

# **Newspapers, digital subscription services can optimize profits with new model**

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For decades, newspapers have relied on print advertising as their primary source of revenue. However, as newspaper readers continue to read more of their news online rather than in print, advertising revenue is dwindling for many newspapers. Now, researchers from the University of Missouri have developed a model that will enable newspapers to maximize their revenues from advertisements and subscriptions by offering a variety of subscription plans. The researchers' test of their new model at one major US newspaper indicated a potential increase of more 17 percent in the newspaper's profits.

For their study, Vamsi Kanuri, a former doctoral student in the MU Trulaske College of Business, along with his advisor, Murali Mantrala, the Sam M. Walton Distinguished Professor of Marketing and chair of the Department of Marketing at MU, surveyed more than 1,100 readers of a prominent west coast daily newspaper to determine which newspaper subscription plans were most appealing to readers. These plans ranged from print-only subscriptions to combinations of print, online and mobile subscriptions. The plans also varied in price based on the combination of channels, frequency of distribution, and whether or not they were advertisement-free.

The researchers also obtained data on how advertisers' spending on different media channels varied with the combined numbers of readers in print and digital channels. Combining these data with reader channel preferences, the researchers created an algorithm that determines the menu of subscription plans a newspaper should offer in order to

maximize total revenues from subscriptions and advertising.

"Newspapers are in a quandary; they need to find ways to increase revenues without raising prices or creating barriers that will cause them to lose readers," Kanuri said. "In developing this algorithm, it was important to determine readers' preferences for how they wanted to receive their news, as well as to determine readers' willingness to pay for different types of subscription plans. Once we gathered that data, we were able to streamline a process for making decisions about which subscription and advertising plans to offer in order to maximize profits without losing readers."

Kanuri and Mantrala say this new model can be used by any newspaper staff to determine how to structure their business model to best monetize their content given their available channels. To utilize the model, each newspaper needs to conduct its own reader and advertiser surveys. Once that data are collected and organized by reader segment, newspaper leaders can use estimates from the analysis of that data by the new subscription menu optimization algorithm.

Kanuri and Mantrala say that the algorithm potentially can be applied to any Internet-based subscription service with multi-tiered subscription plans and advertising revenues, such as Pandora, Hulu or Spotify. Mantrala says determining which [subscription plans](#) are most profitable can lead to increased revenue for any subscription-based ad-supported media platform, much like the [newspaper](#) they worked with to develop the model.

"Any subscription-based service can use this model if they do the requisite research to determine subscriber interest and willingness to pay for various tiers of service," Mantrala said. "Using this [model](#), as opposed to years of costly trial and error, can help newspapers and other online businesses greatly improve their profits."

**More information:** Vamsi K. Kanuri et al. Optimizing a Menu of Multi-format Subscription Plans for Ad-Supported Media Platforms, *Journal of Marketing* (2016). [DOI: 10.1509/jm.15.0372](https://doi.org/10.1509/jm.15.0372)

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