

# Viability of the free newspaper business model

Travel into any large metropolitan area in Western Europe, and you struggle to avoid them! Free newspapers are everywhere, and, if success were measured by total circulation, then they would be doing extremely well. But, being free, it's not and most are losing money. Piet Bakker looks at whether there can be a profitable future for free newspapers.

**W**ith 240 titles published in almost 60 countries worldwide, and with a total circulation of 44 million copies a day, free daily newspapers have proven to be more than a passing phenomenon. In terms of circulation and readership, free dailies are indeed a 'success'. In terms of revenues and profits, however, the picture looks rather different. A quarter of the 320 free dailies that have been launched so far have already closed down. Metro International, the largest publisher of free dailies, only made a profit in 2006. In Spain, three of the four national titles are losing money. In the London evening market, two free papers are engaged in a vicious battle leading to losses for both. In Denmark, the number of free dailies dropped from eleven in 2006 to four in 2008, three of them losing money. This begs the question whether free dailies are the reinvention of the newspaper which can bring new readers and revenues to the industry, or just a bubble about to burst.

## Launch of Metro

When *Metro* was launched in February 1995 in Stockholm, the business model was rather simple. Save costs on distribution and subscription, concentrate on material from press agencies, employ a small staff and hand out a tabloid to people with free time on their hands: commuters. With lower rates than paid papers but with a high circulation and an attractive demographic, the new *Metro* made money within a year. This success-story soon came to an end. Operations in the UK, Argentina, Switzerland and Poland were closed, while the Czech and the Finnish editions were sold. Other publishers had similar experiences; while Metro UK (Associated Newspapers) and the Swiss *20 Minuten* (Tamedia) proved to be successful within a few years, most publishers were less lucky. In 2008, probably 70% of the remaining 240 titles are losing money – the exact number is not certain as most publishers do not break out separate data for all publications. The main reason, however, is that the majority of these titles launched only in the last few years, and

don't expect to make money yet.

Total circulation of free dailies has increased every year since 1995 – with an average growth rate of 60% (see table). But this growth was in no way linear. In both 1999 and 2000, circulation increased by more than 250% but the recession of 2001 slowed down growth to 33% and to 13% in 2003. After that, growth picked up again, to almost 50% in 2006. Between 2004 and 2006 circulation doubled from 18 to 36 million. In 2007, the growth

rate dropped to 16% while in the first six months of 2008 circulation increased by no more than 6%.

Newspapers, and free dailies in particular, are vulnerable to economic changes because of their dependence on recruitment and consumer goods advertising. This does not mean that the free newspaper model is problematic per se, but it does mean that the stand-alone free newspaper will find it difficult to survive a recession as the publisher will have no other sources of income. With launching costs being between €5 and €20 million and an expected break-even point of three to seven years

(with the latter more likely than the former), publishers need very deep pockets to keep the presses going.

## Saturation point?


The second point the table illustrates is that total circulation seems to be reaching a saturation point. With a 6% growth in the first six months of 2008, an all-time low in circulation growth has been reached. A more detailed investigation of some mature markets confirms this view. The Danish example has been mentioned before: from eleven to four titles in two years while circulation dropped by more than 30% in this period. But also in Sweden, the Czech Republic, Spain and Italy, titles folded and circulation went down. Not all markets, however, follow this pattern. In the UK, the Netherlands, Hong Kong, and Iceland, free circulation has shown a steady growth for at least five years.

Three models of free newspaper seem to be the most difficult to sustain: afternoon papers, sports papers and home-delivered papers. Afternoon papers suffer from distribution problems, readers are more tired and probably have read news online during the day, while they also compete with morning papers that are still lying around. In Sweden, Germany, Spain, Italy, the Netherlands, Denmark, Switzerland, Chile, and Singapore, free afternoon dailies closed down. In fact, almost half of the afternoon papers have closed down so far, while in total,

## “Total circulation seems to be reaching a saturation point”

25% of free dailies launched stopped publication. In France, Croatia, Switzerland, the UK, the Ukraine, Argentina, Chile, Australia, Israel and Korea, free afternoon papers are still published.

