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# Strategic Responses to Free Distribution Daily Newspapers

by Robert G. Picard,

Turku School of Economics and Business Administration, Finland

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The traditional business model of the daily newspaper is being challenged by an increasing number of free daily newspapers worldwide. The traditional model relies on the circulation sales and advertising revenue streams and an extensive circulation system to homes and newstands (Picard & Brody, 1998). The free distribution papers have rejected this model and created one that relies only on advertising income and establishes free distribution in and around metropolitan public transportation systems.

After the successful establishment of Metro in Stockholm beginning in 1995, publishers across the globe have begun launching such free newspapers. They have appeared in cities ranging from London to Santiago, Montréal to Singapore, and Boston to Athens. Free dailies bring new competition to existing markets and have cost advantages because of their distribution methods (Competitiveness of the European Union Publishing Industries, 2000).

The appearance of free dailies has caused considerable concern among publishers of paid circulation daily newspapers, who fear the new dailies will further erode their circulation and undermine their advertising base. Those concerns are not without basis because the fact that free papers are surviving in the face of significant opposition from existing daily newspapers reveals that they are serving a need of readers and advertisers that has not been met by traditional newspapers.

This article explores issues surrounding the appearance of free daily newspapers, the markets they serve and functions they play, their competitive positions, and strategies that publishers of traditional daily newspapers can employ regarding these new dailies.

## Issues of Newspaper Definitions

The appearance of unpaid daily newspapers has created turmoil surrounding the definition of a newspaper because there is no single industrywide or international agreement on definitional elements within the scope of the term "newspaper." How unpaid papers such as Metro are defined is important because they affect their market categorisation, whether they are perceived as competing for certain advertisers, and whether they are provided governmental and private organisational advantages and standing.

Government-established definitions have been created for a variety of legal and governmental decision making purposes. In the United States, for example, an agreed-upon definition for legal purposes defines a newspaper as "a publication, usually in sheet form, intended for general circulation, and published regularly at short intervals, containing intelligence of current events and news of general interest" (4 Op. Attys. Gen. 10 and Black's Law Dictionary).

National and international statistics offices and tax authorities create and use definitions to divide and report in-

dustry, economic, financial, and other developments. The European Community has established production statistics categories for economic data gathering, including the NACE general industrial classification. The relevant category for newspapers does not directly define newspapers except to separate them from books, journals, and advertising materials. The EC PRODCOM industrial classifications are more specific but the relevant categories for newspapers make no distinction between free and paid newspapers but divides statistics into a category for papers, journals and periodicals appearing more than four times per week, a category for other newspapers and periodicals, and a category for advertising materials (Eurostat, PRODCOM and NACE Rev. 1 nomenclatures).

Newspaper definitions have also been established by statute or postal agencies to determine what publications are eligible for reduced postal rates available to newspapers. In France, for example, the newspaper definition used for eligibility for reduced postal rate distribution requires that the paper be of general interest, be published regularly, be distributed free of charge or carry a marked price, include at least one-third editorial content, and not be in the form of a brochure or catalogue (Santini, 1990). United States Postal Service definition of a newspaper includes criteria that the publication is published at regularly stated intervals, that editorial content averages at least 25 percent of the total content, and that more than 50 percent the publication's circulation is paid (Public Law 233, 65 Stat. 672).

Parliaments and other legal bodies have established definitions for regulation, subsidy, or tax purposes. These are typically based on political needs and decisions. In Austria, the definition of a newspaper for eligibility for general press subsidies includes dailies and weeklies published at least 50

times a year (later changed to 41 times), be based on paid circulation, employ at least 2 full-time journalists, and provide political, social, general, or cultural information (Bundesgesetz vom 2. Juli 1975 über die Förderung der Presse und Bundesgesetz vom 2. Juli 1975 über die Aufgaben, Finanzierung, und Wahlwerbung politischer Parteien. Wein). In the Netherlands, the definition used the government established Press Loan Fund (Bedrijfsfonds voor de Pers) defines newspaper eligibility by stipulating they must contain a substantial amount of news, analysis, commentary and background information about varying matters of topical interest, they must appear regularly and at least monthly and they must be available to the general public for a remuneration.

