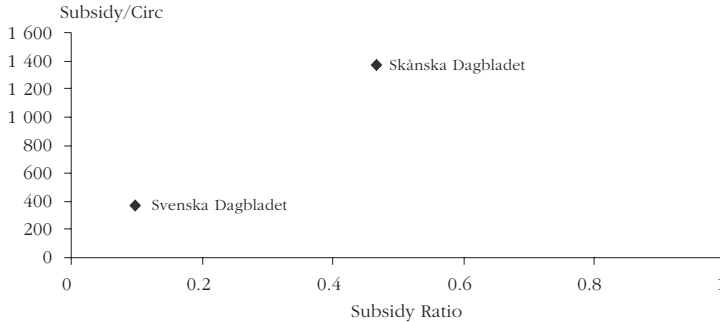
The two papers varied widely in terms of performance equity ratio and net result (Figure 5). *Skånska Dagbladet's* situation was more positive because of its stronger equity ratio and lower losses.

Figure 5. Plot of *Skånska Dagbladet* and *Svenska Dagbladet* by Equity Ratio and Net Results



When the subsidy effects are considered, *Skånska Dagbladet* received more subsidies per circulation and had a higher subsidy ratio than *Svenska Dagbladet*, whose financial condition was poorer.

Figure 6. Plot of *Skånska Dagbladet* and *Svenska Dagbladet* by Subsidy per Circulated Copy and Subsidy Ratio



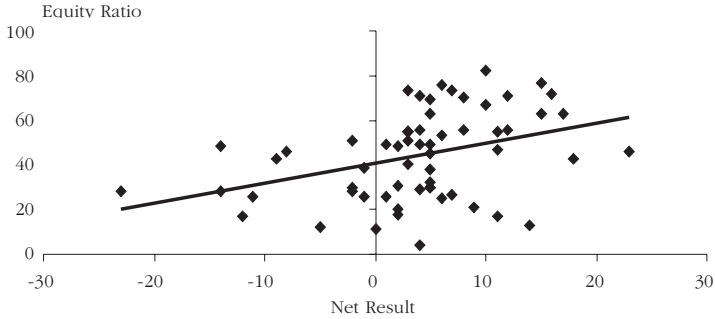
Provincial Papers without General Subsidies

Papers without general subsidies had combined operating results of 218,862,000 SKr and an average of 1,162,000 SKr. Five papers in this category received other subsidies and without those subsidies the results were 132,068,000 SKr.

After adjustments for financing charges these papers had combined net results of 314,231,000 SKr and an average of 2,727,000 SKr. With subsidies the net results were 327,437,000 SKr, an average net return of 5,368,000 SKr.

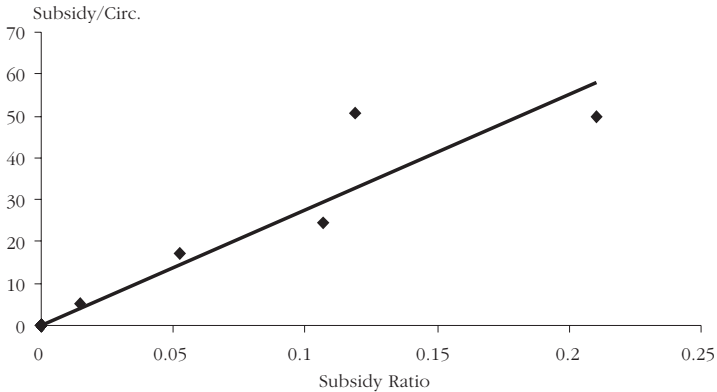
All papers without subsidies had positive equity ratios, although about one-fourth were in weak positions (Figure 7). There was a positive linear relationship between better equity ratio and better net results.

Figure 7. Plot of Provincial Papers without General Subsidies by Equity Ratio and Net Results



A clear upward trend between subsidy per circulation and subsidy ratio was evidenced among the 5 newspapers in this category receiving special subsidies (Figure 8).

