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**Newspaper vs. Online Advertising - Is There a Niche for  
Newspapers in Modern Advertising Markets?**

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## Newspaper vs. Online Advertising – Is There a Niche for Newspapers in Modern Advertising Markets?#

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**Abstract:** Newspapers have been experiencing declining circulation figures and advertising revenues for several years. Declining advertising figures, in particular, pose a threat to newspapers – this is especially severe in the U.S. where 73 per cent of newspapers' revenues are generated through advertising. Many companies have expanded their advertising expenditures to online. Consequently, there are concerns about online advertising substituting newspaper advertising – much the same as has long been feared with regard to readership. Both possible effects might pose a threat to the continuing existence of (print) newspapers. However, though the internet – compared to newspapers – offers a variety of advantages for advertising companies, substitution tendencies cannot be generalized. In particular, we argue that newspaper advertising offers great benefits for the retailing industry. Thus, we believe that retail advertising offers a niche for regional and local newspapers that can be expected to represent a sustainable segment of complementarity within the otherwise predominantly substitutional advertising markets. The paper substantiates this argument by applying the economic theory of advertising – specifically the differentiation between persuasive/complementary and informative advertising. The latter presents the reason for retailers to continue advertising in newspapers. We conclude that no complete substitution between newspaper and online advertising can be expected to take place in the foreseeable future.

**Keywords:** media economics, advertising, competition, complementation, substitution, online

**JEL-Code:** L82, A20, L13, M21

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## Table of Contents

I. Introduction .....	4
II. Literature Review .....	5
III. Online and Newspaper Advertising Markets .....	7
3.1 The Economics of Advertising .....	7
3.2 Competition between Online and Newspaper Advertising Markets.....	9
IV. A Market Niche for Regional/Local Newspapers.....	13
4.1 Newspapers' Attractiveness for Informative Advertising.....	13
4.2 Industry-specific Patterns – Retail Advertising as the Market Niche for Newspapers .....	17
V. Conclusion and Outlook.....	20
References .....	21

## I. Introduction

Newspapers have been experiencing declining circulation figures and diminishing advertising revenues for several years. The recent recession has further exacerbated this effect. In the U.S., in particular, declining advertising figures pose a threat to newspapers in that 73 per cent of their revenues are generated through advertising while only 27 per cent result from individual copy sales, subscriptions and other revenues (PEW 2011a, online).<sup>1</sup> Many companies worldwide have expanded their advertising expenditure towards online. They take advantage of several benefits offered by online advertising – e.g. multimedia-based presentation opportunities, better targeting possibilities and the improved assessment of Return on Investment. Consequently, there are concerns about online advertising substituting newspaper advertising – as has been feared for many years regarding readership. Both possible effects could threaten the continued existence of (print) newspapers. However, though the internet offers a variety of advantages for advertising companies, substitution tendencies cannot be generalized. This paper argues that newspaper advertising offers great benefits for the retailing industry. Consequently, retail advertising offers a niche for newspapers that can be expected to represent a sustainable segment of complementarity within the otherwise predominantly substitutional advertising markets. The paper substantiates this argument by applying the economic theory of advertising and, in particular, the differentiation between persuasive/complementary and informative advertising. The latter provides the reason for retailers to continue advertising in newspapers. Thus, we conclude that no complete substitution between newspaper and online advertising can be expected to take place on the advertising side in the foreseeable future.

The paper proceeds as follows: chapter 2 gives a brief literature review and highlights our contribution to the research field. In order to substantiate our arguments presented in chapter 4, chapter 3 introduces the different forms of advertising within the economic theory of advertising. Furthermore, a brief overview of the

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<sup>1</sup> By contrast, German newspapers generate more revenues from sales than from advertising. Advertising accounts for only 41 per cent of total newspaper revenues – 51 per cent result from sales revenues and 8 per cent from external inserts revenues (Pasquay 2010: 24).

competition between online and newspaper advertising markets is given before chapter 4 discusses our argument why in particular retail advertising will stay attractive in newspapers. Chapter 5 subsequently concludes.

## II. Literature Review

Media that are fully or partly financed by advertising revenues face a two-sided market situation (Anderson & Gabszewicz 2006; Budzinski & Lindstädt 2010; Dewenter 2003, 2006; Dewenter & Haucap 2009; Evans 2010; Lindstädt 2010). They sell their product to two distinct customer groups: audience (e.g. readers) and advertisers. Between these two groups of customers, indirect network effects exist. A larger participation of the customer group 'audience' increases the benefits of the customer group 'advertisers' as their ads reach a larger audience.<sup>2</sup> This basic situation is identical for offline media – in our case (print) newspapers – and online media (internet). Concerning the question of substitution tendencies between newspapers and the internet, the majority of research has so far been conducted on the audience side.<sup>3</sup> However, as mentioned earlier, in terms of revenue the advertising side in some countries is more important for publishing houses.

