

Performance and Challenges of Newspapers in India: A Case Study on English versus Vernacular Dailies in India



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Newspapers has shown steep decline of circulation and advertising revenue in the west. Online advertising is taking away the majority of advertising revenue from print Increasing printing costs also a major concern for the decline of profits of newspapers. Asian countries like Japan, China and India is not seeing any immediate threat for daily newspapers as these countries are dominated by vernacular dailies compared to English language dailies. This paper will highlight the performance and challenges of English and vernacular daily newspapers in India. It will also highlight the impact of technology of daily newspapers in India.

1. Introduction

1.1 Present Shape of the Print Business in India

Decline of print and growth of online in US and other parts of Europe is completely different from emerging countries like Brazil & India. It is fact that social media, smart phone and tablet penetration is on rise but there are other facts that are more important. Print in Brazil, India, China and Japan is growing and it will continue along with the growth of online and other media. As per the World Press Trends 2008 report, over 110 million copies sold every day in India and is the second largest market in the world. Of the top 100 paid-for-dailies in the world, 19 are from India, second only to China which has 25. According to the Capstone Report 2011, publications in economies like Brazil and Chile are not suffering from the immediate loss of advertising and readership as experienced by many Western newspapers, and hold a generally optimistic view for the future of print; they can see their audiences moving online. News markets in Asia, Africa and South America may not have matured fully yet, but they should expect to be faced with similar challenges in the next 10 to 20 years. There are two reasons for this. One the internet penetration is so low. The other is that newspapers in India are delivered at home. In the US or UK, a bulk of newspaper sales come from newsstands.

Over the years, the print industry in India has morphed into something that is quite different from most markets in the world. There are several factors that set us apart.

The first factor is literacy. For all pretensions of having English as a link language, the fact is that just over sixty percent of all Indians can read or write. An even smaller percentage is capable of reading the issues that a newspaper writes about since literacy is defined as the ability to sign one's name. Unlike TV or radio, this factor automatically limits the growth of print. The flipside is that the English language press commands a premium because of this reason since advertisers automatically value anyone who can read an English Newspaper. Of course the gap in the advertising rates between English and non-English publications have been narrowing, because of the rise in purchase power, across the country.

Second factor is in India the sense of nation is very strong. Newspapers like The Times group, The Hindu, Hindustan Times all strive to be national papers in English. The growth for even large Indian language groups, such as DB Corporation or Jagran, hinges on their ability to offer a national or pan-regional footprint. This is not how the market developed elsewhere in the world. The US has just one national newspaper, USA today, which is weak competition for the thousands of local papers that take away more than 80% of print ad revenues.

Third factor is over-dependence on advertising. It distorts the market and makes the industry more vulnerable to a slowdown. That is because there is strong positive correlation between the growth of GDP (Gross Domestic Product) and advertising. It is debilitating for publishers to sell for Rs.1.00 – Rs.5.00, newspapers that cost anywhere between Rs.15.00 – Rs.20.00 a copy just to produce and this does not include fixed costs. That means circulation brings in just about 5-15 percent of the revenues for English language newspapers and about 30-45 percent for languages ones.

1.2 Falling Time Spent on Print and Digital Media

Many analysts claim the dropping time spent on reading and the internet eating away at print revenues. According to IRS data, the daily time spent reading print fell from 32 minutes in 2000 to 28 minutes in 2012 even as the number of readers grew from 232 million to 351 million. So, more numbers are reading, albeit for less time. However, this has to be juxtaposed against the time spent on other media. Given that all media in India is booming simultaneously, print has lost surprisingly less reader time (Exhibit: 1).

As for the internet, until India's literacy, electricity and broad band problems are taken care of, it is a long way from being a threat to any media, let alone print. One can argue that if TV, which depends on electricity, could reach 153 million homes

and over 700 million people, why can't the internet? Besides electricity, the big limitation on the growth of the internet versus TV is literacy and the ability to use computers and software. Experts say that this gap could better exploit by mobile internet. The tablet already does it well. Many reading apps available on tablets have brought hope to the print market.