Figure 8. Subsidised Papers by Subsidy per Circulated Copy and Subsidy Ratio

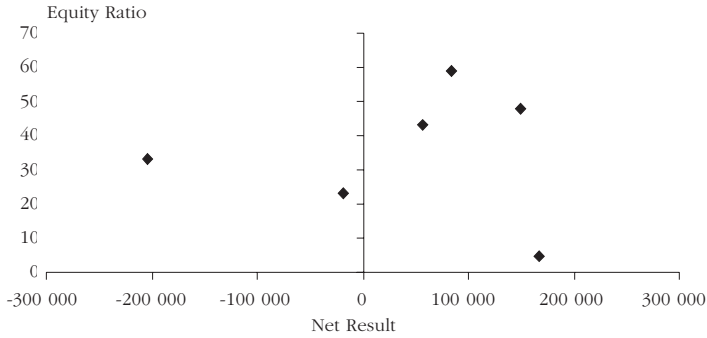


Large City Papers without General Subsidies

Unsubsidised large city papers produced an average operating return of 1,279,788 SKr and an average net result of 39,038 SKr. The average net margin (return) was 5.2%.

The papers all evidenced positive equity ratios but with considerable variation in strength (Figure 10) and out of a total of six, 2 had negative net results for the year.

Figure 9. Plot of Large City Papers without General Subsidies by Equity Ratio and Net Results



Discussion

A comparison of the performance of papers and subsidies by publication frequency immediately raises questions about the effectiveness and equity of the current subsidy methods. About half of all subsidised papers published 6 days per week or less made profits and the contributions of subsidies to revenue and relative circulation are significant (Table 1). In cases in which profits were made, data reported above revealed that the profits are directly attributable to the subsidies in most cases.

Table 1. Summary of Performance of Subsidised Papers and Subsidy Significance by Publication Frequency

	Percent with Operating Profits	Percent with Net Profits	Average Subsidy Ratio	Average Subsidy per Circulation (SKr)
1-2 days	47.2 %	52.8 %	.566	503
3-6 days	46.2 %	53.9 %	.263	848
7 days	0	0	.158	870

Table 1 also illustrates that the greatest impact of subsidies on company economics occurs in smaller papers (shown in the average subsidy ratio) and that the greatest cost-benefit in serving audiences (shown in subsidy per circulation) also occurs among papers published less frequently.

These aggregated data and the data presented earlier by category reveal that the more subsidy received per circulation, the higher the subsidy

ratio. Thus, there is greater dependence on subsidy for income than other sources. Because resource dependence can create significant external controls on organisations (Preffer & Salancik, 2003), the levels exhibited here are problematic. It could be argued that subsidy ratios for papers should be below 1 because subsidies should not exceed performance in the market and that, ideally, the ratios should be much lower, perhaps around .5. These levels are achieved in the aggregated average data shown in Table 1, but exceed by many individual papers.

The amount of subsidy per circulation can also be compared to subscription price to provide a comparative base for their contributions to company economics. Subscription prices are set by publishers based on their estimation of the price that the market will bear. Readers' willingness to pay the price is a function of their estimation of the importance of the paper to their lives, their economic situations, and available substitutes.

Subscriptions to national 7-day papers average about 2,400 SKr annually. Subscriptions to 6-days per week papers average about 1,500. Papers in the 3-5 days per week category have annual subscription prices around 1,000 SKr, and 1-2 days per week papers charge about 400 SKr.

Comparing subscription price to subsidy, it becomes evident that readers provide more income than subsidies in the categories of daily newspapers, but that the state is willing to pay more for 1-2 days per week papers than readers. This type of high resource dependence on subsidies can create difficulties because managers have little reason to pay attention to the market, to the quality of their publications, or to improving managerial practices.

Table 2. Subscription Prices and Subsidies Compared

	Average Subscription Price(SKr)	Average Subsidy per Circulation (SKr)	Subsidy as Percent of Subscription Price
1-2 days	400	503	126%
3-6 days	1,000	848	89%
7 days	2,400/1,500	870	36.3% /58%

In order to obtain a clearer picture of the effects of circulation and subsidies, the author calculated newspaper circulation income for individual papers (which is not reported in reports from the press subsidy board) in the various categories and compared them to performance in terms of subsidy ratio for those papers.

In order to establish circulation income figures, the author used data from World Press Trends (2002) which reports that circulation income averages 42% of local Swedish newspapers' income. The operating income of the individual papers was multiplied by the 42% income average to produce income estimates. These results were then calculated against the subsidy ratio (Table 3).