Literature analyzing the advertising market side includes Silk et al. (2001) who present an early empirical study of substitution tendencies between offline media advertising and online media advertising, highlighting the at that time emerging impact of the internet as an advertising medium. In two more recent papers, Pérez-Latre (2007, 2009) discuss the implications of the 'paradigm shift' in advertising towards online media both for advertisers and media companies. Further, in his empirical paper, Zentner (2010) estimates how overall advertising expenditures as well as expenditures for different media types changed in the course of the emergence of the internet (1998-2008; sample of 87 countries). He finds that the emergence of the internet has negatively affected advertising expenditures for offline media while, at the same time, total advertising expenditures have not increased.

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<sup>2</sup> The indirect network effect from advertisement to readers or the audiences is more complex (see Anderson & Gabszewicz 2006; Dewenter 2003, 2006).

<sup>3</sup> For research papers dealing with substitution tendencies on the user side see for example Chyi & Lasorsa (2002); De Waal & Schoenbach (2010); Flavián & Gurrea (2007a, 2007b); Gentzkow (2007); George (2008); Kaye & Johnson (2003); Muir (2009); Okazaki & Romero (2010).

Thus, he finds a clear substitution effect. Bergemann & Bonatti (2010) present a model of offline-online media competition for advertisers, finding a substitution of offline by online media due to the superior targeting ability of online media. In the same vein but with different models, Ratliff & Rubinfeld (2010) also arrive at an increasing substitution and discuss the implications for antitrust market definition. With the same focus, Goldfarb & Tucker (2011c) summarize two related empirical studies (Goldfarb & Tucker 2011a, 2011b) and find that online and offline advertising are increasingly substitutes. While this group of literature provides important insights on offline-online advertising substitution, it differs from our research because it does not focus specifically on newspapers. Newspapers are discussed among and along with several other types of media – if at all – neglecting, thereby, the specific effects of online pressure on print newspapers advertising.

Three papers from media science, by contrast, explicitly discuss substitution tendencies between advertising revenues of (print) newspapers and their online competitors. Spurgeon (2003) empirically analyses the erosion of classified ads for newspapers due to internet competition in the Australian market. For the U.S. markets Ahlers (2006) finds that the internet is an imperfect substitute for newspapers on the advertising side (and a complement on the readers' market side). Although not exclusively, he also highlights classified ads as Berte & De Bens (2008) do in their comparable analysis of the Belgium market. Seamans & Zhu (2010) present an empirical and economic study of changing pricing strategies regarding classified ads in U.S. local newspapers in the face of the market entry by Craigslist (a website hosting classified ads), finding substitution tendencies. Different from the other studies in this branch of literature, Seamans & Zhu (2010) use the two-sided markets framework for their analysis. Although this literature does focus on newspaper versus online advertising, it differs from our research because it does not take into account industry-specific patterns and effects on the advertisers' side. We argue that substitution tendencies depend, among other things, on the industries that advertise in newspapers or competing online media.

Such types of industry-specific effects are discussed in the empirical papers by Swain & Sorce (2008) and Sorce (2008). The first paper is based upon a survey

among leading U.S. national advertisers, finding, among other things, that cereal manufacturers, household cleaners and department stores increased their advertising expenditures in (print) newspapers (2003-2005). The second paper focuses on methods for how retailers can evaluate the effectiveness of insert advertising. Both studies provide valuable empirical information for our research. However, they do not focus on the special problems of newspapers and do not provide theoretical reasoning. Décaudin & Lacoste (2010) empirically study industry-specific advertising strategies in the French magazine market. This study offers valuable insights as well; however, it differs from our research insofar as it neither focuses on online substitution, nor on newspapers.

To our best knowledge, no research paper so far has focused on the advertising side in the same way as substitution tendencies have been elaborated on the audience side – i.e. by focusing on *reasons* and *motives* for advertising companies to move their advertising budget from newspapers towards the internet or to stick with (print) newspapers, depending on the advertising industry in question. This paper contributes to filling this gap by deriving from the economic theory of advertising a niche for (print) newspapers in modern advertising markets in which they can reap sustainable advertising revenues despite the ubiquitous presence of online competitors. While this paper provides the theoretical reasoning, a related second paper (Lindstädt & Budzinski forthcoming) offers an empirical test with secondary data.

