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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 experienced declining circulation figures and declining advertising revenues for several years. In particular, declining advertising figures put a threat on newspapers – this is especially severe in the US where 73% of their revenues are generated through advertising. On the advertising side many companies have expanded their advertising expenditure towards online. Consequently, there are concerns about online advertising substituting newspaper advertising – in the same way as it has been feared for many years for the readership side. Both possible effects might put a threat on the further 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. Consequently, 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 – in particular the differentiation between persuasive/complementary and informative advertising. The latter one presents the reason for retailers to continue advertising in newspapers. Subsequently, 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.

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

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# 1. Introduction

Newspapers experience declining circulation figures and declining advertising revenues for several years. The recent recession has further compounded this effect. In the US in particular, declining advertising figures put a threat on newspapers since 73 per cent of their revenues are generated through advertising while only 27 per cent result from copy sales, subscription 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 – in the same way as it has been feared for many years for the readership side. Both possible effects might put a threat on the further existence of (print) newspapers. However, though the internet offers a variety of advantages for advertising companies, substitution tendencies cannot be generalized. In particular, 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 one presents the reason for retailers to continue advertising in newspapers. Subsequently, 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.

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1 German newspapers in contrast 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).

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 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.

## 2. 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 fundamental situation is identical for offline media – in our case (printed) 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 in the introduction, revenue-wise 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

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

3 For research papers dealing with substitution tendencies on the user side see, inter alia, Chyi & Lasorsa 2002; De Waal & Schoenbach 2010; Flavián & Gurrea 2007a, 2007b; Gentzkow 2007; George 2008; Kaye & Johnson 2003; Muir 2009; Okazaki & Romero 2010.

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. 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 veins 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. If at all, newspapers are discussed among and along with several other types of media, thus, neglecting the specific effects of online pressure on printed newspapers advertising.

In contrast, three papers from media science explicitly discuss substitution tendencies between advertising revenues of printed newspapers and their online competition. Spurgeon (2003) empirically analyses the erosion of classified ads for newspapers due to internet competition in the Australian market. Ahlers (2006) finds for the U.S. markets that 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 strat-

egies of U.S. local newspapers classified ads 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, inter alia, on the industries that advertise in newspaper 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, inter alia, that cereal manufacturers, household cleaners and department stores increased their advertising expenditures in printed 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 as well offers valuable insights; 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 printed 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 printed 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 theo-

retical reasoning, a related second paper (Lindstädt & Budzinski forthcoming) offers an empirical test with secondary data.

### 3. Online and Newspaper Advertising Markets

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

Many researchers have dealt with the *economic analysis of advertising* for several decades. The very beginning works of the economic theory of advertising include Marshall (1890), Marshall (1919), and Chamberlin (1933). Later works followed by Telser (1968) and Schmalensee (1972). For a contemporary survey see Bagwell (2007). In connection with the question why consumers react on advertising, three different viewpoints 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 rest 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 (inter alia, Telser 1964: 537, 558).

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4 See also, inter alia, 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.

*Persuasive advertising*, on the other hand, is viewed to influence and alter 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 assessed to create 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 consumer's 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, thus, only makes the product compatible with the consumers' preferences.

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 oftentimes use special elements that create a certain atmosphere through images and statuses, which the consumer shall identify with. The advertising content is usually difficult to verify since no or hardly any information about the product charac-

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5 To illustrate with an example: the Apple iPad advertisement that on the one hand creates an image and a certain sense of belonging for the potential consumer as well as it gives information on how and for what the product can be used for. 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.

teristics 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 oftentimes used to create and maintain a branded product. *Informative advertising*, on the other hand, is – as the term already implies – informing the customer about hard, verifiable facts. This could be the price, certain product characteristics or both. A good example would be a print advertisement from a grocery store that advertises 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 US advertising revenue share whereas newspapers held 28 per cent (JP Morgan 2010: 11). Within only 15 years the newspaper advertising revenue share in the US is estimated to be down to 9 per cent resulting in 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* (2011: 20) and the recent report on *The State of the News Media 2011* (PEW 2011c) 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).<sup>8</sup> In

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

7 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 (JP Morgan 2010: 11).

8 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).

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 per centage points compared to 2009) of the gross advertising spending are now spent on the internet – therewith ranking second place before television (39.1 per cent in 2010, +1.3 per centage points compared to 2009) – whereas only 19.0 per cent (-2.4 per centage points compared to 2009) are 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 printed 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 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

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9 In the US, for example, the decrease of circulation figures on daily and Sunday newspapers has started already in the middle of the 1990s but in particular intensified since the beginning of the 2000s (PEW 2010). This trend continues: from 2009 to 2010 the newspaper audience declined by another 5 per cent (PEW 2011d).

