

A letter to our readers

June 1, 2012

Dear Readers:

This week the Arkansas Democrat-Gazette is increasing its price for newspapers sold in vending machines and stores to \$1.00 daily and \$2.00 on Sunday. We want to share with you why we think this new price is necessary.

The Arkansas Democrat-Gazette has, for more than 20 years, kept its prices as low as possible. The last time the daily single copy price was increased was in 1996, 16 years ago. Up until now, the cover price of the Arkansas Democrat-Gazette has been lower than virtually all other newspapers of its size in the United States. Our home delivery prices are also among the lowest of any newspaper our size.

We have kept our circulation pricing low intentionally. The reason was to maximize our circulation. By doing so, we delivered the maximum audience for our advertisers.

Newspapers have historically offered a unique value proposition. Until recently, a typical newspaper would derive about 80% of its revenues from advertising and 20% from circulation. As a result, much of the cost of producing the newspaper was covered by advertising revenues, allowing circulation prices to remain low. Yet advertisers also benefited by having low circulation pricing, as that maximized the circulation and reach of their advertising.

Since 2006, or in six short years, the advertising business, and likewise the newspaper business, has fundamentally changed. With the exception of some signature and unique events like the Super Bowl and NFL football games, the price of advertising in the United States has declined in recent years. This is due to the laws of supply and demand. At any given time there is a fixed demand for advertising. But in the past decade, there has been an enormous increase in a number of companies selling advertising. From local cable television and niche magazines to satellite radio advertising, from the Internet, including general sites like Yahoo! and Google, and specific sites like AutoTrader.com and CareerBuilder.com, and now Facebook and Groupon, the choices have multiplied.

As a result, ad revenues in traditional media like radio, TV, newspapers, and magazines have declined in recent years. Newspaper advertising in the United States has declined every year for the past six years. In 2011, combined newspaper ad revenues for all daily newspapers in the United States were down from some \$49 billion in 2006 to \$24 billion in 2011, a 51% decline.

As a result of these advertising losses, newspapers have reacted in numerous ways to reduce costs. Newspapers have reduced staffing. Some large metropolitan papers have cut their newsroom staff by over 50%. Many have also reduced the amount of space they devote to news. Others have shifted from being a newspaper of record to focusing only on local or hyper-local news. Many newspapers have intentionally eliminated circulation in outlying areas, even areas where readers wanted the newspaper and would respond to the advertising. Many have closed their printing facilities, contracting with other nearby publishers. Most newspapers have instituted hiring and wage freezes, furloughs, and across-the-board staff reductions.

At the Arkansas Democrat-Gazette, we too have had wage freezes and furloughs. But in many ways we have charted a different course. Rather than cutting back on circulation in outlying areas, we have continued to be a statewide newspaper. We believe readers throughout Arkansas are interested in statewide news, and we see evidence that advertisers benefit from our large circulation. Our daily circulation of 178,906 is higher than ten

years ago. By maintaining our circulation, and with losses at many other newspapers around the country, today the Arkansas Democrat-Gazette is the 25th largest daily newspaper in the United States in print circulation.

Although we have had some reductions in our news staff, they are relatively minor compared to most newspapers around the country. We believe providing unique, relevant, and important news is at the very core of our mission and future. We also continue to provide complete coverage of all news, whether foreign, national, state, or local. We believe our readers deserve and expect that from us, and that readers want more than just local news. And, as noted above, we have kept our circulation pricing lower than most newspapers around the country.

Despite all of these efforts, our advertising, like most newspapers, has continued to decline. Even though advertisers tell us they get good results from advertising with us, they have far more options on where to advertise today. With this loss in ad revenues, and by maintaining our circulation and news reporting, we have seen our profits dwindle to unsustainable levels. For a newspaper to be viable and successful, it must be profitable. Newspapers, like all businesses, must make some profit in order to reinvest in the business.

We have recently seen some major newspapers take the extraordinary step of switching from daily to weekly publications. The Detroit newspapers only offer home delivery three days a week. Newspapers in New Orleans, Birmingham, and Mobile have announced they will go from seven-day-a-week publication to three-day-a-week publication.

At the Arkansas Democrat-Gazette, our plan is to remain a statewide, seven-day-a-week daily newspaper. We also plan to maintain our news staff and provide the type of complete, in-depth reporting that Arkansans have expected from us for decades. But with continued advertising declines, we can see no other way to do this other than fundamentally changing our revenue base. In the future, we will have to rely more heavily on revenue from readers and subscribers.

Many other newspapers are already doing this. Today the Dallas Morning News costs over \$36 a month for home delivery, and the San Francisco Chronicle costs over \$46 a month. While we do not believe we need prices that high, clearly more of our revenue will need to come from our readers.

We wish we could continue our old business model of relying mostly on advertising revenue. It worked great for years. But it is not working in today's environment. We believe our newspaper, like every institution and business, must adapt to change. If you as our readers will support this change, we can continue to have a daily newspaper that all Arkansans can be proud of as one of the best in America.

Sincerely,

Walter E. Hussman, Jr. Publisher

Arkansas Democrat  Gazette
Arkansas' Largest Newspaper