### **III. Online and Newspaper Advertising Markets**

#### **3.1 The Economics of Advertising**

Many researchers have dealt with the *economic analysis of advertising* for several decades. Early studies of the economic theory of advertising include Marshall (1890), Marshall (1919), and Chamberlin (1933). Later works include Telser (1968) and Schmalensee (1972). For a contemporary survey see Bagwell (2007). In connection with the question why consumers react on advertising, three different view-

points have developed (Bagwell 2007: 1704-1706): advertising is *informative*, advertising is *persuasive*, and advertising is *complementary*.<sup>4</sup>

*Informative advertising* informs the consumers about products and their characteristics and, thus, improves the decision situation of the consumers by making them aware of facts that they otherwise might overlook. Consequently, informative advertising rests on the assumption of imperfect information on the side of the consumers and tends to heal related inefficiencies by helping consumers to obtain direct and/or indirect information on the products in question. It tends to enhance competition because of the higher market transparency that it generates (e.g. Telser 1964: 537, 558).

*Persuasive advertising*, on the other hand, is viewed as influencing and altering consumers' preferences (Grossman & Shapiro 1984: 63) and, thus, creating 'artificial' product differentiation (Bar-Niv & Zang 2010) and brand loyalty. This type of advertising is often considered as creating negative competition and welfare effects since those ads distort tastes and create wants (Becker & Murphy 1993: 941), thereby misleading consumers to buy products they actually do not want.

*Complementary advertising* views the product and its advertising as complements. It conjectures that consumers may have preferences like social prestige that can be obtained from purchasing a product only in connection with an advertising campaign rendering the product prestigious (or 'cool') for the respective social peer group of the consumers. Although this type of advertising does not primarily contain information in the sense of 'matter-of-fact' information, it also does not influence or change consumers' tastes and preferences. Instead, the – usually rather emotional and image-focused – advertising *changes the advertised product* by attaching a prestige- or coolness-factor to it and, as a result, merely makes the product compatible with the consumers' preferences.

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<sup>4</sup> See also Bagwell (2007); Boyer (1974); Chioveanu (2008); Doraszelski & Markovich (2007); Färe et al. (2004); Johnson & Myatt (2006); Ling et al. (1999). Comparable but not identical categories in the marketing literature include the concepts of *rational* and *emotional appeals* of advertising (e.g. Albers-Miller & Stafford 1999; Kotler & Armstrong 2008; Mortimer 2000; Stafford 2005; Stafford & Day 1995; Turley & Kelley 1997) or *informational* and *transformational advertising* (Cutler et al. 2000; Kotler et al. 2009; Puto & Wells 1984). We neither want to engage in a comparative discussion of the different categorical concepts, nor do we want to suggest that one concept is superior to the other. We use the chosen framework because it particularly fits our industry-related perspective.

While in practice many advertisements mix these three elements (Koh & Leung 1992: 40)<sup>5</sup>, their distinction is particularly valuable from an analytical perspective. For our purposes, we can reduce the three elements and distinguish two essential ways companies can advertise their products – either through *informative* or *persuasive/complementary advertising*. Persuasive and complementary advertising can be treated together in our framework because both often use special elements that create a particular atmosphere through images and statuses, with which the consumer shall identify. The advertising content is usually difficult to verify since little or no information about the product characteristics itself are given. An example would be a television advertisement for a perfume where, for instance, the product is shown and introduced by a celebrity but without giving any further product or price information about the perfume. Both persuasive and complementary advertising is often used to create and maintain a branded product. *Informative advertising*, on the other hand, is – as the term already implies – providing the customer with hard, verifiable facts which might include the price, certain product characteristics or both. An example would be a print advertisement from a grocery store advertising a certain promotional offer (e.g. price reductions for certain products).

### 3.2 Competition between Online and Newspaper Advertising Markets

Online advertising started in 1994, consequently online and traditional advertising have been competing for advertising money for several years now.<sup>6</sup> In the meantime, the online advertising market has moved from a buyer's towards a seller's market (Bruner 2005: 2). In 2000 online/digital advertising accounted for just 5 per cent of the U.S. advertising revenue share whereas newspapers held 28 per cent (J.P. Morgan 2010: 11). Within only 15 years the newspaper advertising revenue share in the U.S. is estimated to be down to 9 per cent, resulting in

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<sup>5</sup> An example: the *Apple iPad* advertisement creates an image and a certain sense of belonging for the potential consumer while providing, at the same time, information on how and for what the product can be used. Nevertheless, the mix of persuasive, complementary and informative elements should especially hold for companies aiming to brand their products whereas retailers predominantly aim to inform about their product range instead of branding themselves. In any case, the different elements remain distinguishable even if they are combined in a specific ad.