2007: 1822). Note that this effect might also be rooted in online substitution, however, on the readers' market: the decreasing demand for printed 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 on 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 up to then purely one-sided communication within traditional mass media, online advertising enables a direct reaction from users towards 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 in particular attractive for companies with e-commerce activities. Another crucial aspect is the costs for online advertising. Especially in comparison to newspapers, advertising on the internet represents a cheaper method – ad rates for online advertising are lower than for newspaper advertising (Farhi 2007: 20-21; Miller 2008: 449). In close connection with cost aspects online advertising offers more flexibility regarding the payment models (Ratliff & Rubinfeld 2010: 660-661, 669-670). Whereas newspaper prices are calculated on a cost per thousand (CPT) bases, it is possible on the internet to choose from a variety of payment models (e.g. perfor-

mance 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). To sum up, 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:

- *firstly, less societal resources on differentiated media in order to create content for aggregating and sorting potential customers, and*
- *secondly, 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 of especially 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 natural sciences and applied to media industries by Dimmick & Rothenbuhler (1984). According to

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10 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.

Dimmick (2003: 41) “[t]he theory of the niche implies that successful coexistence of competitors requires a difference in niche or limiting similarity.”

## 4. 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 generalized. Instead, they depend (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.

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11 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 US 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*). Whereas in particular classified advertising has moved away from newspapers to cheaper or even for free offers on the internet (e.g. *craigslist.com, monster.com*) that moreover 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.

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

#### ***4.1. Newspapers' Attractiveness for Informative Advertising***

We argue that one of the traditional newspaper's strengths, the particular suitability for carrying informative advertising (Boyer 1974; Telser 1964), upholds despite the presence of online competition. Printed newspapers in particular remain attractive for *informative advertising* for four reasons: (i) informative environment, (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 well together with the reputation aspect. 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. Malthouse & Calder (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> from 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 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, similar results hold. 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).

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

*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 environment 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 McInnis & 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 harder if not impossible for advertisements on the internet. At the next click, the

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14 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”.

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

16 With respect to the form of advertising, Kaiser & Song (2006: 18-19) – in their empirical analysis if consumers really dislike advertising that focuses on the magazine market – conclude that consumers seem to appreciate advertising especially when it is informative.

17 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.

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 on 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 hold for 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).

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

After having argued that printed newspapers remain attractive for informative advertising due to some special advantages over online media, a niche for sustainable advertising revenues for printed *regional and local newspapers* can now be identified when looking at the *industry-specific patterns* of informative vs. persuasive/complementary advertising. Décaudin & Lacoste (2010: 546, 550) show that the industry variable empirically is the most important influence on the advertising strategy. It is not a new argument that retail advertising displays an affinity towards newspapers (e.g. Fajen 1978: 119). Long before the commercial internet emerged, inter alia, 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 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 center 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 retailer 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 three-fold. Firstly, the retailer has an ambiguous interest in promoting the products' brands: on the one hand, strong product brands attract customers for the retailer, on the other hand, it cannibalizes to some degree the attractiveness of the retailer brand, thus, limiting the incentive for product brand promotion.<sup>19</sup> Secondly, 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. Thirdly, 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.

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18 Already Telser (1964) and Boyer (1974) back then 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).

19 In general, it will be more and more sustained profitable for the retailer if his own brand is the main attractor for the customers (e.g. Wal-Mart, Aldi, MediaMarkt, etc.).

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. Oftentimes the advertisements, inter alia, 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) furthermore 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 manager’s opinion on newspaper advertising the authors found that newspapers are perceived more effective for ‘immediate-pay-out’ than ‘long-term’ effects. This as well is in particular helpful for retailers – e.g. grocery stores, selling fast moving consumer goods but also for retailers (e.g. consumer electronic stores), with their 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 Research 2009). A first quick look on the US market 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

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20 Even if the retail company is operating nationally, certain offers might differ along the country or even be just valid within a certain area.

21 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).

22 National advertising represented only 18% and classifieds 25% (PEW 2011b, online).

(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%, own calculation)<sup>25</sup> in newspapers in 2010 (ZMG 2011b). In contrast, they only invested 8.4% 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 printed 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 of-line-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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23 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).

24 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. However, still retailers account for the largest share.

25 This calculation took all industries into account that were considered in the *Zeitungs-Werbebarometer* report.

26 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).