According to Hansa Research and Indian readership Survey (IRS) newspapers reach just over 35 percent of Indians. The most worrying part is that the average time spent on reading print media is declining whereas time spent on Internet is increasing. (Exhibit 1)

Exhibit 1 *The Time Spent on Media and the Reach of Media (Weekdays)*

		2000	2001	2002	2003-04	2005	2006	2007	2008	2012
Press	Number of readers (in millions)	232	233	231	252	360	300	302	320	351
	Time spent in minutes. All India 12+	32	31	30	29	35	30	27	26	28
TV	Number of viewers (in millions)	333	343	350	370	386	423	437	460	569
	Time spent in minutes. All India 12+	114	110	112	108	106	95	92	98	100
Radio	Number of listeners (in millions)	122	105	101	138	153	162	173	178	158
	Time spent in minutes. All India 12+	64	63	66	80	80	74	69	81	73
Internet	Number of users (in millions)	3	5	8	12	12	14	11	14	42
	Time spent in minutes. All India 12+	65	65	66	58	60	61	69	68	79

Source: Hansa Research & IRS

Note: 12+ refers to age group

2. The Economics

2.1 Costs

The cost of producing a newspaper or magazine depends on the number of pages, the extent of color used, the quality of paper, circulation and the degree of competition in the market among several factors. These could change from year to year. The typical cost heads are: Production/printing, people costs, marketing costs and distribution costs.

Production/Printing: These are variable costs which vary with the size of the print run. Newsprint forms 50-60 percent of the production cost, and its prices oscillate anywhere between \$400 to 1000 per tonne, depending on demand. The more the number of copies printed, the more money is lost-unless every jump in circulation fetches an increase in advertising revenues that is more than or equal to, the rise in printing costs.

Typically, advertising revenues have subsidized the real price of newspapers for readers. According to one circulation, a newspaper costs between Rs.15 to Rs.20 to produce but it sells from Rs.1 to Rs.5. Assume that it sells for Rs.1 to Rs.2.50 like most English dailies that would bring Rs.0.60 to Rs.1.50 back to the publisher's kitty after taking out trade commission. In the years that the ad spend on print was growing slowly, there was no incentive to invest in circulation for it would eat into profits. Many leading newspapers and magazine companies deliberately cap circulation. It is routine for publishing companies to drop in and out of ABC (Audit Bureau of Circulation) in the years when newsprint costs are high. Those are the years they do not spend on increasing circulation.

A distinction has to be made here between language and English dailies. Paradoxically, though the former reaches a less affluent audience, the cover price is higher. This could range between Rs.2.50 to Rs.6.00 depending on the language and also on whether it is weekend edition. This is because even with higher circulation, the ad rates they can command are significantly lower than those for English newspapers. The actual proportion varies across brands, languages and regions. English newspapers usually get anywhere between 25-50 percent more on cost per thousand, according to one estimate.

People Costs: What remain more or less fixed are staff costs and other overheads. Roughly, people costs vary between 12-20 percent of revenues depending on whether it is English or an Indian language publication. Over the past few years, however, as more brands have been launched and competition has increased, there has been a shortage of people in the business. As a result, people costs have gone up by about 2-4 times of what they were in 2006.

Marketing Costs: This is a new imperative in the age of multiple editions and multimedia competition. Toward off competitors within print and from TV, radio or other media, it is crucial that a brand creates its own identity.

Distribution costs: This includes trade margins and the cost of returns or 'unsold'. The hawker who collects the money from readers' homes usually pays the salaries of the line boys. The hawker, in turn, makes anything between 18-25 percent on the cover price of the newspaper. The commission could vary according to the publication, the area, the city and the norms there. It could be significantly higher if the newspaper or magazine is not an ABC member and therefore not subject to its rules. The unsold are a regular part of the business; the average volume of these returns varies between 1-5 percent depending on its city and its trade norms in the case of newspapers. In magazines, unsold could be as high as 10-25 percent, moving progressively upwards as the frequency of magazines increases. According to one analysis for large publishing brands such as Times of India and Dainik Jagran, selling and distribution expenses are roughly 7-8 percent of gross sales.