<sup>6</sup> In this case the emergence of the internet has increased intermedia competition, i.e. the competition between different media types (Picard 1989: 27).

online/digital advertising<sup>7</sup> overtaking newspapers with an estimated share of up to 20 per cent (ibid.). And indeed, the *IAB Internet Advertising Revenue Report* (IAB 2011: 20) and the recent report on *The State of the News Media 2011* (PEW 2011c, online) revealed that in 2010 Internet Advertising Revenues (US\$ 26.0 billion) surpassed those of newspapers (US\$ 22.8 billion). Whereas online advertising revenues grew by another 13.9 per cent from 2009 to 2010 newspaper advertising revenues decreased by 6.3 per cent in the same time (PEW 2011d, online).<sup>8</sup> In Germany, a similar development took place. With respect to gross advertising spending, online advertising spending for the first time surpassed newspaper advertising spending in 2010 (Spiegel Online 2011; OVK 2011). 19.2 per cent (+2.7 percentage points compared to 2009) of the gross advertising spending is now spent on the internet – ranking in second place before television (39.1 per cent in 2010, +1.3 percentage points compared to 2009) – whereas only 19.0 per cent (-2.4 percentage points compared to 2009) is spent on newspapers (OVK 2011: 6-7)

Along with these rather simplistic figures, the existing literature (see section II) identifies a general substitution trend of offline advertising (including print newspapers advertising) by online advertising. Typically, two explanations are offered for this phenomenon:

- a reader's demand-side effect (e.g. Berte & De Bens 2008; Zentner 2010).
- an advertising demand-side effect (e.g. Bergemann & Bonatti 2010; Silk et al. 2001).

The reader's demand-side effect refers to the decreasing demand for (print) newspapers on the reader markets driving down the demand for advertising space. Due to the two-sidedness of media markets (see section II), indirect network externalities between the readers and the advertising market create self-reinforcing effects between decreasing circulation and decreasing advertising figures. Decreasing

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<sup>7</sup> In this study, online/digital advertising includes paid search, digital display, mobile, lead generation, internet yellow pages, email, internet classifieds, rich/online video and local online revenues (J.P. Morgan 2010: 11).

<sup>8</sup> However, the decrease in newspaper advertising revenue by 6.3 per cent has clearly slowed down compared to the previous year where advertising revenues dropped by 26 per cent (PEW 2011d, online).

circulation figures<sup>9</sup> on the reader side cause advertisers to re-allocate (parts of their) advertising expenditures from print to online since they faced decreasing numbers of 'eyeballs' to reach over the newspaper. Thus, the advertisers' willingness to pay is influenced by the reader side (Bagwell 2007: 1822). Note that this effect might also be rooted in online substitution, however, on the readers' market: the decreasing demand for (print) newspapers is partly caused by the availability of online news sites.

The advertising demand-side effect directly reflects substitution tendencies on the advertising markets, i.e. the advertisers taking advantage of the benefits online advertising offers compared to traditional offline media. In particular, advertising on the internet offers multimedia possibilities. Whereas the newspaper just offers static textual and visual ads, online ads can be designed statically *and* dynamically – including text, audio and video formats. The internet offers a wide range of advertising formats including display ads, social media advertising and search advertising. Furthermore, online advertising presents improved targeting opportunities. By having more information about users (e.g. sites visited, ads clicked on, and user characteristics) it is possible to better reach the companies' target group and thus reduce scattering losses. Consequently and compared to other traditional mass media types, online advertising seems to be better capable of efficiently matching audience and advertisers (Evans 2009: 43). In addition to this, innovative advertising formats like social media advertising (e.g. on *Facebook*, *Twitter*) enable companies to get in direct contact with users. Compared to the conventional purely one-sided communication within traditional mass media, online advertising enables a direct reaction from users to the advertising companies (Pérez-Latre 2009: 37). It can even be 'one-to-one communication' (Ling et al. 1999: 129). Moreover, direct actions (e.g. purchasing actions) by users are possible which is quite attractive for companies with e-commerce activities. Another crucial aspect is the costs for online advertising. Compared with newspapers internet advertising presents a cheaper method since online ad rates are lower than those for newspapers (Farhi 2007: 20-

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<sup>9</sup> In the U.S., for example, the decrease of circulation figures of daily and Sunday newspapers already started in the mid 1990s but has particularly intensified since the beginning of the 2000s (PEW 2010, online). This trend continues: from 2009 to 2010 the newspaper audience declined by another 5 per cent (PEW 2011d, online).

