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INSIGHT

FTI Consulting

Publishing Practice

How Does Customer Loyalty Factor Into Price Increases?

Circulation Price Increases *vs.* Circulation Volume Decreases

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Circulation Price Increases vs. Circulation Volume Decreases

Background

Though much has been made of the considerable increases in digital circulation at some of the industry's most prominent news organizations (NYT, TWP, WSJ, etc.), newspaper circulation overall continued its decline in 2016 – falling just under 10% according to the Pew Research center.[1]

Print advertising revenues likewise continued, and too often accelerated, their declines in late 2016. In 2017 print revenues declined 15% according to the latest MAGNA Intelligence report (MAGNA Sept 2017).[2] Though the declines will be offset somewhat by digital increases, total print advertising revenues will still be down 9%.

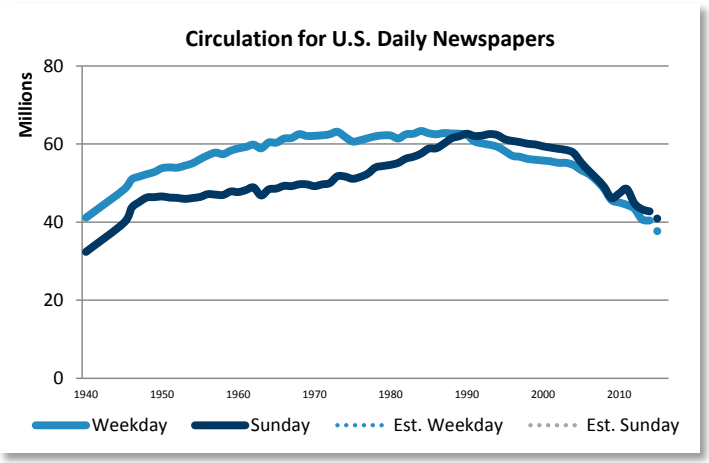

Figure 1

Consumer Revenue vs. Advertising Rates

Throughout this now decade long decline in newspaper circulation and ad revenues, one lever publishers have continued to use to offset revenue declines is increasing subscriber yield. Striking the right balance between raising subscription rates and the near certainty of losing more of an ever-shrinking print consumer base represents the enterprise risk to be considered and modeled.

Determining how subscribers and advertisers will react to change requires understanding ad revenue and rate, subscriber loyalty, and the volume loss. Though publishers have rightly increased subscriber rates and yield to offset advertising declines with expected volume loss , some critical questions remain:

- ✓ ***Given a particular set of market fundamentals, what is the long term benefit of continued subscriber price increases and related volume losses?***
- ✓ ***At what point do the subscriber price increases with lower and lower circulation volumes become detrimental to advertising's ability to maintain rates?***
- ✓ ***What level of ROP offsetting revenues would be required as a replacement for increased circulation yield revenue?***

The answers to these questions are what we have attempted to quantify.

The Model

To examine these questions, FTI developed a conceptual circulation yield model that allows us to consider various levels of price increases, given varying degrees of consumer loyalty, and ultimately their margin (circulation and preprint revenue vs. newsprint and delivery expense) impacts. The model begins with a typical metro of 150,000 weighted average circulation (WAC[3]), per unit expenses, and typical revenues. We then consider three levels of consumer loyalty: low, moderate, and high – each reflected in the model with different levels of price elasticities. The resulting incremental revenue impacts are then examined over a 3-year period.

Model Results | Various Loyalties

Low Consumer Loyalty | Test Impact

For our purposes a market with low consumer loyalty is characterized by one in which a 1% yield increase results in a 1% decrease in subscribers as a result of pricing. Here we see that rate increases quickly become a money-losing proposition. Increases are only a net positive between 1% and 5%, and only in the first year. Low consumer loyalty suggests that price increases must be carefully tested as they can be cash negative.