2.2 Revenues

Revenues come from *circulation, advertising, subscriptions, brand extensions and internet/mobile/apps*.

Circulation: This is brought in from the cover or retail price of a magazine or a newspaper after deducting trade margins and the cost of unsold copies. The ratio could change depending on a number of things- circulation, language, price and frequency.

Advertising: About 80 percent of a publication's revenues come from advertising and the rest from circulation. This again could vary by language, frequency, price, the market it addresses and so on. The best way to look at ad growth is to look at both advertising rates and volumes.

Subscriptions: Inspired by publications like Reader's Digest magazines like India Today or Femina launched high-profile subscriptions schemes. Earlier, these were treated as revenue stream. The fact is that most subscription schemes are subsidized with free gifts. While they do bring in cash they also involve a huge cost, of more copies to be printed, transported as well as the cost of marketing the subscription offer. So, subscription schemes are really about buying circulation-unless the magazine is actually making a profit on every additional copy sold to the subscriber, which it does not. Most subscription schemes are used to ramp up circulation numbers and demand a higher rate from advertisers.

Brand Extensions: There are several ways in which a magazine or newspaper can extend the same brand to tap into different revenue streams. These include, among others, events, TV programs, compact discs, seminars, roundtables, syndication of content and education. This is especially true for specialized magazines or papers.

Internet/Mobile/Apps: Most Indian newspapers and magazines have been ramping up their internet and mobile presence to generate revenues using their original content. However, both are not yet significant contributors to revenue.

3. Comparative Performance of English Versus Vernacular Dailies from 2008 to 2013

3.1 Newspapers' Performance in 2008

The structure of the Indian Newspaper industry continues to be highly fragmented and regional dominant. According to IRS (Indian Readership Survey) of the total print publications in the country, around 90 percent consists of Hindi and other vernacular languages. Regional dominance is not typical of only vernacular papers; even English news dailies have managed to gain dominance only in specific pockets. Large print media players like HT Media, Jagran Prakashan, Dainik Bhaskar, Eenadu or Deccan Chronicle have region-specific reach.

Advertising revenue continues to be the key growth driver behind the industry as declining readership and increasing competition has led the players to further reduce their cover prices. As result, this sector has been the most affected by the slowdown in advertising due owing to the recent downturn. Further, due to rising newsprint costs players were compelled to undertake multiple advertisement rate hikes during the first half of 2008, which on one hand improved per unit realizations from advertising, but on the other hand made the media an expensive proposition for most advertisers.

The sector witnessed a lot of action in 2008, especially in the first half, with the Spurt in the number of specialty magazines, launch of niche newspaper supplements, as well as aggressive portfolio and geographic expansion by different companies, both in the national and regional space. Both the newspapers and magazine players also displayed increasing tendency to aggressively compete with each other to reach their target audience. More newspaper players have started to introduce niche supplements to counter the onslaught of specialty magazine launches. These developments benefited both the consumers, due to increased availability of choices and better product quality, as well as the advertisers due to better chances of reaching the target audience.

With a readership base of over 250 million, India is the second largest print market in the world (MRUC). However, this market is still under penetrated for a country with a population in excess of 1,200 million and highly fragmented with over 60,000 newspapers printed in 22 languages (Registrar of Newspapers of India). As per IRS the low penetration of the print market provides a significant growth opportunity with 359 million who can read and understand any language but do not read any publication. With an 85 percent reach in the urban markets (SEC A and B) and an abysmal 33 percent reach in rural markets (SEC C, D and E), we believe that a major growth opportunity lies in the vernacular markets.