21; Miller 2008: 449). In close connection with cost aspects, online advertising offers more flexibility regarding payment models (Ratliff & Rubinfeld 2010: 660-661, 669-670). Whereas newspaper prices are calculated on a cost per thousand (CPT) basis, it is possible on the internet to choose from a variety of payment models (e.g. performance based advertising, cost per view advertising). This improves the assessment of Return on Investment (ROI) for advertising companies. This in turn has become more important for advertisers in recent years (Sorce & Dewitz 2006: 12). In sum, online advertising seems to present a variety of advantages compared to advertising in traditional newspapers. Evans (2009: 43) summarizes two major economic efficiencies that online advertising provides in comparison to traditional advertising:

- first, fewer societal resources on differentiated media in order to create content for aggregating and sorting potential customers, and
- second, online advertising enlarges the precision to match buyers and sellers (increased targeting opportunities), thus reducing 'waste' (sending or receiving mis-targeted advertising messages) for both sides.

While there is no doubt about the accuracy of these types of reasoning as well as about the general tendency of online substitution in advertising markets, this rather generalizing picture neglects the possible existence of niches on traditional advertising markets especially of regional and local newspapers where the advantages of online advertising for specific reasons do not come into play or are overcompensated by specific advantages of print media. In the following section, we analyze such a niche in regional and local print newspapers advertising markets that is industry-specific and can be expected to represent a sustainable segment of complementarity within the otherwise predominantly substitutional advertising markets.<sup>10</sup> To this extent, our reasoning stands in line with the 'theory of the niche' – an approach inspired by the natural sciences and applied to media industries by Dimmick & Rothenbuhler (1984). According to Dimmick (2003: 41) "[t]he theory of

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<sup>10</sup> In this regard we qualify the general findings (e.g. by Goldfarb & Tucker 2011c; Ratliff & Rubinfeld 2010) that offline and online advertising markets are becoming closer substitutes up to coalescing towards one market.

the niche implies that successful coexistence of competitors requires a difference in niche or limiting similarity.”

#### IV. A Market Niche for Regional/Local Newspapers

In the following, we argue that informative retail advertising represents a niche where *regional and local newspapers* should be able to successfully coexist with the internet on the advertising market. Substitution tendencies between newspaper and online advertising cannot be answered in a general manner. Instead, it depends (i) on the type of advertising (section 4.1) and (ii) on the advertising industry (section 4.2) whether online media are a good substitute for newspaper advertising or not. We argue that informative advertising by retailers in regional and local newspapers cannot be substituted well by online media.<sup>11</sup> The retail industry is a broad area with a variety of different subcategories. We therefore further narrow it down and in particular concentrate on the following *offline retail areas*:<sup>12</sup> grocery stores (e.g. *Wal-Mart, Carrefour, Lidl, Aldi*, local grocery stores), drug stores (e.g. *CVS, Boots, dm*), consumer electronic stores (e.g. *Best Buy, RadioShack, Media Markt, Saturn*), furniture stores (e.g. *Crate&Barrel, IKEA*), office supply stores (e.g. *Staples, Office DEPOT*), home improvement stores (*Home Depot, Max Bahr, OBI*), department stores (e.g. *Macy’s, Galeries Lafayette, Karstadt*) and shopping centres.

##### 4.1 Newspapers’ Attractiveness for Informative Advertising

We argue that one of the traditional newspapers’ strengths, the particular suitability for carrying informative advertising (Boyer 1974; Telser 1964), is maintained despite the presence of online competition. Printed newspapers in particular remain attractive for *informative advertising* for four reasons: (i) informative envi-

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<sup>11</sup> This is on the one hand an *industry specific pattern* (the *retail industry* will stick with newspapers). At the same time it is in the U.S. also an *advertising type specific* argument – insofar as *retail advertising* represents one of three different advertising types found in newspapers (in addition to *classifieds* and *national advertising*). While classified advertising, in particular, has moved away from newspapers to cheaper or even free offers on the internet (e.g. *craigslist.com, monster.com*) that also offer multimedia based presentation opportunities (e.g. filter options, all around views for automobile ads, direct application opportunities with employment ads) our analysis shows that retailing companies have a good reason to stick to advertising in newspapers.

<sup>12</sup> These retail areas have been placing parts of their advertising in newspapers – either in the newspaper itself or through newspaper inserts.

ronment, (ii) reputation for trustworthiness, (iii) fit with presentation limitations, and (iv) comparatively low intrusiveness.

*Informative Environment:* First of all, the advertisements are placed in an environment where the majority of content is information. Compared to the internet, where non-informative content (e.g. entertainment) can be found as well, the newspaper focuses predominantly on news provision – either in general or with a focus on special topics (e.g. financial information in the *Wall Street Journal*). Readers are used to and expect to receive facts and information when reading the newspaper. Consequently, this information brokering can be transferred to newspaper advertising as well – that means the reader has also learned to receive informative ads within newspapers.

