

On the profitability of European newspaper publishing

Tom Björkroth & Mikko Grönlund

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Fordham University, Lincoln Center Campus, New York, USA



Turun yliopisto
University of Turku

Outline of the presentation

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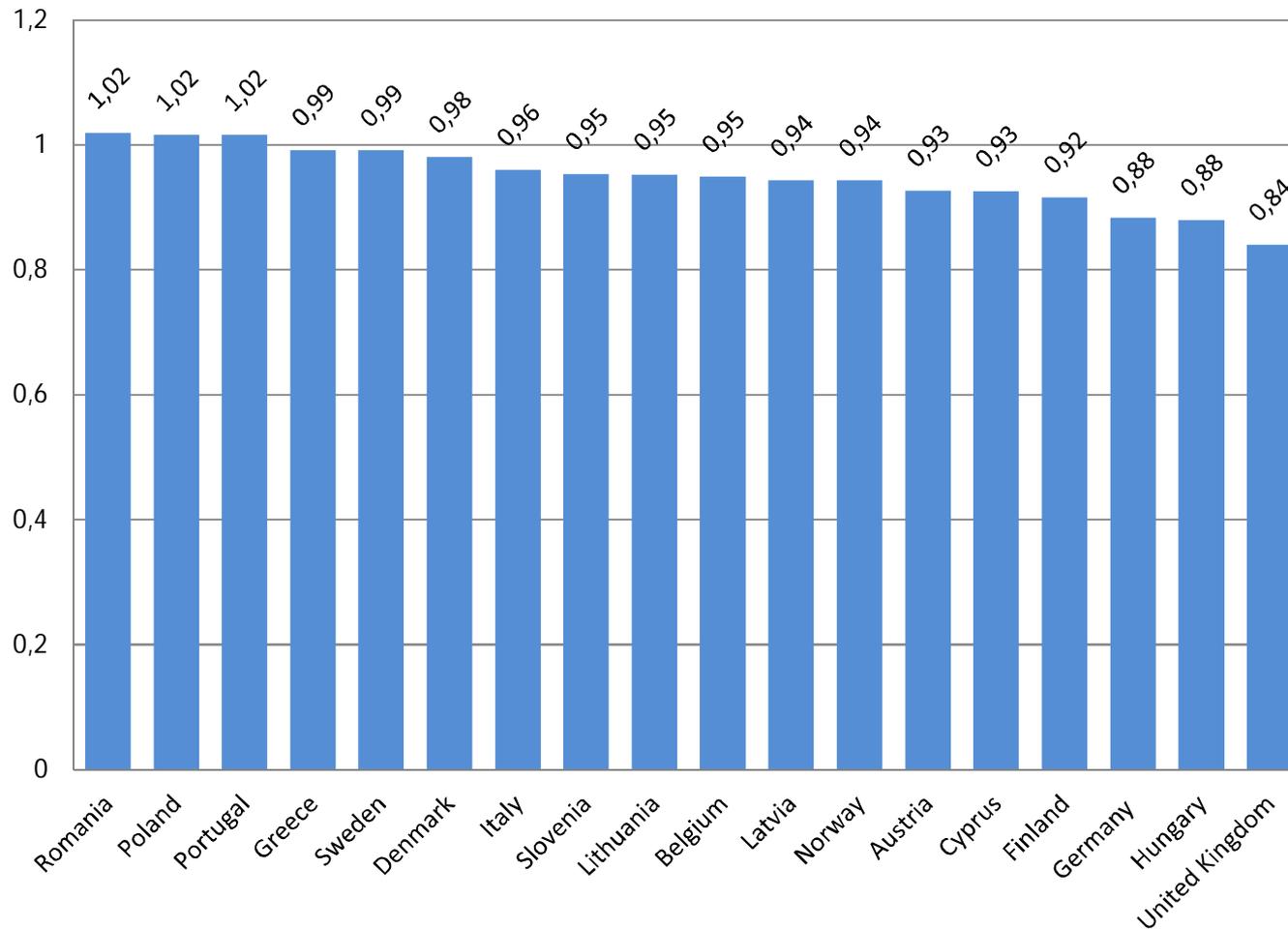
1. Aim of the paper

- Explore the differences in the development of profitability of newspaper publishing in twelve European countries
- To find out to what extent this can be explained by relevant background variables
- Are there observable differences between countries?