## 5. Conclusion and Outlook

Substitution effects between newspaper advertising and online advertising cannot be generalized. Instead, our paper has highlighted that there are industry specific patterns that determine if newspaper and online advertising rather 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 presented 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 theoretic, 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 according 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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9/00	Frank Jensen Niels Vestergaard	<i>Moral Hazard Problems in Fisheries Regulation: The Case of Illegal Landings</i>
10/00	Finn Olesen	<i>Moral, etik og økonomi</i>

11/00	Birgit Nahrstedt	<i>Legal Aspect of Border Commuting in the Danish-German Border Region</i>
12/00	Finn Olesen	<i>Om Økonomi, matematik og videnskabelighed - et bud på provokation</i>
13/00	Finn Olesen Jørgen Drud Hansen	<i>European Integration: Some stylised facts</i>
14/01	Lone Grønbæk	<i>Fishery Economics and Game Theory</i>
15/01	Finn Olesen	<i>Jørgen Pedersen on fiscal policy - A note</i>
16/01	Frank Jensen	<i>A Critical Review of the Fisheries Policy: Total Allowable Catches and Rations for Cod in the North Sea</i>
17/01	Urs Steiner Brandt	<i>Are uniform solutions focal? The case of international environmental agreements</i>
18/01	Urs Steiner Brandt	<i>Group Uniform Solutions</i>
19/01	Frank Jensen	<i>Prices versus Quantities for Common Pool Resources</i>
20/01	Urs Steiner Brandt	<i>Uniform Reductions are not that Bad</i>
21/01	Finn Olesen Frank Jensen	<i>A note on Marx</i>
22/01	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>Hot air in Kyoto, cold air in The Hague</i>
23/01	Finn Olesen	<i>Den marginalistiske revolution: En dansk spire der ikke slog rod?</i>
24/01	Tommy Poulsen	<i>Skattekonkurrence og EU's skattestruktur</i>
25/01	Knud Sinding	<i>Environmental Management Systems as Sources of Competitive Advantage</i>
26/01	Finn Olesen	<i>On Machinery. Tog Ricardo fejl?</i>
27/01	Finn Olesen	<i>Ernst Brandes: Samfundsspørgsmaal - en kritik af Malthus og Ricardo</i>
28/01	Henrik Herlau Helge Tetzschner	<i>Securing Knowledge Assets in the Early Phase of Innovation</i>

29/02	Finn Olesen	<i>Økonomisk teorihistorie Overflødig information eller brugbar ballast?</i>
30/02	Finn Olesen	<i>Om god økonomisk metode – beskrivelse af et lukket eller et åbent socialt system?</i>
31/02	Lone Grønbæk Kronbak	<i>The Dynamics of an Open Access: The case of the Baltic Sea Cod Fishery – A Strategic Approach -</i>
32/02	Niels Vestergaard Dale Squires Frank Jensen Jesper Levring Andersen	<i>Technical Efficiency of the Danish Trawl fleet: Are the Industrial Vessels Better Than Others?</i>
33/02	Birgit Nahrstedt Henning P. Jørgensen Ayoe Hoff	<i>Estimation of Production Functions on Fishery: A Danish Survey</i>
34/02	Hans Jørgen Skriver	<i>Organisationskulturens betydning for vidensdelingen mellem daginstitutionsledere i Varde Kommune</i>
35/02	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>Rent-seeking and grandfathering: The case of GHG trade in the EU</i>
36/02	Philip Peck Knud Sinding	<i>Environmental and Social Disclosure and Data-Richness in the Mining Industry</i>
37/03	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>Fighting windmills? EU industrial interests and global climate negotiations</i>
38/03	Finn Olesen	<i>Ivar Jantzen – ingeniøren, som beskæftigede sig med økonomi</i>
39/03	Finn Olesen	<i>Jens Warming: den miskendte økonom</i>
40/03	Urs Steiner Brandt	<i>Unilateral actions, the case of international environmental problems</i>
41/03	Finn Olesen	<i>Isi Grünbaum: den politiske økonom</i>
42/03	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>Hot Air as an Implicit Side Payment Arrangement: Could a Hot Air Provision have Saved the Kyoto-Agreement?</i>