*Reputation for Trustworthiness:* The preceding argument goes together with the reputation aspect well. Media companies (e.g. newspapers) aim to build up reputation for their products – in particular this concerns providing the consumer (e.g. the reader) with accurate information and truthful reporting (Gentzkow & Shapiro 2006: 282, 284). Reputation thereby also acts as a quality indicator (Beyer & Beck 2009: 78-79). Quality in turn leads people (readers, new potential readers) to trust the media content they receive. This reputation and trust aspect can as well be transferred to the advertisements contained in the newspaper. Calder & Malthouse (2004: 14) conclude that “[...] the way a person experiences a magazine or newspaper can affect the way the person reacts to advertising in the publication.” Kotler et al. (2009: 729) highlight the believability aspect as one of the advantages of newspapers. This could be transferred to newspaper advertisements as well. Nielsen (2009) conducted a global study on Trust, Value and Engagement in Advertising in 2009. They found out that within North American paid advertising media, newspaper (66 per cent) is the leading advertising channel in terms of trust<sup>13</sup> followed by television (61 per cent), whereas online advertising (incl. search engines, online banner, online video, email subscription) falls behind and is trusted by only 42 per cent of the respondents (Nielsen 2009: 3). In addition to this, the study *How*

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<sup>13</sup> The respondents stated that they ‘somewhat’ to ‘completely’ trust this advertising type – 34 per cent stated that they ‘don’t trust much at all’ newspaper advertising whereas 58 per cent of the respondents said they ‘don’t trust much at all’ in online advertising (Nielsen 2009: 3).

*America Uses Advertising 2009* supports these results by showing that Americans regard newspaper advertising as particularly believable and trustworthy (35 per cent) whereas only 13 per cent think so about the internet (NAA & MORI Research 2009: 5, 9). In Germany results are similar. The *ZMG Bevölkerungsumfrage 2010* found that 81 per cent of the respondents regard newspapers advertisements as trustworthy and credible (ZMG 2011a: 40). Furthermore, 78 per cent of the respondents answered that they regard companies who advertise in newspapers as reliable (ibid.) – thus the respondents transfer aspects (e.g. trust, credibility) on how they perceive newspapers to the companies that are advertising in newspapers.

*Fit with Presentation Limitations:* Informative advertisements are in good hands with newspapers since the presentation opportunities are purely static. This fits very well for advertising that is presenting hard facts. Persuasive and complementary advertising, on the other hand, are harder to achieve through newspaper ads. They are better placed in media like television or the internet where multimedia presentation opportunities (e.g. using video, audio, and textual elements) are possible. Furthermore, the newspaper is restricted regarding the quality of advertisement presentation (e.g. color and size). This especially holds for advertisements placed within the newspaper itself (compared to newspaper inserts).

*Comparatively Low Intrusiveness:* Newspaper advertisements are less intrusive<sup>14</sup> as they present 'just' static information. They are not distracting from the actual content the reader is consuming. Consequently, newspaper advertising is not seen as much as 'nuisance' compared to other advertising forms like on television and the internet (Anderson & Gabszewicz 2006: 571). In particular internet advertising, like banners, pop-up's, online video ads etc. can be rather intrusive and disturb the actual content consumption.<sup>15</sup> The comparatively low intrusiveness fits well with informative advertising.<sup>16</sup> The provision of facts combined with the static environ-

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<sup>14</sup> In her research about advertising clutter Ha (1996: 77) defines intrusiveness as "[...] the degree to which advertisements in a media vehicle interrupt the flow of an editorial unit."

<sup>15</sup> This especially holds for those advertising forms where it is impossible for the user to click the ad away.

<sup>16</sup> With respect to the form of advertising, Kaiser & Song (2008: 18-19) – in their empirical analysis on the question if consumers really dislike advertising which focuses on the magazine market – conclude that consumers seem to appreciate advertising especially when it is informative.

ment the ad is placed in makes the reader perceive the ad as less intrusive. Ha & McCann (2008: 573) – by referring to the uses and gratification approach and the study by MacInnis & Jaworski (1989) – argue that advertising which offers useful information even becomes desirable since it provides the consumer with ‘uses’ and ‘gratification’.