2. Background and observations

- Newspaper publishing industry in Europe is undergoing transition and is confronted with serious challenges
 - Economic recession(s)
 - Changing reading habits
 - Growth of online
 - Increasing concentration
 - Competition
- Countries and regions differ
- Challenging to maintain profitability

2. Overview of the data: Average variable costs to turnover in newspaper publishing, 2003-2012



TVC=Total variable costs

Source: Eurostat

2. Overview of the data: Preliminary observations

- We use data from 12 countries, which covers the years 2006-2013.
- The countries could be classified according to the trend in profitability
- Two groups could be identified:

Profitability has
decreased over time

Finland
Germany
Hungary
Lithuania
Poland
Portugal
United Kingdom

No trend in (short run)
profitability

Belgium
Denmark
Romania
Sweden
Norway

3. On the method: Model and estimation

	Variable	Measure	Notation	Exp effect on a) coefficient b) profitability	
Dependent variable	Profitability, Competitiveness	Costs of inputs relative to turnover	$1-p_{it}$ (or PR)		
Determinants	Industry or market specific	Market structure	Number of titles of daily paid-for newspapers	DPTITLES	a) Positive b) (Negative)
		Market size	Circulation	CIRC	a) Negative b) (Positive)
		The role of newspapers as advertising channel	The share of newspapers of total media advertising	ADSHARE	a) Negative b) (Positive)
	Macroeconomic	Income level	GDP/Capita	Y	a) Negative b) (Positive)
		Share of advertising of GDP	Advertising expenditures of GDP	ADVGD	a) Negative b) (Positive)
		Internet access	% of households with Internet access	INTERNET	a) Positive b) (Negative)

3. On the method: Choice of model

- Compared with a random effects model, the addition of fixed effects resulted in that the sum of squared errors declined from 0.2249 to 0.1031.
- The F-test on whether the fixed effect model is preferable to a random effects model yielded the value $F(11.76) = 8.16$ and confirmed that the fixed effects model improves the performance of the model. This is seen in the substantial improvement of the R^2 from 0.53 to 0.79-0.82.

4. Results

Variable	Estimate	t-ratio	Standardized coefficient
DPTITLES	0.4578E-02	3.39	5.7455
CIRC	-0.5407E-08	-2.31	-0.7281
ADSHARE	0.5442E-01	0.41	0.099
ADVGP	-0.7194E-02	-0.14	-0.0194
INTERNET	0.2704E-02	4.02	0.7011
Y			
Belgium	0.6439	6.07	
Denmark	0.6025	5.10	
Finland	0.4886	3.69	
Germany	-0.8366	-1.76	
Hungary	0.6104	7.11	
Lithuania	0.7574	10.48	
Norway	0.3675	2.38	
Poland	0.7192	8.24	
Portugal	0.8317	13.29	
Romania	0.6662	6.79	
Sweden	0.3964	2.48	
United Kingdom	0.3452	2.23	
R ²	0.8155		
SSE	0.0889		

■ = Increase in independent variable reduces profitability
■ = Increase in independent variable increases profitability

Standardized coefficient gives most weight to "Number of titles of daily paid-for newspapers"

With DPTITLES representing intra-media competition, we get the (standard) result that increased competition reduces profitability.
 Increase in Internet uptake seems to reduce profitability.
 Positive correlation between circulation and profitability

5. Conclusions and discussion

- In a majority of the countries studied, the ratio of input costs to turnover has increased, indicating increasing challenges for the maintenance of profitability
- The increased availability of ICT seems to increase with the income level, but taken in isolation it seems fair to infer that it adds to the challenges of the traditional newspaper publishing industry to maintain its profitability.
- However, with all other things being equal, the increase (decrease) in the number of paid-for titles seems to decrease (increase) profitability.
- A more nuanced analysis should consider the firm structure and individual characteristics of each national market in more detail.