43/03	Frank Jensen Max Nielsen Eva Roth	<i>Application of the Inverse Almost Ideal Demand System to Welfare Analysis</i>
44/03	Finn Olesen	<i>Rudolf Christiani – en interessant rigsdagsmand?</i>
45/03	Finn Olesen	<i>Kjeld Philip – en økonom som også blev politiker</i>
46/03	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>Bureaucratic Rent-Seeking in the European Union</i>
47/03	Bodil Stilling Blichfeldt	<i>Unmanageable Tourism Destination Brands?</i>
48/03	Eva Roth Susanne Jensen	<i>Impact of recreational fishery on the formal Danish economy</i>
49/03	Helge Tetzschner Henrik Herlau	<i>Innovation and social entrepreneurship in tourism - A potential for local business development?</i>
50/03	Lone Grønbæk Kronbak Marko Lindroos	<i>An Enforcement-Coalition Model: Fishermen and Authorities forming Coalitions</i>
51/03	Urs Steiner Brandt Gert Tinggaard Svendsen	<i>The Political Economy of Climate Change Policy in the EU: Auction and Grandfathering</i>
52/03	Tipparat Pongthanapanich	<i>Review of Mathematical Programming for Coastal Land Use Optimization</i>
53/04	Max Nielsen Frank Jensen Eva Roth	<i>A Cost-Benefit Analysis of a Public Labelling Scheme of Fish Quality</i>
54/04	Frank Jensen Niels Vestergaard	<i>Fisheries Management with Multiple Market Failures</i>
55/04	Lone Grønbæk Kronbak	<i>A Coalition Game of the Baltic Sea Cod Fishery</i>

56/04	Bodil Stilling Blichfeldt	<i>Approaches of Fast Moving Consumer Good Brand Manufacturers Product Development “Safe players” versus “Producers”: Implications for Retailers’ Management of Manufacturer Relations</i>
57/04	Svend Ole Madsen Ole Stegmann Mikkelsen	<i>Interactions between HQ and divisions in a MNC - Some consequences of IT implementation on organizing supply activities</i>
58/04	Urs Steiner Brandt Frank Jensen Lars Gårn Hansen Niels Vestergaard	<i>Ratcheting in Renewable Resources Contracting</i>
59/04	Pernille Eskerod Anna Lund Jepsen	<i>Voluntary Enrolment – A Viable Way of Staffing Projects?</i>
60/04	Finn Olesen	<i>Den prækeynesianske Malthus</i>
61/05	Ragnar Arnason Leif K. Sandal Stein Ivar Steinshamn Niels Vestergaard	<i>Actual versus Optimal Fisheries Policies: An Evaluation of the Cod Fishing Policies of Denmark, Iceland and Norway</i>
62/05	Bodil Stilling Blichfeldt Jesper Rank Andersen	<i>On Research in Action and Action in Research</i>
63/05	Urs Steiner Brandt	<i>Lobbyism and Climate Change in Fisheries: A Political Support Function Approach</i>
64/05	Tipparat Pongthapanich	<i>An Optimal Corrective Tax for Thai Shrimp Farming</i>
65/05	Henning P. Jørgensen Kurt Hjort-Gregersen	<i>Socio-economic impact in a region in the southern part of Jutland by the establishment of a plant for processing of bio ethanol</i>
66/05	Tipparat Pongthapanich	<i>Options and Tradeoffs in Krabi’s Coastal Land Use</i>

67/06	Tipparat Pongthana-panich	<i>Optimal Coastal Land Use and Management in Krabi, Thailand: Compromise Programming Approach</i>
68/06	Anna Lund Jepsen Svend Ole Madsen	<i>Developing competences designed to create customer value</i>
69/06	Finn Olesen	<i>Værdifri samfundsvidenskab? - nogle refleksioner om økonomi</i>
70/06	Tipparat Pongthana-panich	<i>Toward Environmental Responsibility of Thai Shrimp Farming through a Voluntary Management Scheme</i>
71/06	Finn Olesen	<i>Rational Economic Man og Bounded Rationality – Nogle betragtninger over rationalitetsbegrebet i økonomisk teori</i>
72/06	Urs Steiner Brandt	<i>The Effect of Climate Change on the Probability of Conservation: Fisheries Regulation as a Policy Contest</i>
73/06	Urs Steiner Brandt Lone Grønbæk Kronbak	<i>Robustness of Sharing Rules under Climate Change. The Case of International Fisheries Agreements</i>
74/06	Finn Olesen	<i>Lange and his 1938-contribution – An early Keynesian</i>
75/07	Finn Olesen	<i>Kritisk realisme og post keynesianisme.</i>
76/07	Finn Olesen	<i>Aggregate Supply and Demand Analysis – A note on a 1963 Post Keynesian Macroeconomic textbook</i>
77/07	Finn Olesen	<i>Betydningen af Keynes' metodologi for aktuel makroøkonomisk forskning – En Ph.D. forelæsning</i>
78/08	Urs Steiner Brandt	<i>Håndtering af usikkerhed og betydningen af innovationer i klimaproblematikken: Med udgangspunkt i Stern rapporten</i>
79/08	Lone Grønbæk Kronbak Marko Lindroos	<i>On Species Preservation and Non-Cooperative Exploiters</i>