Furthermore, with newspapers in general the “[...] reader remains in control of the content [...]” (Berte & De Bens 2008: 692). With special regard to newspaper advertising it is the *consumer’s decision* when she pays attention to the ad, thus *she actively decides* if and how to react on it. This as well makes it less intrusive. Not just that – in case she is not interested at all or does not want to consume it at the moment – she can easily skip over an ad or with newspaper inserts put it aside but she can also go back to it whenever she wants.<sup>17</sup> This is more difficult if not impossible for advertisements on the internet. At the next click, the banner place, for example, might already be occupied by another company’s advertisement.

According to the *How America Uses Advertising* study 56 per cent of the respondents ‘strongly dislike’ intrusive advertising (NAA & MORI Research 2009: 5). The study furthermore shows that receiving advertising information is more preferred in the newspaper (39 per cent) than on the internet (14 per cent) and notes that the weak performance for the internet seems to result from the consumers’ dislike of intrusive ads (NAA & MORI Research 2009: 10). When taking a look at another country and its media market similar results are found in Germany. The *VerbraucherAnalyse 2010* revealed that newspaper advertising is quite accepted among German citizens. Whereas 32 per cent regard internet advertising as disturbing only 12 per cent think so about newspaper advertising – advertising in newspapers is even perceived as informative and helpful (ZMG 2011a: 40, 42).

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<sup>17</sup> This, in turn, represents an advantage for the companies providing informative advertisements. They provide information on their products since they consider it as being essential for the consumer’s purchasing decisions, thus the opportunity to refer back to the ad might increase the possibility of purchases.

## 4.2 Industry-specific Patterns – Retail Advertising as the Market Niche for Newspapers

After having argued that (print) newspapers remain attractive for informative advertising due to some special advantages over online media, a niche for sustainable advertising revenues for *regional and local (print) newspapers* can now be identified when looking at the *industry-specific patterns* of informative vs. persuasive/complementary advertising. Décaudin & Lacoste (2010: 546, 550) demonstrate that the industry variable is empirically the most important influence on the advertising strategy. Of course, it is not a new argument that retail advertising exhibits an affinity for newspapers (e.g. Fajen 1978: 119). Long before the commercial internet emerged, for example, Ferguson (1983: 637) and Picard (1989: 24) argue that newspapers represent a suitable medium for companies who want to publish information about their actual products in the advertisements (in particular price information and availability) and used grocery and department stores as examples. However, with the internet as the new competitor and the manifold additional possibilities that this new medium offers, does this assessment still hold?

Although, as a matter of principle, all industries can have an interest in providing informative advertising, retail companies such as grocery stores, drug stores, consumer electronic stores, office supply stores, furniture stores, home improvement stores, department stores and shopping centers play a special role in this context.<sup>18</sup> Retailers offer an assortment of branded products, wherefore the advertising situation of retailers is special: on the one hand, they have an incentive to promote their own retail brand (private labels, the shop or chain name); on the other hand, they experience an incentive to advertise the branded products within their assortment. In the first case, the usual mix of informative, persuasive and complementary elements apply. However, in the second case, the retailer will be reluctant to promote the brands of the products within its assortment other than by providing informative advertising. The reason is threefold. First, the retailer has an ambiguous interest in promoting the products' brands: on the one hand, strong product

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<sup>18</sup> Already Telser (1964) and Boyer (1974) concluded that the majority of advertising by retailers and wholesalers is informative and specifically refers to the focus that is taken on prices and terms of sale in the advertisement. Manufacturing companies in contrast, tend to 'de-emphasize' sales information of the products (Boyer 1974: 543).

brands attract customers for the retailer, on the other hand, it cannibalizes to some degree the attractiveness of the retailer's brand, thus, limiting the incentive for product brand promotion.<sup>19</sup> Second, the retailer usually depends on having competing product brands in his/her assortment. Again, this limits his/her incentive to engage in brand promotion for some products because it would influence the competitive process among the product producers and provoke a respective reaction. Third, by doing product brand promotion, the retailer would provide a positive externality for the product producers. Consequently, when it comes to advertising its assortment, the typical retailer experiences a strong incentive to focus on informative advertising.

And indeed, if taking a closer look at how retailers advertise it is especially by promoting their product range and within this predominantly by using sales promotional elements. The advertisements, among other things, often contain price reductions, (price) bundling offers, timely limited offers or the information about new products that the shop carries. This in turn all requires *informative elements* for the advertisement. In this context the 'good local market coverage' of newspapers (Kotler et al. 2009: 729) offers an advantage especially for retailers since the promotions mainly have a local focus.<sup>20</sup> In addition to this, a study<sup>21</sup> by Reid & King (2003: 426) on advertising managers' opinion on newspaper advertising found that newspapers are perceived more effective for 'immediate-pay-out' than 'long-term' effects. This as well is particularly helpful for retailers – e.g. grocery stores, selling fast moving consumer goods but also for those retailers (e.g. consumer electronic stores), with time-limited sales promotions.

