Newspapers will band together, consolidating to fend off rising external competition from the internet.

The Newspaper Publishing industry is in a dying phase of its life cycle as escalating competition from other forms of media, particularly web-based outlets, limits its market. The industry is adapting by developing websites and platforms that make newspapers more accessible across digital devices. It is also combining its content with other forms of online media to give consumers instant access across print, video and audio formats. Yet because consumers favor the real-time reporting capabilities of online news outlets, including social networking platforms like Twitter, competition is escalating. As publishers continue to lose readers and advertisers to other media, revenue is expected to decline 6.9% in 2013.

The continued decline in revenue will inevitably force more newspaper publishers to close shop, while others consolidate to sustain profitability. For example, at least three papers published by the Morris Publishing Group outsourced production since March 2012. These papers included the Topeka Capital-Journal in Kansas, The Log Cabin Democrat in Arkansas, and the Atlanta Journal-Constitution in Georgia.

What is driving consolidation?

External competition
With a growing number of ways for advertisers to market their products, the amount of competition against the Newspaper Publishing industry is escalating. The most direct competition is from internet-only periodicals, which have lower production and distribution costs, and from other websites, magazines and books. These media contain the most similar content and also present advertising opportunities. External competition is expected to increase over 2013, posing a potential threat to the industry.

Print advertising expenditure
While the economy has returned to slow growth and business resources that were traditionally used on print advertising...
rebounded, less newspaper advertising space is available because print newspaper subscriptions have not recovered. Lower subscriptions also make newspaper ads less desirable to advertisers seeking to maximize their audience. Print advertising expenditure is expected to shrink in 2013, and an annualized 3.8% decline is projected during the next five years.

**World price of wood pulp**

Wood pulp is the major input into paper, and the Newspaper industry relies on paper for production. Although its reliance on paper has been diminishing as readers transition to digital media, changes in the price of paper still affect publishers, with higher prices increasing costs. The world price of wood pulp is expected to increase over 2013.

**Digital and regional movement**

**Investing in technology**

Newspaper publishers are moving most of their content to digital platforms to maximize its value, publish news in real-time and retain tech-savvy readers. To slow the exodus of advertisers, newspaper publishers are incorporating online subscriptions and bundles into readership statistics that advertisers use to judge a newspaper’s demographic. Also, publishers are establishing themselves on mobile platforms to make newspapers more accessible to readers. While newspapers are becoming more accessible, they will be unable to retain the same amount of advertising revenue as the number of online news sources grows.

**Regional ownership**

Companies are increasingly concentrating businesses in specific markets to maximize synergies among publications, thereby saving money and attracting larger advertising clients. Steps in this strategy often include shutting down inefficient printing presses, printing editions less frequently and operating a single editorial team across several newspapers. In late 2012, for example, Gannet’s Oregon-based newspaper unit stated it would shutter a plant by consolidating the operations of two rival newspapers to cut costs.

**Papers changing hands**

Given the industry’s trying times, there have been a number of prominent mergers and acquisitions over the past five years. Major company Gannett Company Inc. has been particularly busy, while investment mogul Warren Buffett has filled his plate with small newspaper acquisitions. Meanwhile, small community newspapers across the United States are consolidating, hoping to achieve economies of scale by cutting overhead costs.

Gannett, which generates about 10.6% of the Newspaper Publishing industry’s revenue, has made numerous investments in digital technologies over the past five years. In August 2012, the company bought a
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leading Facebook ad-buying platform called Blinq. In 2008, Gannett made a number of investments, including purchasing ShopLocal and ownership stakes in Tribune Company and The McClatchy Company, and acquiring a higher stake in CareerBuilder. In 2009, the company purchased a minority interest in HomeFinder, an online marketplace that eases communication among real estate buyers, sellers and professionals. Gannett is also a participant in QuadrantONE, a joint venture with other major newspaper publishers that allows advertisers access to multiple newspapers at once, facilitating their spending on advertising across markets using complex targeting and analytics. All of these investments have centered on the internet and the company’s expansion from physical newspaper publishing to digital media.

Several major acquisitions in the industry have been made by a single investor: Warren Buffett. In February 2013, Buffett acquired the News & Record as well as Tulsa World. He bought 63 local US newspapers for $142 million in one week in May 2012. Two months prior to this, he disclosed that he owned about $2.1 million worth of Lee Enterprises, a local news company with 48 daily newspapers and nearly 300 specialty publications in 23 states. And in November 2011, he acquired the Omaha World-Herald for $200 million.

Small community papers are also consolidating as companies refocus in niche markets. For example, the owners of Texas’ second-oldest daily newspaper, the Victoria Advocate, acquired two daily and 12 weekly newspapers in Texas in May 2012, and AIM Media Texas LLC bought seven local newspapers from Freedom Communications, a larger conglomerate of about 100 publications. Freedom Communications has sold two other newspapers to local companies in 2012, further increasing the convergence of regional ownership of local papers.

**Risk rises in line with costs**

Overall risk in the Newspaper Publishing industry is forecast to be high in 2013, with a score of 6.18 out of 9. Growth risk in particular is expected to be very high over the next five years. IBISWorld estimates that industry revenue will decline 6.9% to $31.5 billion in 2013, which is slower than the 7.5% annualized decline from 2008 to 2013. The primary negative factors affecting this industry are the world price of wood pulp, its declining life cycle stage and a 2.3% annualized decline in print advertising spending since 2008. Steep revenue declines and easy data-sharing methods have

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<th>Industry risk score breakdown*</th>
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<tbody>
<tr>
<td>Risk component</td>
<td>Weight</td>
<td>Score</td>
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<tr>
<td>Structural risk</td>
<td>25%</td>
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<tr>
<td>Growth risk</td>
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<td>8.61</td>
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<tr>
<td>Sensitivity risk</td>
<td>50%</td>
<td>5.40</td>
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<tr>
<td>Overall risk</td>
<td></td>
<td>6.18</td>
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*To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (structural risk), expected future performance (growth risk) and economic forces (sensitivity risk). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.
caused many newspaper publishers to syndicate a larger part of their content. Syndication has allowed companies to restructure, resulting in significant layoffs over the past five years. During this time, staff numbers have decreased at an average annual rate of 7.8% to an estimated 214,033 employees in the five years to 2013.

Nonetheless, cost-cutting measures did not fully counteract shrinking revenue, resulting in tightly squeezed profit margins. Profit, or earnings before interest and taxes, is anticipated to decline from 6.2% of industry revenue in 2008 to just 2.5% in 2013. Profit is projected to stagnate in dollar terms and increase to 8.6% of revenue over the five years to 2018 as high corporate profit helps sustain the number of professional subscriptions to newspapers.

Revenue and companies continue falling

Competition with other websites will prevent publishers from charging print-level prices for online platforms, which newspaper publishers are currently investing in to counteract print declines. Consequently, industry revenue is projected to continue falling at an average annual rate of 3.7% to $26.1 billion over the five years to 2018.

Newspaper publishing will become increasingly concentrated. As newspapers continue to fold, the remaining publishers will experience an influx of readers and advertisers. Additional consolidation is anticipated to occur during the next five years, with the number of businesses in the industry declining at an annualized rate of 4.5% to 2,646 companies by 2018.
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