SHIFTS IN NEWSPAPER ADVERTISING EXPENDITURES AND THEIR IMPLICATIONS FOR THE FUTURE OF NEWSPAPERS

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For much of the 20th century newspaper advertising expenditures experienced strong and regular growth and a close link between that advertising spending and gross domestic product (GDP) was observable. Using a US dataset from 1950 to 2005, this paper explores advertising growth trends, the extent to which the relationship between GDP and newspaper advertising expenditures is being maintained, and changes in expenditures in different categories (retail, classified, and national) to determine whether and how the long-term trends are shifting. The author finds that the relationship between GDP and expenditures is weakening, that growth is not keeping pace with inflation, and that there is greater volatility in advertising than seen in the past. The author concludes that trends indicate the advertising expenditures will plateau and decline in the future, denying newspapers revenue growth that is critically needed for sustainability.

KEYWORDS advertising; business models; newspapers; trends

Introduction

From a business model rather than journalistic standpoint, the primary function of the newspaper is an advertising delivery system. Advertising accounts for about two-thirds of the content and 75–85 percent of income for the average newspaper in the United States and similar situations are found in many European nations. The operations of contemporary newspapers are completely dependent upon the resources provided by this advertising base and changes to the income stream affect choices about employment, work processes, and costs throughout newspapers.

This study uses a US dataset because no comparable long-term European-wide dataset is available. Its findings, however, will be relevant to European publishers because the basic advertising trends are similar on the two continents and advertising buying choices and decision-making are based on comparable factors. In general, commercial trends in the newspaper industry tend to lag slightly behind in Europe—absent recession or other economic factors—so the commercial developments in the United States serve as a bellwether.

It is important, however, to understand a structural difference in the US newspaper industry. Newspaper industries worldwide differ in that they are primarily based on national, regional, or local structures. The US structure is local, that is, most circulation results from papers tied to local municipalities spread across the nation. By comparison, the United Kingdom has a national structure with most circulation accounted for by London-based papers and Germany has a regional structure with the largest circulation based in large regional papers operated from the largest metropolitan areas. These structural elements are significant because they influence where and how advertising is...
sold and the types of advertisers that use newspapers. Thus one must be aware of structural differences when interpreting newspaper trends.

The link between newspaper advertising and gross domestic product (GDP) has long been established (Jones, 1985; Picard, 2001; Shaver and Shaver, 2005; Swerdlow and Blessios, 1993) and advertising expenditures fluctuate with the economy because newspaper advertising is primarily retail advertising and classified advertising. Sales of those who purchase retail advertising (department stores, furniture stores, etc.) and classified (especially employment, automobile, and real estate advertising) are affected by economic changes and they adjust their advertising spending accordingly (Hooley and Lynch, 1985; Schmalensee, 1972). The relationship between advertising and GDP is found globally as well as in nations with well-developed economies. Chang and Chan-Olmsted (2005) found a positive relationship between the two indicators in 70 markets from 1991 to 2001, Picard (2001) found the relationship in six of nine major economies in North America, Europe, and Asia, and Shaver and Shaver (2005) found it to exist in six of eight nations studied in the 1990s.

We are all well aware that the newspaper industry is in the midst of a transformation. For most of the second half of the 20th century the newspaper industry was a stable, comfortable and highly profitable industry and it was incredibly profitable during the second half of the century because of the growth of the economy and heavy growth in advertising expenditures. In 2000, US newspapers were receiving two and a half times more advertising dollars in real terms than they received at mid-century (Picard, 2002). Profit margins averaged in the high teens and most large newspaper companies had profit margins exceeding 20 percent during the last decades of the century.

During the second half of the century, however, more and more media began to appear and audiences began facing multiple choices among their newspaper and television stations, radio stations, magazines, weekly and alternative newspapers, Internet and other types of content offerings. The availability of more media led many readers to choose other forms of media for their informational needs. This trend is seen in the fact that in 1950, 356 persons out of 1000 in the United States received a newspaper but only 198 did so in 2000. These changes also affected advertising rates, reducing the annual average increases for advertising rates as the end of the century approached.

The development of the Internet and its advertising abilities, particularly those as a substitute for newspaper classified advertising, added more pressures on newspapers and raised concern about if and when its effects would lead to the demise of newspapers (Picard, 2003; Price, 2006; World Association of Newspapers, 2002, 2005).

The environmental changes became especially significant in the early 21st century as advertisers began to reconsider the whole of their advertising spending patterns. Growing concerns over the effectiveness of all advertising expenditures came to a head with the economic downturn and recession in newspaper advertising from 2001 to 2003. When that recession ended, advertisers did not return to their previous pattern of spending across media.