The results show that 83% of 1-2 days per week newspapers received more money from subsidies than circulation². This is a conservative figure because the 42% average circulation income level is high for papers in this category.

Among 3-6 days per week papers, 23% received more money from subsidies than from circulation.

Table 3. Percentages of Papers by Subsidy Ratios

	Subsidy Ratio				
	< .5	.5-.99	1.0-1.99	2.0-2.99	3.0>
1-2 days per week newspapers	3 %	14 %	39 %	22 %	22 %
3-6 days per week newspapers	15 %	62 %	23 %	0 %	0 %

In terms of overall performance of newspapers it is clear that subsidised papers are receiving more money than necessary, an excess of about 17.3 million Skr in 2001 (Table 4).

Table 4. Financial Performance of Papers and Excess Subsidisation

	Subsidised Papers (1-6 days)	Unsubsidised Papers ¹ (1-6 days)	Subsidised Papers (Large City Papers)	Unsubsidised Papers (Large City Papers)
Operating Results				
Combined Op Result without Subsidy (SKr)	-271 598 000	218 862 000	-373 942	7 678 728
Average Op Result without subsidy (SKr)	-563 000	1 162 000	-186 971	1 279 788
Combined Op Result with subsidy (SKr)	-11 105 000	232 068 000	-248 806	-
Average Op result with Subsidy (SKr)	-226 000	3 806 000	-124 403	-
Percent of Papers with Operating Losses Receiving Subsidies	100 %	26.2 %	100 %	-
Net Result				
Combined Net Result without Subsidy (SKr)	-264 524	314 231 000	-396 251	234 226
Average net result without subsidy (SKR)	-5 398	2 727 000	-198 126	39 038
Combined net result with subsidy (SKr)	-4,032	327 437 000	-271 115	-
Average net result with subsidy (SKr)	-82	5 368 000	-135 558	-
Percent of Papers with Net Losses	51 %	23 %	100 %	33 %
Excess Subsidy				
Subsidy amount as operating profit (excess) (SKr)	9 225 000	-	0	-
Subsidy amount as net profit (excess) (SKr)	17 254 000	-	0	-

These measures of performance and reports on the economic performance of the industry from the press subsidy board add self-produced operating revenues with subsidies and then subtract operating expenses to produce the operating result. This accounting practice indicates that the state views the subsidies as operating aid, a form of assistance that is generally prohibited by the European Commission competition regulations.

If general and other subsidies are indeed operating aid, they present serious policy questions that need to be addressed because of the conflict with competition policy. Although operating aid may be desirable to achieve beneficial aims, it is generally forbidden. The problem is not merely speculative because even public broadcasters across Europe were challenged for receiving operating aid and a special protocol had to be agreed by member states to permit its continuance.

Because so many of the subsidised papers produced profits, one is faced with financial and philosophical considerations. If the profits are reinvested as capital expenditures or to reduce debt and thus improve the overall condition of the publishing company, such profits might be philosophically justifiable. If they are used to pay dividends to shareholders, to pay bonuses to managers, or to purchase new Volvos for the publishers, this transfer of wealth can hardly be justified philosophically or in market terms. The press subsidy board does not report what happens to profits produced, so it is impossible to determine just what has happened with the excess wealth produced by the use of public funds.

Regular receipt of subsidies can create a culture of losses in which dependency is created, the needs of the audience are ignored, and inefficiency is subsidised. The mere presence and relatively easy availability of subsidies creates demand for them because accepting aid is easier than engaging in practices that can improve one's ability to serve readers. Subsidies can thus underscore the validity of Say's Law, which states that supply creates demand (Say, 1971).

There is another question that must be raised about subsidies and their political purposes. Clearly there is a rationale for creating mechanisms for political discourse and access to that discourse. One has to wonder, however, why taxpayers should pay for papers if members of the community or members of political parties affiliated with papers don't think them valuable enough to subscribe to or pay a good portion of their costs. In such cases, the subsidies would seem to be financing the form of communication – the newspaper – rather than the function of having diverse views reach members of the public. Perhaps it might be more useful to subsidise dissemination of viewpoints through media that receive significant attention and use by the public.

Notes

1. A solidity level below 20 is generally considered poor and above 35 is considered good.
2. This is seen in the number of papers with a subsidy ratio above 1.0
3. Those not receiving general subsidies, some of whom receive special selective subsidies.

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