The *Newspaper Association of America (NAA)* has published a multitude of studies that show the attractiveness of newspaper advertising especially due to the fact that consumers consult them for making shopping decisions and planning their purchase actions. Among the latest studies are *How America Shops and Spends 2011* (NAA 2011) and *How America Uses Advertising 2009* (NAA & Mori

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<sup>19</sup> In general, it will be even more profitable for the retailer if his own brand is the main attractor for the customers (e.g. *Wal-Mart, Aldi, MediaMarkt, etc.*).

<sup>20</sup> Even if the retail company is operating nationally, certain offers might differ locally or even be just valid within a certain area.

<sup>21</sup> This study, however, did not include the internet but focused on the comparison of newspapers, television, radio, magazines, place-based media and billboards (Reid & King 2003: 417).

Research 2009). A first quick look on the U.S. market at what types of ads can actually be found in newspapers confirms that it is to a large extent retail advertising. With 57 per cent it represents the largest share among newspaper advertising in 2010 (PEW 2011b, online).<sup>22</sup> This tendency can be observed in Germany as well. Retailers are the biggest investors in newspaper advertising (ZAW 2011, online) According to the *Zeitungs-Werbebarometer*<sup>23</sup> looking at several different industries, the retail and mail-order industry<sup>24</sup> accounted for the largest share of advertising spending (45 per cent, own calculation)<sup>25</sup> in newspapers in 2010 (ZMG 2011b). In contrast, they only invested 8.4 per cent in classical online advertising<sup>26</sup> in the same year (OVK 2011: 11).

Summarizing our line of reasoning, informative retail advertising (e.g. from grocery stores, drug stores, home improvement stores, furniture stores, consumer electronic stores, office equipment stores, shopping centers and department stores) can be expected to represent a sustainable market niche for (print) newspaper advertising and is unlikely to be substituted by online advertising in the foreseeable future. This insight qualifies the existing knowledge about newspaper vs. online advertising by looking behind aggregated and overall offline-online substitution analysis. Instead of being subject to a 'global' substitution process, regional and local newspaper advertising possesses unique characteristics which create a sustainable market niche for informative retailer advertising. This niche represents an area of complementarity within the heterogeneous modern media advertising market that otherwise displays increasing substitutional characteristics.

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<sup>22</sup> National advertising represented only 18 per cent and classifieds 25 per cent (PEW 2011b, online)

<sup>23</sup> The following industries were included: retail and mail order, automotive, finances, telecommunications, tourism, services, textiles and apparel, building, energy, home & garden equipment, other industries (incl. personal hygiene, food/nutrition, health, beverages, home economics, agriculture, forestry, individual demand, cleaning, tobacco, electronic, transportation (ZMG 2011b).

<sup>24</sup> The category retail and mail-order industry includes retail organisations and image advertising on the retail side and mail-order and e-commerce on the mail-order side. Nonetheless, retailers still account for the largest share.

<sup>25</sup> This calculation took all industries into account that were considered in the *ZeitungsWerbebarometer* report.

<sup>26</sup> Classical online advertising thereby includes all display advertising forms (incl. all in-page ads (e.g. full banner, rectangle or wall paper ads), in-stream video ads (OVK 2011: 34)

## V. Conclusion and Outlook

Substitution effects between newspaper advertising and online advertising cannot be answered in a generalized manner. Instead, our paper has highlighted that there are industry-specific patterns that determine if newspaper and online advertising substitute or complement each other. In particular, we have shown that, despite the continuing growth of the internet as an appealing advertising medium, retail advertising will remain attractive to be placed predominantly in regional and local newspapers. Thereby, we have drawn upon *the economic theory of advertising* and have argued that the continuance of advertisements by retailers on newspapers is due to the fact that this industry for the most part focuses on *informative advertising* which for the above-mentioned reasons can be best placed in newspapers. Consequently, we are expecting no complete substitution but rather a coexistence and complementation between newspaper and online advertising within this market niche.

Our reasoning in this paper is predominantly theoretical, adding a newspaper-specific dimension to the existing literature on offline-online advertising substitution. Further research provides an empirical test of our reasoning (Lindstädt & Budzinski forthcoming).

Furthermore, our findings give some guidance to the newspaper industry. They imply that the retail advertising side represents a promising niche that newspaper companies can concentrate and rely on. Predominantly focusing on retail advertising clients and taking appropriate actions to (better) meet their needs will give newspapers a great opportunity to successfully position themselves in times of a competitive and rapidly changing media environment.

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