Private definitions have been established by non-government organisations in the newspaper industry to serve a variety of special purposes. These definitions are used to determine what types of publications or companies may seek membership in a private association or federation. For example, some organisations have requirements such as members be daily newspapers or non-daily newspapers. Even such definitions vary widely. Some define daily newspapers as appearing more than 3 times per week, 5 times per week, or 7 days per week. Some associations represent only daily newspapers, whereas others include non-dailies. Some include only paid circulation newspapers and others include free newspapers. The World Association of Newspapers, based in Paris, for example uses the categories “dailies,” “nondailies”, and “free papers” (World Press Trends, 2000). The European Newspaper Publishers Association defines daily newspapers as its interest area and that of its national association-based members (www.enpa.be).

Circulation audit definitions were created for advertisers seeking reliable and accurate data about the size of au-

diences of newspapers. The most important definition used in audits of newspapers that are sold is paid circulation. This definition recognises that all newspapers have both free or unpaid circulation and copies that are unsold or sold at discounts. Audit organisations regulate the amount of discounts that can be offered without the circulation being counted as unpaid circulation. The Audit Bureau of Circulations (ABC) and its related organisations worldwide have promoted this concept of paid circulation.

Some auditing organisations also audit the distribution of unpaid newspapers. These organisations ensure that the number of copies that are reportedly distributed actually reach audiences. Among the most active of these are the Verified Audit Circulation Corp. in the United States (www.verifiedaudit.com), the Canadian Community Newspapers Association through its verified audit programme (www.ccna.ca/vcaudit/#about), and the Audit Bureau of Circulations (ABC) in the United Kingdom, which verifies both paid circulation and free circulation newspapers (www.abc.org/uk). ABC provides free newspapers and other printed materials verified free distribution auditing certification.

Based on the various types of definitional elements, newspapers of the Metro type are accurately defined as free distribution daily newspapers. Depending upon governmental and private definitions in specific nations, they may or may not be eligible for various support, benefits or memberships. Regardless, they present themselves in newspaper form, define themselves as newspapers, are perceived by large numbers of readers and advertisers as newspapers, and are regarded as substitutes by traditional newspaper managers. As a result, it is necessary for newspaper managers to understand them as newspaper competitors and to employ strategic responses to their appearance.

## Markets and Functions Served by Free Dailies

Like their counterparts in the paid circulation market, free dailies also participate in a dual product market. They market content to audiences and then market access to those audiences to advertisers (For discussions of the dual product nature of newspapers, see Picard, 1989, and Albarran, 1996). The only real difference between free and paid dailies occurs in the content market where consumers exchange their time and attention but not money for the content. Despite that difference, the competition for time and attention alone makes it a market and places free dailies within dual markets.

To gain readers' time, free dailies must meet the needs of those readers. They do so by serving two important audience needs. First, they help a large number of people fill time while commuting to work and other activities. Second, they answer audience needs for basic information about what is happening in the world around them. Free dailies are also doing so without costing their readers anything but time, a generally wasted resource while sitting in underground cars and in trams and busses.

Similarly, free dailies are serving advertisers' needs for a mass audience that is declining in size in most media, including paid dailies, as well as for a captive audience that may give greater time and attention to advertising messages. They are generally providing this access to audiences at an attractive price.

If one considers the audience of free dailies, one finds that the target audience differs from that of paid dailies. The potential audience of newspapers includes the literate population in a market but there are three important subgroups of that potential audience (Figure 1). First, there are habitual read-

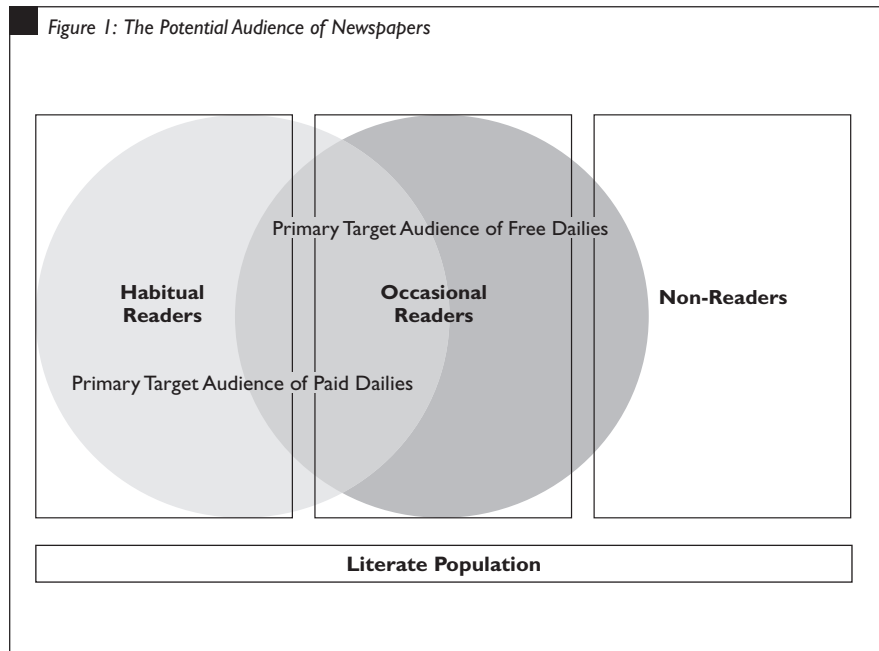
ers. These are the core readers who regularly read newspapers and wish a regular flow of information to understand the world around them and to make decisions. Second, there are occasional readers who want information and diversion but are less committed to devoting time or money to newspapers. Finally, there are those who can read but don't. They have never acquired the habit and believe that newspapers are not interesting enough to spend time or money on.