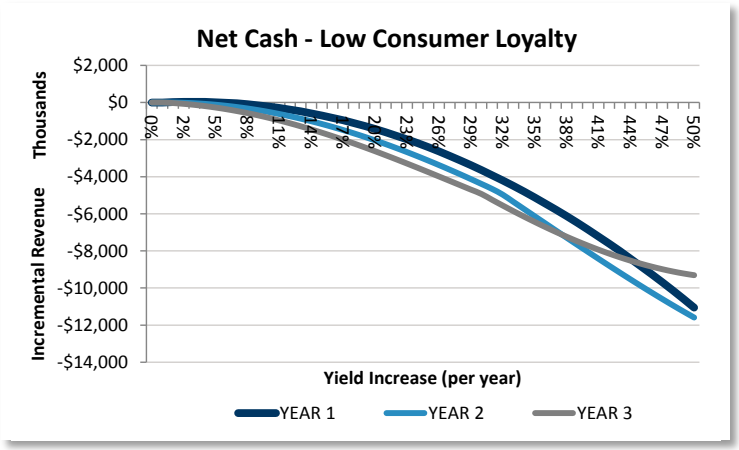

Figure 2

Moderate Consumer Loyalty | Caution

Subscriber declines are ~2/3 of the yield increase, or a 1.5% yield increase results in 1.0% volume loss. This is more interesting; for year 1, incremental revenue flattens out at a yield increase of 28%, 25% in year 2, and 19% in year 3. The potential 3-year net revenue improvement at a 5% year over year yield increase is approximately $2.6MM – or about 6.5% of a $35MM ROP revenue budget. In a world of -10% YoY declines in ROP ad revenue due to volume and some rate pressures, some level of pricing increases seem reasonable. Of course, circulation declines of 3.3% - 3.7% for 3 years (in our hypothetical 5% yield increase scenario), on top of secular declines, would have to be considered against further ad rate pressure.

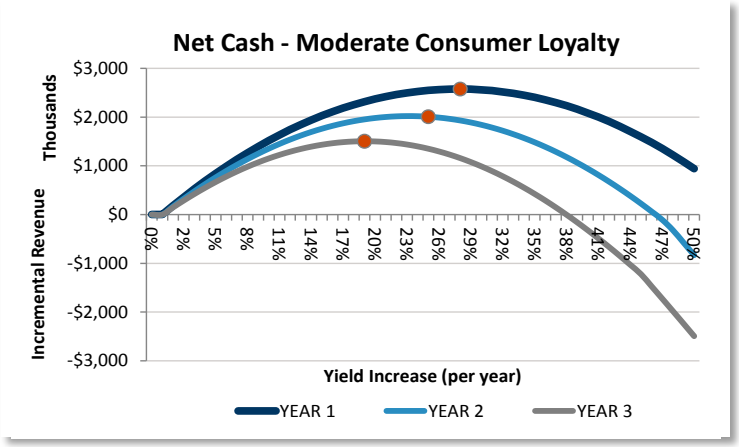

Figure 3

High Consumer Loyalty | Increase Price

Those in markets with relatively high consumer loyalty could be categorized by a circulation decline of ½ of the increase in yield – 2.0% yield increase = 1.0% volume loss due to pricing. Here we see marginal revenues flattening out at higher levels of yield increase. Publishers in these markets would seem to have a clearer opportunity to continue to raise subscriber yields even though it adds pressure on ad rates.