Sports newspapers have problems attracting advertisers. While there are many men interested in sports, not many advertisers seem to be interested in these men, and when they are interested they use their budget for sponsoring. Sports papers in Spain, Italy, Germany and Portugal folded, mostly within one year.

Home-delivery of free newspapers on a substantial scale was first used in Iceland, lack 

The development of free newspapers.							
	1995	1996	1997	1998	1999	2000	2001
<b>Countries</b>	2	2	4	6	13	24	29
<b>Titles</b>	2	2	5	7	30	64	82
<b>Circulation (,000)</b>	231	249	558	918	2891	7566	10043
	2002	2003	2004	2005	2006	2007	2008
<b>Countries</b>	32	32	37	43	51	56	58
<b>Titles</b>	85	99	127	161	225	247	238
<b>Circulation (,000)</b>	12596	14674	18073	24634	35861	41511	44014

“A free-daily-monopoly is in fact quite rare. The result seems to be quite devastating.”

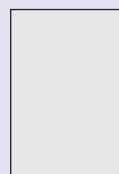
of public transport being the obvious reason. The London slugfest  
 The model was later introduced in Denmark, The launch of Metro UK (Associated Newspapers) was a deliberate attempt to prevent Metro in the US, the Czech Republic, the Netherlands and Switzerland. In Denmark, one of the papers (Dagbladet) closed down, while in the UK, the Daily Mail was cut down on paper that made money without hurting their home-delivery. Also the Czech paper closed, while in the US, the Examiner (US), CH (Switzerland) and De Pers (the Netherlands) all reduced home-delivery. Metro in the market, and protect their new brand. The costs of the model were approaching that of a free paper against competitors. So, when Murdoch wanted to start his own free paper, Associated reacted by launching Standard Lite, changing that later to London Lite. This didn't prevent Murdoch from starting the London paper, with the result that both evening papers are losing money now, as is paid competitor the Evening Standard.

Victims of own success

The biggest problem for free newspapers, however, does not concern recessions and saturated markets but their own 'success'. The table shows growth, not only in circulation but remaining titles still in the red, the business model also in countries with free newspapers and titles being launched. For the first four years (1995-1998), the number of titles was equal to the number of countries, monopolies in most publishers don't expect to make money in every market. In 1999, there were 27 titles in 13 countries, growing to 96 in 32 countries. In 2003 and 2006, with paid papers losing ground in almost every major metropolitan market, competition has increased dramatically. In the Korean capital Seoul, eight titles compete, in Italy 10 titles are available in most major markets, in Spain 10, in Portugal, the Netherlands, Switzerland, France and Denmark four titles compete. Even in small countries like Iceland, Andorra, Macedonia and Luxemburg, free dailies compete. A free daily-monopoly is in fact quite rare. The result seems to be quite devastating. Advertisers love competition and use it to put pressure on papers by asking for higher discounts. In countries like Sweden, Spain, Italy, the Netherlands and Denmark, discounts up to 90% are reported.

Although one or two free dailies in a market can make money, four or more titles will spoil the market in such a way that everybody is suffering, including paid papers. In theory, nobody will launch a free daily when the chances of profits are minimal. In real life, this might be somewhat different. There are quite a few free papers that were mainly launched as spoilers to protect the market of incumbent publishers. In Denmark, both leading publishers immediately launched their free home-delivered spoilers when an Icelandic publisher announced their plans for such a paper. In Germany, leading publisher Axel Springer (Bild Zeitung) launched a spoiler in 1999 against Schibsted and threatened to do that again against any new attempt. Also in France, the Netherlands, Chile, the USA, Italy and Switzerland, spoilers were launched.

OUR CORRESPONDENT



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Archive tip: Ray Snoddy wrote “The rise of the frees” for our January / February 2008 issue. Read the full article at: [www.incirculation.co.uk/archive](http://www.incirculation.co.uk/archive)