Paid dailies have traditionally targeted habitual readers as their primary market and then sought to pick up more circulation among less committed or occasional readers. Free dailies are primarily targeting the occasional reader and some habitual and non-readers.

To attract these readers, free dailies create an editorial profile based on short stories designed for quick reading. They rely on news agencies for the bulk of their content and seek only to provide an overview of national and international news. They typically place heavy emphasis on local entertainment, television, and sports. Locally produced articles are highly limited and tend not to focus on public life.

The primary advertisers for free dailies differ from those of their paid counterparts as well. Advertisers in free dailies generally do not include large retailers. Advertisers in free dailies tend to be clubs and theatres, small trendy retailers, and music and video stores. These advertisers are more similar to those found in alternative news weeklies or city magazines than to those in paid dailies. Free dailies also tend to carry little or no classified advertising and, when classifieds are published, they are typically limited to relationship or personal services advertising.

Because of these differences in the audience and advertising markets, free and paid dailies do not operate com-



pletely in the same markets but serve different segments of the markets.

As a result, the market effects of free dailies have not been dramatic on paid dailies. Nevertheless there have been some effects and these have differed depending upon the location.

The best estimates of paid circulation losses attributed to free dailies have been less than 2 percent range in most markets. The losses have occurred in the category of less committed readers who have typically been responsible for the bulk of churn in subscriptions and single copy sales.

In London, where Associated Newspapers publishes Metro as well as the Evening Standard and Daily Mail, the management says the losses have been minimal and Metro is used to promote sales of the paid dailies. "We sell the Evening Standard in Metro and even offer money off coupons for the next day's Daily Mail," says Associated Newspapers Managing Director Mike Anderson (Free Newspapers: Threat or Opportunity, 2000, p. 14). Metro is especially useful in driving readers to the weekend editions of the papers because Metro is published only on weekdays.

This difference in publication schedule means that although paid and free papers compete to some degree on weekdays, they do not compete on weekends and can be used to lead those who do not purchase weekday papers into purchasing weekend papers, including Sunday newspapers with large, lucrative advertising lineage and sections.

On the advertising side, the best estimates of advertising losses to free dailies are less than 1 percent. The loss has been low because the primary advertisers in free dailies are significantly different from the primary advertisers in paid dailies.

Transportation factors are partly responsible for the different effects in free daily markets. These occur because the types of persons who use public transportation differ across markets, because the locations and number of stops of public transportation differ, because the average length of commute varies, and because the opportunities for in-station or in-car distribution differ.

It must be noted, however, that public transportation distribution is not a requirement for free daily development.

Although public transport provides the advantage of centralised public gathering points for distribution and time for reading, free dailies are appearing with other kinds of distribution points and methods as well. The important factor is that they reach a large number of persons with limited distribution costs.