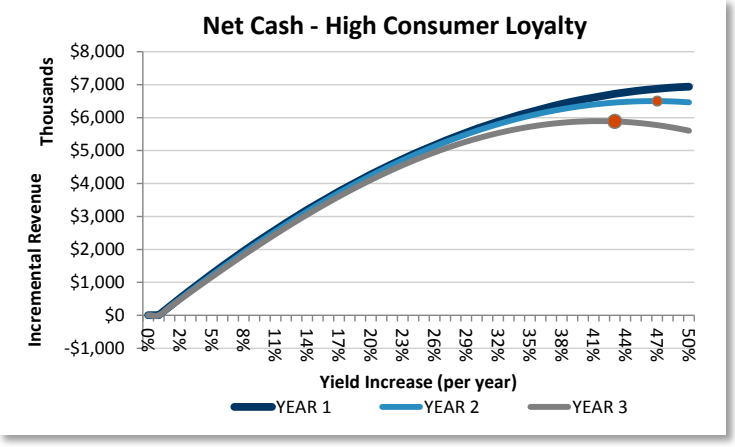

Figure 4

Conclusion

In 2018, there will be no shortage of challenges facing newspaper publishers: continued retreat of advertisers and consumers using legacy media, and the highly competitive digital space. With the continued push for subscriber yield increases, FTI can help publishers explore the net cash tradeoff and implications associated with increases in short term subscriber revenue and loss of audience. And more critically, **how do we transform our approach to audience engagement** so that we effectively migrate to digital subscriber growth?

Additional model details shown below; for each level of yield increase the resulting circulation change assumptions are shown, as well as the resulting net cash impacts. If negative, rate increases reduce cash. If positive, is the net cash increase due to subscriber pricing sufficient as compared to added pressures on advertising rate?

Data Table: Low Consumer Loyalty

Yield Increase	Corresponding Circ Declines		
	Year 1	Year 2	Year 3
1.0%	-1.0%	-1.1%	-1.1%
2.0%	-2.0%	-2.1%	-2.2%
3.0%	-3.0%	-3.2%	-3.3%
4.0%	-4.0%	-4.2%	-4.4%
5.0%	-5.0%	-5.3%	-5.6%
6.0%	-6.0%	-6.3%	-6.7%
7.0%	-7.0%	-7.4%	-7.8%
8.0%	-8.0%	-8.4%	-8.9%
9.0%	-9.0%	-9.5%	-10.0%
10.0%	-10.0%	-10.5%	-11.1%
11.0%	-11.0%	-11.6%	-12.2%
12.0%	-12.0%	-12.6%	-13.3%
13.0%	-13.0%	-13.7%	-14.4%
14.0%	-14.0%	-14.7%	-15.6%
15.0%	-15.0%	-15.8%	-16.7%
16.0%	-16.0%	-16.8%	-17.8%
17.0%	-17.0%	-17.9%	-18.9%
18.0%	-18.0%	-18.9%	-20.0%
19.0%	-19.0%	-20.0%	-21.1%
20.0%	-20.0%	-21.1%	-22.2%

Yield Increase	Corresponding Net Cash			
	Year 1	Year 2	Year 3	3-Year Total
1.0%	$ 23,287	$ (2,032)	$ (30,139)	$ (8,884)
2.0%	$ 36,599	$ (15,136)	$ (72,472)	$ (51,009)
3.0%	$ 39,936	$ (39,277)	$ (126,851)	$ (126,193)
4.0%	$ 33,298	$ (74,409)	$ (193,104)	$ (234,216)
5.0%	$ 16,685	$ (120,471)	$ (271,032)	$ (374,818)
6.0%	$ (9,903)	$ (177,392)	$ (360,406)	$ (547,701)
7.0%	$ (46,466)	$ (245,085)	$ (460,976)	$ (752,527)
8.0%	$ (93,004)	$ (323,453)	$ (572,462)	$ (988,919)
9.0%	$ (149,517)	$ (412,386)	$ (694,560)	$ (1,256,464)
10.0%	$ (216,005)	$ (511,762)	$ (826,943)	$ (1,554,710)
11.0%	$ (292,468)	$ (621,444)	$ (969,256)	$ (1,883,168)
12.0%	$ (378,906)	$ (741,285)	$ (1,121,121)	$ (2,241,312)
13.0%	$ (475,319)	$ (871,123)	$ (1,282,138)	$ (2,628,581)
14.0%	$ (581,707)	$ (1,010,787)	$ (1,451,883)	$ (3,044,378)
15.0%	$ (698,071)	$ (1,160,089)	$ (1,629,909)	$ (3,488,069)
16.0%	$ (824,409)	$ (1,318,832)	$ (1,815,749)	$ (3,958,990)
17.0%	$ (960,722)	$ (1,486,805)	$ (2,008,913)	$ (4,456,439)
18.0%	$ (1,107,010)	$ (1,663,783)	$ (2,208,892)	$ (4,979,685)
19.0%	$ (1,263,273)	$ (1,849,530)	$ (2,415,159)	$ (5,527,962)
20.0%	$ (1,429,511)	$ (2,043,798)	$ (2,627,165)	$ (6,100,475)