80/08	Urs Steiner Brandt	<i>What can facilitate cooperation: Fairness, inequity aversion, punishment, norms or trust?</i>
81/08	Finn Olesen	<i>Heterodoks skepsis – om matematisk formalisme i økonomi</i>
82/09	Oliver Budzinski Isabel Ruhmer	<i>Merger Simulation in Competition Policy: A Survey</i>
83/09	Oliver Budzinski	<i>An International Multilevel Competition Policy System</i>
84/09	Oliver Budzinski Jürgen-Peter Kretschmer	<i>Implications of Unprofitable Horizontal Mergers: A Positive External Effect Does Not Suffice To Clear A Merger!</i>
85/09	Oliver Budzinski Janina Satzer	<i>Sports Business and the Theory of Multisided Markets</i>
86/09	Lars Ravn-Jensen	<i>Ecosystem Management – A Management View</i>
87/09	Lars Ravn-Jensen	<i>A Size-Based Ecosystem Model</i>
88/09	Lars Ravn-Jensen	<i>Intertemporal Choice of Marine Ecosystem Exploitation</i>
89/09	Lars Ravn-Jensen	<i>The Stock Concept Applicability for the Economic Evaluation of Marine Ecosystem Exploitation</i>
90/09	Oliver Budzinski Jürgen-Peter Kretschmer	<i>Horizontal Mergers, Involuntary Unemployment, and Welfare</i>
91/09	Finn Olesen	<i>A Treatise on Money – et teoriehistorisk case studie</i>
92/09	Jurijs Grizans	<i>Urban Issues and Solutions in the Context of Sustainable Development. A review of the literature</i>
93/09	Oliver Budzinski	<i>Modern Industrial Economics and Competition Policy: Open Problems and Possible limits</i>

94/09	Thanh Viet Nguyen	<i>Ecosystem-Based Fishery Management: A Critical Review of Concepts and Ecological Economic Models</i>
95/09	Finn Olesen	<i>History matters – om især den tyske historiske skole</i>
96/09	Nadine Lindstädt	<i>Multisided Media Markets: Applying the Theory of Multisided Markets to Media Markets</i>
97/09	Oliver Budzinski	<i>Europäische Medienmärkte: Wettbewerb, Meinungsvielfalt und kulturelle Vielfalt</i>
98/10	Niels Vestergaard Kristiana A. Stoyanova Claas Wagner	<i>Cost-Benefit Analysis of the Greenland Offshore Shrimp Fishery</i>
99/10	Oliver Budzinski Jurgen-Peter Kretschmer	<i>Advertised Meeting-the-Competition Clauses: Collusion Instead of Price Discrimination</i>
100/10	Elmira Schaimijeva Gjusel Gumerova Jörg Jasper Oliver Budzinski	<i>Russia's Chemical and Petrochemical Industries at the Eve of WTO-Accession</i>
101/10	Oliver Budzinski	<i>An Institutional Analysis of the Enforcement Problems in Merger Control</i>
102/10	Nadine Lindstädt	<i>Germany's PSB going online – is there an economic justification for Public Service Media online?</i>
103/10	Finn Olesen	<i>Paul Davidson: Om Keynes – en kommenterende boganmeldelse</i>
104/10	Liping Jiang	<i>Price Formation of Dry Bulk Carriers in the Chinese Shipbuilding Industry</i>
105/10	Lisbeth Brøde Perttu Dietrich	<i>Knowledge Communication in Product Development Projects</i>
106/10	Perttu Dietrich Lisbeth Brøde	<i>Boundary Management in Projects: Antecedents, Activities and Performance</i>

107/11	Urs Steiner Brandt Niels Vestergaard	<i>Assessing Risk and Uncertainty in Fisheries Rebuilding Plans</i>
108/11	Oliver Budzinski	<i>The Institutional Framework for Doing Sports Business: Principles of EU Competition Policy in Sports Markets</i>
109/11	Oliver Budzinski Janina Satzer	<i>Sports Business and Multisided Markets: To- wards a New Analytical Framework? (Long Version)</i>
110/11	Bent Ole Gram Mortensen	<i>Juridiske aspekter ved vedvarende energi på havet. Dansk Lovgivning</i>
111/11	Liping Jiang Siri Pettersen Stranden	<i>Assessing the cost competitiveness of China's shipbuilding industry</i>
112/11	Oliver Budzinski	<i>Impact Evaluation of Merger Decisions</i>
113/11	Nadine Lindstädt Oliver Budzinski	<i>Newspaper vs. Online Advertising – Is There a Niche for Newspapers in Modern Advertising Markets?</i>