### The Strategic Position of Free Dailies and Options for Paid Dailies

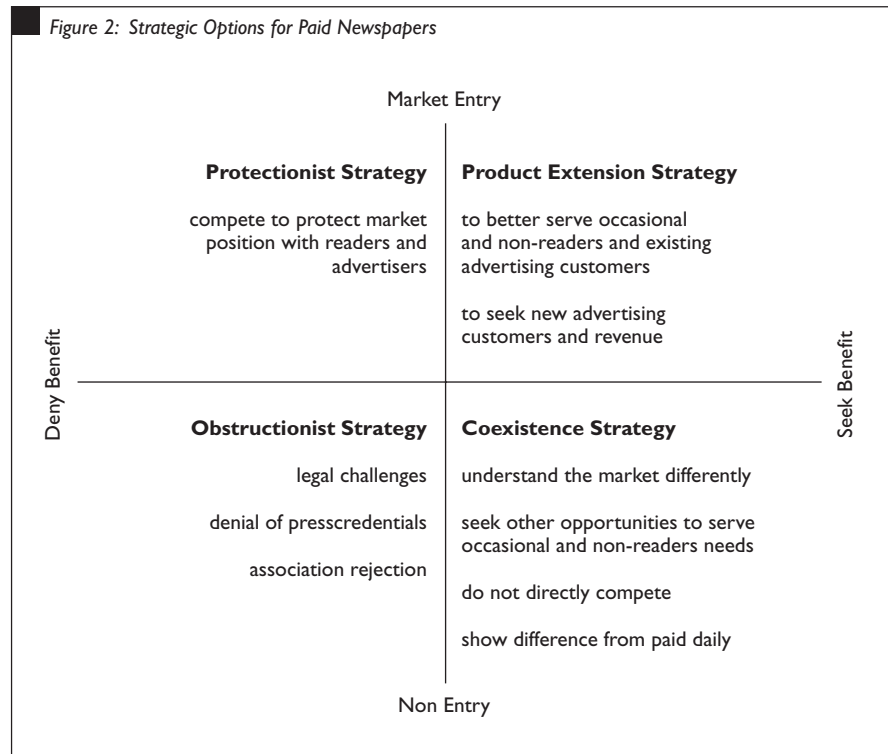
The appearance and apparent success of free dailies requires managers of paid newspapers to give them attention and to deliberately fashion a strategic response in markets where they now exist or can potentially appear.

Use of the SWOT (Strength-Weakness-Opportunity-Threat) approach is helpful in analysing free and paid dailies and their characteristics and beginning the process of strategic review (see Figure 2).

The strengths of free dailies include their easy acquisition, the fact that readers do not have to pay money for them, their quick readability, their captive audiences, and the fact that their advertising is more effective than most transportation advertising. They suffer weaknesses by having little original content, limited local news, and limited distribution.

Free dailies present opportunities to regularly reach occasional readers, to change non-readers into readers, and to create new advertising sales. They face threats from paid dailies that may respond with their own free products and from digital broadcasting that is beginning to appear in public transportation systems.

By comparison, strengths of paid dailies include their regular audience, their reputations, their local coverage strength, their analysis and comment on public events, and their position as



the primary outlet for retail and classified advertising. Their weaknesses are that they require monetary expenditure and are harder to read. Paid dailies have opportunities to increase their own audiences as occasional readers and non-readers become regular readers of free dailies and they have the opportunity to use their existing publishing structures to support a free daily of their own. They, of course, face threats in the loss of readership among occasional paid readers, the potential loss of advertising in the paid newspaper, and from their own complacency.

If one considers the factors identified in these SWOT approaches, one is presented with some strategic options as a publisher of a paid daily. Paid daily publishers can strategically respond to the free daily phenomenon or the appearance of a free daily in their markets in several ways.

They must decide whether they have an interest in entering the free daily market or staying out of it. Simultaneously they decide whether to seek benefit from the appearance of the market or to deny benefits to competitors.

These choices push paid daily newspapers toward certain strategies. If the paid daily chooses not to enter the free daily market and wishes to deny benefits to those who are publishing or may publish a free paper, they essentially engage in an obstructionist strategy designed to make life difficult for or punish the free paper or its staff. This type of strategy is not a particularly useful competitive response because it rarely changes the market dynamics or forces the competitor out of the market.

Paid papers and newspaper associations have launched court battles in Europe, Latin America, and North America in the pursuit of this strategy. Court cases brought by paid dailies have challenged the new papers for offences ranging from using the term "newspaper" to littering. In other cases, government agencies controlling transportation facilities have been sued for providing access to the facilities and for making advertising or content contracts with the free papers. I do not wish to focus our attention on the merits of the individual cases, but from the business perspective these legal

challenges are tactical rather than strategic responses to the competitive threat posed by free distribution papers. The challenges do nothing to position paid dailies to better serve audiences or advertisers and do not counter the entry of these new publications.

Similarly, free papers have been challenged in some nations by refusal to allow them to join newspaper publishers associations and blocking their participation in newspaper advertising networks. In other cases their staffs have been blocked from joining press clubs, or efforts have been made to limit their ability to acquire press credentials. Again, these challenges do nothing to improve the competitive position of traditional paid daily newspapers.