Data Table: Moderate Consumer Loyalty

Yield Increase	Corresponding Circ Declines		
	Year 1	Year 2	Year 3
1.0%	-0.7%	-0.7%	-0.7%
2.0%	-1.3%	-1.4%	-1.5%
3.0%	-2.0%	-2.1%	-2.2%
4.0%	-2.7%	-2.8%	-3.0%
5.0%	-3.3%	-3.5%	-3.7%
6.0%	-4.0%	-4.2%	-4.4%
7.0%	-4.7%	-4.9%	-5.2%
8.0%	-5.3%	-5.6%	-5.9%
9.0%	-6.0%	-6.3%	-6.7%
10.0%	-6.7%	-7.0%	-7.4%
11.0%	-7.3%	-7.7%	-8.1%
12.0%	-8.0%	-8.4%	-8.9%
13.0%	-8.7%	-9.1%	-9.6%
14.0%	-9.3%	-9.8%	-10.4%
15.0%	-10.0%	-10.5%	-11.1%
16.0%	-10.7%	-11.2%	-11.9%
17.0%	-11.3%	-11.9%	-12.6%
18.0%	-12.0%	-12.6%	-13.3%
19.0%	-12.7%	-13.3%	-14.1%
20.0%	-13.3%	-14.0%	-14.8%

Yield Increase	Corresponding Net Cash			
	Year 1	Year 2	Year 3	3-Year Total
1.0%	$ 181,775	$ 165,434	$ 147,047	$ 494,255
2.0%	$ 356,899	$ 324,469	$ 287,538	$ 968,906
3.0%	$ 525,374	$ 476,983	$ 421,257	$ 1,423,614
4.0%	$ 687,199	$ 622,862	$ 547,995	$ 1,858,056
5.0%	$ 842,373	$ 761,995	$ 667,558	$ 2,271,927
6.0%	$ 990,898	$ 894,279	$ 779,759	$ 2,664,935
7.0%	$ 1,132,773	$ 1,019,613	$ 884,423	$ 3,036,809
8.0%	$ 1,267,997	$ 1,137,906	$ 981,389	$ 3,387,292
9.0%	$ 1,396,572	$ 1,249,070	$ 1,070,504	$ 3,716,146
10.0%	$ 1,518,496	$ 1,353,023	$ 1,151,627	$ 4,023,147
11.0%	$ 1,633,771	$ 1,449,688	$ 1,224,632	$ 4,308,091
12.0%	$ 1,742,396	$ 1,538,995	$ 1,289,401	$ 4,570,792
13.0%	$ 1,844,370	$ 1,620,879	$ 1,345,830	$ 4,811,080
14.0%	$ 1,939,695	$ 1,695,280	$ 1,393,828	$ 5,028,803
15.0%	$ 2,028,370	$ 1,762,145	$ 1,433,313	$ 5,223,828
16.0%	$ 2,110,394	$ 1,821,424	$ 1,464,220	$ 5,396,038
17.0%	$ 2,185,769	$ 1,873,076	$ 1,486,492	$ 5,545,338
18.0%	$ 2,254,494	$ 1,917,063	$ 1,500,089	$ 5,671,646
19.0%	$ 2,316,568	$ 1,953,354	$ 1,504,979	$ 5,774,901
20.0%	$ 2,371,993	$ 1,981,923	$ 1,501,145	$ 5,855,061