The Indian Print Media industry is estimated to have grown by 7.6 percent in 2008 and reaching around INR 172.6 billion in size. The corresponding size was INR160.4 billion in 2007. The performance of the sector was affected by the economic slowdown, which has affected advertising industry. Advertising revenues is estimated to have increased by 8 percent over the previous year to reach INR 108.36 billion in 2008. The sector has been adversely affected by the economic meltdown, and the advertising rate growth has been lower than TV due to higher exposure to real estate, auto and travel, and lower FMCG contribution. Further, enhanced competition has also led to fall in average cover prices which have countered the rise in circulation volumes for the players. Circulation revenues have only risen by 7.4 percent over the year to reach INR 64.3 billion. The sector is thus estimated to have grown by a CAGR of 13.8 percent over the past three years, a growth rate which is still higher as compared to the single digits growth witnessed in other nations. *The industry is projected to grow at a CAGR of 9 percent over the next five years and reach around INR 266 billion in size by 2013.*

Exhibit 2 Print Industry Revenue from 2005-2008

Print Industry (INR billion)	2005	2006	2007	2008
Newspapers	108.0	128.3	148.3	158.7
Magazines	9.1	10.3	12.1	13.9
Total Industry Size	117.1	138.6	160.4	172.6

Source: Group M, KPMG Interviews, KPMG Analysis

Growth Drivers in 2008

1. Sustained growth in advertisement revenues due to increased advertising spends by the emerging sectors such as Education, Organized Retail and Telecom.
2. Improving literacy levels in the country.
3. Optimization of cover prices leading to improved penetration and growth in sales volume.
4. More launches in the niche segment, like newspaper supplements and specialty magazines, by players.

3.2 Newspapers' Performance in 2009

Average cover prices over the last few years were flat as any increase was offset as entry into new geographies were typically through cover price reductions. However, in 2009, with pressure on advertisement revenues, most players across the sector looked to increase their cover prices to stabilize its revenues. Industry estimates indicated that major newspapers increased cover prices by 15–20 percent on an average, with some newspapers increasing prices by close to 40 percent in some regions. However, a continued increase in cover prices is unlikely as companies are likely to revive their expansion plans once the economy recovers. Further, any major growth in cover prices could adversely impact print media penetration.

According to company financials and KPMG report newsprint costs comprise approximately 30-35 percent of total revenues and 50–55 percent of total costs of a newspaper. Indian companies typically use a mix of imported and domestic newsprint with the imported to domestic ratio varying from 70:30 for English newspapers to 30:70 for Hindi and vernacular newspapers. Newsprint prices have been volatile over the last couple of years dropping from a high of USD 960/ ton in October 2008 to around USD 480/ ton in June 2009 with a subsequent increase since September 2009 to around USD 600/ ton in January 2010. The price decline through most of 2009 helped newspaper companies to partially protect their margins from the tightening of advertisement revenues.

The 2009 was generally a year of caution with no major 'big bang' launches and most players deferring their expansion plans. However, some geographical expansions were noted, primarily by regional players, such as Rajasthan Patrika (MP expansion), Lokmat (Goa) and Hindustan (Allahabad and Bareilly). Among English newspapers, HT Media's Mint was launched in Kolkata and Chennai, the Financial Chronicle was launched in Delhi, while the Times of India launched its weekend newspaper – the Crest. There were also some niche magazine launches such as Yuva, Sports Illustrated, Fortune, and the Lonely Planet, etc.

Exhibit 3 Circulation and Advertising Revenue Split

Print Industry (INR billion)	2008	2009
Advertising	108	103
Circulation	64	72
Total Industry Size	172	175

Source: Group M, KPMG Interviews, KPMG Analysis

Exhibit 4 Newspapers and Magazines Revenue Split

Print Industry (INR billion)	2008	2009
Newspapers	159	162
Magazines	13	13
Total Industry Size	172	175