If a paid newspaper's management chooses not to enter the free daily market, however, it can still seek to benefit from the market with a coexistence strategy. This strategy recognises that the free dailies have shown that there are still information and advertising needs that are unmet in the community. It seeks to find new ways to serve them with the paid product or other types of content-driven products that it offers or new products that can be offered in the market. The strategy includes efforts to differentiate the paid paper for the unpaid paper that can be helpful in clarifying its editorial and advertising profiles and approaches.

The third and fourth approaches involve establishing a competing free daily newspaper product. But they differ in the attitudes behind the management and the way in which they are offered. In the protectionist strategy a free daily is established not for direct benefit but only to keep out potential entrants or to counter a free paper that has appeared. A more positive approach can be designed to benefit the firm in the previously unseen or unserved reader and advertising market.

## Conclusions

The appearance of free dailies requires that paid newspapers respond to the change the free papers have created in the market or to risk becoming victims of that change.

But the need to respond does not exist merely where a free daily appears. Even in other markets it means that traditional publishers and editors need to think about the roles that free dailies are serving. Free dailies have shown that there is an unfilled market for news and opportunities for traditional publishers and journalists to provide news and information differently, and that there are new ways to benefit from the market.

The choice of which of the four strategic options presented here should be pursued by an individual daily newspaper will be influenced by a variety of local market conditions and internal organisational and operational factors. Some more universal conditions under which the strategies are best employed can be suggested, however.

The obstructionist strategy is at best a short-term strategy designed to gain time for the management of the daily paper to consider the implications of the sudden appearance of such a paper and then to determine what type of response will be formulated. Where efforts to use this strategy have been made, it has rarely had the effect of stopping publication or distribution of the free daily. As a result, the costs of legal and other policy challenges must be measured realistically against the gains that can potentially be achieved. Such a strategy is probably best used only when the distribution arrangements for the free daily force a halt to or restrict current sales and distribution arrangements for paid dailies.

The coexistence, no-response strategy, is a reasonable choice where the potential market for the free daily is rela-

tively small and limited or the new free paper primarily reaches readers who do not currently read the paid daily. It may also be appropriate for a newspaper that does not already produce secondary printed products such as advertising sheets distributed to homes or does not produce non-daily newspapers for small communities or neighbourhoods of the city of publication. In such cases, creating a competing free daily may require organisational development and growth that will not produce sufficient gains in relation to the costs of competing.

The protectionist strategy of market entry is a short- to mid-term response to the appearance of a free daily. It exists primarily to make advertisers unsure of which paper to select and to induce a significant portion to choose the free partner of the paid daily because of previously established relationships or brand advantages. This strategy might be employed if the competitor is perceived to have financial weaknesses that limit the length of time it can operate without profitability. It is reasonably employed by a paid daily with an organisational structure for producing additional products as an immediate, short-term response to the potential appearance or sudden appearance of a free daily in its market.

The product extension strategy is best employed in situations where the paid competitor has already launched a free daily as an immediate response to the appearance of a competitor. In such situations, the company can then take time to use the advantages of its knowledge of the market, audiences and advertisers, its editorial resources, and its production and distribution capabilities to create a superior product designed to remain in the market whether or not there is a free daily competitor. It is also an appropriate strategic consideration in markets where there no free daily but launching one may bring sufficient advertis-

ing income from new advertisers and additional expenditures from existing newspaper advertisers to make it a financially attractive choice.

Whatever the strategic choice, paid daily newspapers must continually emphasise and improve on their strengths in news, context, and analysis. This is the key feature that free dailies and other media are unable to effectively provide and the factor that makes paid dailies indispensable for those who have active interests in social, economic, and political life.

The situation with free dailies today is similar to the situation when free sheets and total market coverage papers created a stir in the industry two decades ago. These upstart firms began creating new audiences and advertising opportunities that threatened the position of paid dailies.

Once again traditional daily newspapers have to decide whether all they want to do is to kill or block the competitor, or whether there are benefits in participating in the market that they had not seen or had ignored in the past.

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## About the Author

**Robert G. Picard** ([robert.picard@tukkk.fi](mailto:robert.picard@tukkk.fi)) is professor and manager of the Media Group, Turku School of Economics and Business Administration. His work focuses on competitive dynamics, financial structures and performance, and managerial economics of media firms. He was founding editor of the *Journal of Media Economics* and is the author of 12 books on media issues.