Data Table: High Consumer Loyalty

Yield Increase	Corresponding Circ Declines		
	Year 1	Year 2	Year 3
1.0%	-0.5%	-0.5%	-0.6%
2.0%	-1.0%	-1.1%	-1.1%
3.0%	-1.5%	-1.6%	-1.7%
4.0%	-2.0%	-2.1%	-2.2%
5.0%	-2.5%	-2.6%	-2.8%
6.0%	-3.0%	-3.2%	-3.3%
7.0%	-3.5%	-3.7%	-3.9%
8.0%	-4.0%	-4.2%	-4.4%
9.0%	-4.5%	-4.7%	-5.0%
10.0%	-5.0%	-5.3%	-5.6%
11.0%	-5.5%	-5.8%	-6.1%
12.0%	-6.0%	-6.3%	-6.7%
13.0%	-6.5%	-6.8%	-7.2%
14.0%	-7.0%	-7.4%	-7.8%
15.0%	-7.5%	-7.9%	-8.3%
16.0%	-8.0%	-8.4%	-8.9%
17.0%	-8.5%	-8.9%	-9.4%
18.0%	-9.0%	-9.5%	-10.0%
19.0%	-9.5%	-10.0%	-10.6%
20.0%	-10.0%	-10.5%	-11.1%

Yield Increase	Corresponding Net Cash			
	Year 1	Year 2	Year 3	3-Year Total
1.0%	$ 261,018	$ 249,588	$ 236,557	$ 747,164
2.0%	$ 517,049	$ 495,993	$ 471,304	$ 1,484,346
3.0%	$ 768,093	$ 739,068	$ 703,980	$ 2,211,141
4.0%	$ 1,014,149	$ 978,672	$ 934,329	$ 2,927,150
5.0%	$ 1,255,217	$ 1,214,667	$ 1,162,096	$ 3,631,981
6.0%	$ 1,491,298	$ 1,446,918	$ 1,387,031	$ 4,325,247
7.0%	$ 1,722,392	$ 1,675,291	$ 1,608,888	$ 5,006,571
8.0%	$ 1,948,498	$ 1,899,658	$ 1,827,423	$ 5,675,579
9.0%	$ 2,169,616	$ 2,119,893	$ 2,042,398	$ 6,331,907
10.0%	$ 2,385,747	$ 2,335,872	$ 2,253,579	$ 6,975,198
11.0%	$ 2,596,891	$ 2,547,477	$ 2,460,735	$ 7,605,103
12.0%	$ 2,803,047	$ 2,754,591	$ 2,663,642	$ 8,221,279
13.0%	$ 3,004,215	$ 2,957,099	$ 2,862,079	$ 8,823,394
14.0%	$ 3,200,396	$ 3,154,893	$ 3,055,831	$ 9,411,120
15.0%	$ 3,391,590	$ 3,347,865	$ 3,244,688	$ 9,984,142
16.0%	$ 3,577,796	$ 3,535,910	$ 3,428,445	$ 10,542,151
17.0%	$ 3,759,014	$ 3,718,929	$ 3,606,904	$ 11,084,847
18.0%	$ 3,935,245	$ 3,896,823	$ 3,779,870	$ 11,611,939
19.0%	$ 4,106,489	$ 4,069,498	$ 3,947,157	$ 12,123,144
20.0%	$ 4,272,745	$ 4,236,863	$ 4,108,582	$ 12,618,190

Figure 5

Content Sources:

1) PEW Research Newspaper Fact Sheet 2017: http://www.pewresearch.org/fact-tank/2017/06/01/circulation-and-revenue-fall-for-newspaper-industry/
2) MAGNA Sept 2017
3) WAC is defined as the 7-day average circulation

Figure Sources:

1) PEW Research Newspaper Fact Sheet 2017: http://www.pewresearch.org/fact-tank/2017/06/01/circulation-and-revenue-fall-for-newspaper-industry/
2) FTI Consulting Newspaper Yield Model 2017
3) IBID
4) IBID
5) IBID

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