Although trends in some categories of newspaper advertising are still relatively positive, the classified advertising category is declining and threatened because it is more effective on the Internet than in print. This is particularly problematic for newspapers because it has been the primary category of advertising sales growth for the past decade and a half.
Today, the newspaper industry is a mature industry with little growth potential and facing the potential for decline so managers are becoming increasingly vigorous in marketing and sales efforts as they try to maintain circulation to maintain their current income. The lack of growth in the industry is critical. Growth in sales and revenue are a basic indicator of the health of an industry and its firms. The problems of growth in the newspaper industry have created a “capital crisis” that is leading to strong pressures and ownership changes throughout the US newspaper industry (Picard, 2006). This is occurring because if firms are not able to grow over time, they stagnate, become less interesting to investors, lose resources for product development and reinvestment, and ultimately decline.

Thus trends and developments regarding advertising sales are the primary indicator of the future financing of the newspaper industry and the focus of this paper.

Methods and Results

Data on GDP were acquired from the national economic accounts data of the US Department of Commerce, Bureau of Economic Analysis (2007) and data on newspaper advertising were compiled from governmental statistical data maintained by the Department of Commerce and the Newspaper Association of America.

Share of Advertising

As the number of media choices rose and newspaper reading declined in the 20th century, advertisers began increasing advertising expenditures in other media. The result is that the newspaper share of total advertising expenditures has declined by about one-third since 1970 (Figure 1).

The primary beneficiaries of the changing expenditure patterns over time have been television and direct mail, with the Internet making significant gains in the past decade (Figure 2).

The clear shift in advertising expenditures away from newspapers over time has attracted the attention of many observers, but the trend must be considered with care. If newspapers’ share of expenditures declined while total advertising expenditures were

![FIGURE 1](image_url)

Newspaper share of total US advertising expenditures (%)
stable or declining, the result would be less income for newspapers. However, if the share declined but total expenditures increased, newspapers would receive more income despite the declining share.

**Advertising Expenditures**

From 1950 to 2005 gross domestic product in the United States grew from $293.8 billion to $12,445.8 billion dollars, as a result of the remarkable economic growth that made the United States the world’s leading economy in the second half of the 20th century (Figure 3). The growth was fueled by the creation of a unified single national market, by the development of finished goods, by investments in physical and human capital, by population growth, by the development of large firms and managerial capitalism, and by technological change (Chandler, 1977; Heilbronner and Singer, 1998; Lipsey et al., 2005). Other Western nations grew dramatically as well in the 20th century,
but many Western European nations first had to recover from the devastating effects of damage from the Second World War and their individual market sizes were well below that of the United States.

The large prolonged scale of growth in GDP shown in Figure 3 was, of course, interrupted by upswings and downturns in the economy which appear if annual change in GDP is considered (Figure 4). Prolonged downturns that meet the definitions of recessions occurred approximately every 11 years with particularly significant recessions beginning in 1950, 1955, 1960 and 1980.

**General Trends in Newspaper Advertising**

During the 55-year period total US newspaper advertising grew from $2 billion to $47.4 billion (Figure 5). Its growth pattern was long and sustained until the recessions of 1990 and 2001.
As with GDP, the large overall growth was affected by upswings and downturns in the economy which are clear when annual change is considered (Figure 6). Particularly notable downward changes are seen in the 1955, 1960, 1990 and 2001 recessions.

Newspapers’ advertising expenditures typically rose higher than GDP growth in good times and fell further than GDP declines during recessions and downturns in the economy across the 55-year period (Figure 7).

This pattern of similar growth and decline is clear until the 2001 recession when—for the first time in 50 years—growth in newspapers’ advertising expenditures after a recession did not exceed growth in the GDP. Viewed over a shorter time period, the fact that advertising did not recover after the 2001 recession as it had in the past becomes very clear (Figure 8).

*Trends in Categories of Newspaper Advertising*

Newspaper advertisers are not all alike, of course, and are driven by somewhat different needs and motives. In the United States, they are grouped in three major...
categories, retail, classified, and national, and data on expenditures for those categories are maintained. Retail advertising is display advertising from retailers in local markets; classified advertising includes local business advertisers such as those offering jobs, houses, and automobiles through ads in the classified section, as well as individual non-business advertisers selling household goods, animals, etc. National advertisers are large nationwide companies that purchase advertising simultaneously in newspapers across the country. In the United States, approximately 85 percent of advertising comes from local advertisers or from large national firms advertising in a local newspaper to support the shops and service firms they have in the local municipalities.

Retail advertising has grown regularly since mid-20th century (Figure 9), but major disruptions during the recessions in the early 1990s and first years of the 21st century are evident.

Changes in newspaper retail advertising expenditures have generally followed the trend for change in GDP (Figure 10), but began diverging and underperforming about 20 years ago.
Classified advertising expenditures grew overall in the second half of the 20th century (Figure 11), but were badly affected by the recession in the 1990s and the recession and growth of Internet advertising in the early years of the 21st century.

