

Newspapers: The high price of low demand

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Credit: University of Michigan

Newspaper readership has been in a freefall—between 2006 and 2011, print dailies lost 20 percent of their paid subscribers thanks to wide access to other news sources.

So what did publishers do in the face of this lower demand? Raise

subscription prices.

Though it may seem counterintuitive, it's the right move, said S. Sriram, associate professor of marketing at the University of Michigan Ross School of Business. That's because newspapers also rely on advertising revenue, which also is declining.

This two-sided market is what makes pricing more dynamic when demand shifts, he said. Sriram and colleagues Adithya Pattabhiramaiah of Georgia Tech and Shrihari Sridhar of Penn State developed a model that explains the rationale behind the counterintuitive pricing by publishers.

"Readers are less willing to pay for the print product so you'd wonder why newspapers would raise prices, but you have to consider that advertisers also are less willing to buy [print ads](#)," Sriram said. "In the past, high advertising rates subsidized low prices for readers. But with advertisers less willing to pay for [print](#) ads, the economics change."

In the past, as much as 87 percent of [newspaper](#) revenue came from advertising. Now, it's about 65 percent, Sriram said. When publishers could charge high [advertising](#) rates, it made sense to prop up readership to justify those prices.

The nature of newspaper readers also has changed to a more loyal, hardcore audience that's less price sensitive, according to the research.

"Newspapers are becoming a niche product, and what they're doing now with pricing makes sense," Sriram said.

Their [pricing](#) model could also be applied to other two-sided markets such as credit card companies and dating websites.

"By studying what happened with newspapers we might be able to understand other markets with similar conditions," Sriram said.

Provided by University of Michigan

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