



An Industry White Paper: Newspapers

By Kerry Tucker, RAB VP/National Marketing

Round and Round They Go...

The recently discovered, falsely inflated circulation claims of *Newsday*, the *Dallas Morning News*, and the *Chicago Sun-Times* has sparked the Securities and Exchange Commission to seek information on circulation practices from more than half a dozen newspaper companies. How this inquiry will affect the newspaper business and its advertisers is still relatively unknown, but it is important for Radio executives to understand the issues and possible competitive implications of this situation.

The Newsstand

The newspaper newsstand system is flawed. The draw/return system, whereby newspapers are dropped off at newsstands to be sold and the unsold copies are returned to the publisher is wrought with opportunities for fraud and mistakes. If you have ever walked through an airport late at night, you have seen the newsstand owners tearing off covers of unsold newspapers to prepare the return. This manual, archaic process is inefficient and susceptible to manipulation. Senior managers of *The Dallas Morning News* were found to have offered cash and trips to outside contractors to encourage them to keep or destroy unsold copies of the paper, giving the appearance that they had been sold. There have been suggestions to update this draw/return system, including using the scan-based model of packaged goods, but no steps have been made to move in that direction. As an aside, magazines are distributed this way as well. And because the very large retailer like Wal-Mart to the very small retailer like a corner bodega distributes newspapers and magazines, the standardization of this system is challenging and problematic.

The Third Party

Another area of circulation under fire is the third party or sponsored sales of newspapers (and magazines). More and more circulation is sold whereby a third party purchases bulk quantities of newspapers and bulk distributes them to the consumer for free. Publishers have come to rely on this form of circulation to maintain the numbers demanded of them by shareholders and senior management. It is considered paid circulation but is usually purchased at much lower than basic newspaper prices. Qualifying these programs through the Audit Bureau of Circulations (ABC) requires action on the publishers' part, usually in the form of disclaimers to the consumer. Those disclaimers however, can be in fine print and often go unnoticed by consumers. Copies left in front of a hotel room door are an example of such a program. Advertisers are already skeptical about these programs as they relate to value and consumer "wantedness." Newspapers and magazines use these copies to bolster paid circulation numbers and increase reader-per-copy claims. Many of the incremental increases in circulation for newspapers like *USA Today* are made through using third-party sources. The number of copies sold this way must be disclosed on the newspaper ABC Publisher's Statements and is noted by all major advertisers and used in negotiations. Radio executives should take it upon themselves to note it too.

The Auditor

The Audit Bureau of Circulations has been in business for over 90 years. While the company is extremely thorough and highly regarded, the recent discoveries of fraud have left many to question ABC's efficiency in catching fraudulent behavior. *Newsday* actually had a name for its fraudulent practices – they called it “Fudge ABC.” Publishers and circulation professionals who have worked with the ABC system for years have mastered it on many levels, including ways to manipulate it. ABC, as a tri-partite organization representing advertisers, agencies, and publishers needs to further address the opportunities for fraud and minimize those risks. ABC has begun to censure and fine publications for poor practices and take action against fraud. More field auditors have been deployed to monitor the various spokes on the circulation wheel. Checks and balances are being rechecked and rebalanced. Like any organization that has practiced in an industry for many years, ABC has to adapt its rules and protocols to address the changing marketplace and the new streams of circulation.

All of this said, however, if enough people in a publishing house are determined to defraud, it will happen despite the gatekeeper.

The Advertisers

Increasingly, major advertisers are being pressured to account for every dime of media expenditure and measure its efficiency. Touting the Sarbanes-Oxley Act, the Chief Financial Officers of these companies are holding marketers' feet to the fire and looking for the ever-allusive Accountability Measurements. As CFOs pay more attention to issues like circulation scandals, marketers are either faced with defending their support of the media at the risk of being wrong or faced with pulling its support to avoid that risk. Just as newspaper executives are now being forced to sign off on circulation claims and held accountable for them, Chief Marketing Officers are being forced to sign off on media plans. CMOs will not be willing to attach their names to anything they cannot guarantee. The leaps of faith made by media professionals prior to the Sarbanes-Oxley Act will no longer be tolerated by their financial counterparts.

Smaller advertisers who are not held to this level of financial scrutiny have their own ways of responding to scandals like this. Smaller advertisers put a great deal of emphasis on trust. Often these advertisers are making media decisions independently and will steer clear of businesses they cannot trust. Over 70 independent car dealers in the New York area are involved in the class action lawsuit against *Newsday*. These are individuals who have lost faith in a major newspaper partner and are casting a watchful eye on the others. Smaller advertisers are also those least able to afford television advertising.

For both large and small advertisers, Radio is poised to be a trusting, accountable, affordable media alternative.

It behooves all Radio executives to watch the SEC inquiry carefully. If more newspapers are found negligent in their circulation claims, the advertisers will respond accordingly. Radio can only benefit from the chinks in newspapers' armor. Caution should be taken however when broaching this subject. Advertisers are and will continue be more skeptical of ALL media as a result of these scandals; Radio executives need to mind their own businesses and focus on airtight advertiser relationships and sound, efficient internal mechanics.