Classified advertising change follows the general trends of GDP (Figure 12) but with much more volatility rising and dropping at a greater pace than the general economy, primarily because of classified advertising for employment, automobile, and housing are more affected by economic changes than advertisers in the retail category.

National advertising expenditures have also shown regular growth but were significantly affected in the early 20th century (Figure 13).

The rate of change of national advertising compared to GDP shows it is particularly susceptible to downturns in the economy (Figure 14). However, it is less volatile than that for classified advertising (Figure 12) but more so than retail advertising (Figure 10).

When considered as a group, the changing contributions of the three major categories are evident (Figure 15). Retail advertising today accounts for about half the advertising income and its contribution to the total is increasing. Classified advertising

FIGURE 10
Change in GDP and change in newspaper retail advertising expenditures

FIGURE 11
Newspaper classified advertising expenditures (millions, current dollars)
FIGURE 12
Change in GDP and change in newspaper classified advertising expenditures

FIGURE 13
Newspaper national advertising expenditures (millions, current dollars)

FIGURE 14
Change in GDP and change in newspaper national advertising expenditures
accounts for about 30 percent, but its contribution is declining after being a driver of growth for the past three decades. National advertising’s contribution is also increasing.

Advertising Growth and Inflation

Growth of advertising over time is, of course, affected by inflation. Nevertheless, when adjusted to constant currency the real growth across the 55-year period is evident—particularly after the 1970s—and advertising is still growing (Figure 16).

Although growth is continuing, the strength of that growth has changed, as shown in Figure 17. Since 2000, growth of advertising has exceeded the inflation rate only once, indicating that inflation has eaten away the gains made in those years.

Summary of Trends

Although it is clear that the economy and newspaper advertising expenditures remain linked, the relationship is changing. Table 1 shows the correlation between newspaper advertising expenditures and GDP in different time frames. As the time period

**FIGURE 15**
Contributions of advertising categories to overall advertising revenue

**FIGURE 16**
Newspaper advertising expenditures (millions, constant dollars), 2000 index
is moved closer to the contemporary time, the relationship between expenditures and GDP diminishes, with an especially dramatic breakdown in the relationship between classified advertising and GDP (which also accounts for most of the less dramatic breakdown in total newspaper advertising expenditures and GDP).

Overall, the shifts in newspaper advertising trends can be summed up as:

1. The relationship between GDP and newspaper advertising is weakening somewhat, particularly for classifieds.
2. Growth of newspaper advertising overall is not now keeping pace with inflation.
3. There is greater volatility in rates of change with a few peaks upward and deepening downward thrusts.
4. Retail advertising trends remains relatively healthy.
5. Classified advertising trends are problematic, but are slightly better in the last couple of years because of joint sales with Internet classifieds. The heavy downward thrusts when GDP declines are particularly worrisome.
6. National advertising growth is relatively positive, but greater volatility exists than in the past.

Implications for the Future of Newspapers

The trends in advertising are not as bad as some in the industry have feared, nor are they good enough to ignore or feel great confidence in the future financing that advertising will provide newspapers.

TABLE 1
Correlations between newspaper advertising expenditures and GDP by years

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<tr>
<td>Newspaper advertising and GDP</td>
<td>0.982827</td>
<td>0.947443</td>
<td>0.78308</td>
</tr>
<tr>
<td>Retail advertising and GDP</td>
<td>0.971009</td>
<td>0.973506</td>
<td>0.927363</td>
</tr>
<tr>
<td>Classified advertising and GDP</td>
<td>0.975353</td>
<td>0.862909</td>
<td>0.298424</td>
</tr>
<tr>
<td>National advertising and GDP</td>
<td>0.991307</td>
<td>0.961623</td>
<td>0.931986</td>
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The trends indicate that basic retail display advertising will remain a pillar of newspapers’ income for some years to come, but that one cannot expect it to grow significantly beyond rates of inflation in the future if current trends hold. National advertising expenditures are less stable, but can be expected to be maintained as well for some time. The classified advertising category is highly problematic and decline can be expected in the years to come, unless newspapers are able to stem the flow of classified advertising expenditures to the Internet.

Overall, the trends indicate the advertising expenditures will plateau and decline in the future, denying newspapers revenue growth that is critically needed for sustainability. This pattern of newspaper history thus seems to be following a basic industry life cycle pattern (Figure 18), but by comparison to other industries it has had an unusually long life cycle.

Although the shifts in newspaper advertising are removing the unusually high profitability of the industry, they are not yet dooming it to demise or altering the basic structural element of the local newspaper markets in the United States. The changes, however, would seem to be moving the industry back to a period in which the newspaper industry was less financially interesting to investors who were primarily interested in profits and asset growth.

REFERENCES


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