Source: Group M, KPMG Interviews, KPMG Analysis

The Indian Print Media segment is estimated to have grown by two percent in 2009 to INR175 billion from INR172 billion in 2008. As a consequence of the continued impact of the economic slowdown from the latter half of 2008 onwards, print advertising revenues declined by five percent in 2009 with decline in advertising revenues of English newspapers being partially offset by growth in Regional print (albeit at lower than historical levels). In 2009, while overall advertisement volumes of English newspapers declined by one percent, a higher exposure to adversely impacted sectors such as BFSI, Real Estate, Tourism, and Automobiles etc resulted in a significant advertisement revenue decline in English newspapers. Regional newspapers being impacted by a lesser degree grew by eight percent during 2009. Circulation revenues grew by 13 percent as

companies attempted to protect their margins through increased cover prices across segments. This is unlikely to continue and cover prices would rationalize to earlier levels over time especially with increasing competition and potential expansion by various players into new markets.

As per INS (Indian Newspapers Society) the Print landscape is dominated by regional newspapers which target a population of approximately 0.98 billion. Of the more than 62,000 newspapers printed, around 92 percent are published in Hindi and other vernacular languages. English newspapers focus primarily on the metro cities with a population of approximately 0.5 billion. As a result, regional language newspapers also dominate the readership statistics with only one English newspaper (The Times of India) in the top 20 newspapers and none in the top 10 newspapers (IRS, 2009 R2). A comparison of the readership of top 5 publications in various major Indian languages (set out below) indicates that Hindi newspapers (159 million readers) have significantly high readership as compared to English newspapers (31 million readers). Further, even some of the vernacular language papers with largely state specific readers such as Bengali, Telugu, Tamil and Marathi have a higher readership than English newspapers.

Exhibit 5 Print Media Penetration in Urban and Rural India

Language	2007 R2	2008 R2	2009 R2	CAGR
English	369	305	305	-9.10%
Hindi	1491	1593	1588	3.20%
Vernacular				
Bengali	368	344	335	-4.60%
Kannada	250	222	206	-9.20%
Malayalam	370	271	285	-12.20%
Marathi	541	514	565	2.20%
Tamil	649	533	514	-11.00%
Telugu	314	292	382	10.30%

From the above exhibit 2007 to 2009, readership levels of the top five English newspapers declined by 9 percent. Among regional newspapers, excluding the top five Hindi and Telugu newspapers, most other language newspapers also registered a decline during this period. While Hindi and regional newspapers dominate readership and circulation, English dailies dominate the advertisement revenues. Industry estimates indicate that advertisement rates in English dailies operate at between 5–10 times the rates for Hindi and Vernacular newspapers²³. English dailies cater to urban India, which has higher purchasing power and hence is the primary target audience for advertisers. On an average, it is estimated that English newspapers contribute to approximately 45 percent of the advertisement market, with Regional Print comprising the balance 55 percent share²³. While, advertisement revenues of English print declined significantly during 2009, regional print advertisement revenues grew by approximately 8 percent, albeit at lower than historical rates. A comparison of the volume growth in advertisements is set out below

Exhibit 6 Comparison of Advertising Volumes by Language

Million Col.Cm	2008 Volumes	2009 Volumes	Growth
English	59.5	58.6	-1.50%
Hindi	48.3	54.8	13.50%
Vernacular	69.6	69.5	-0.10%*
Total	177.4	182.9	3.10%

Source Adex

*Telugu newspaper advertisement volumes decline by 16% on the back of unrest due to political unrest. Volumes of all other languages grew in 2009.

While overall print media penetration is at 38 percent, there are significant disparities between urban and rural areas as also between various socio-economic classes²⁸. In urban areas, SEC A and B categories have high print media penetration and are closer to saturation levels, especially in the SEC A category. In rural areas, R1 category has the higher penetration with 69 percent which is much lower than the top layers in urban areas (IRS 2009 R1).

As literacy levels in India grow, the impact would be first seen in rural markets where the literacy levels are significantly lower than those in urban markets. With a direct link between income and literacy, increasing literacy gives the advertiser the much needed new target audience. Income levels across India are also expected to rise across various socio-economic groups. A vast majority of the growth will be seen in tier 2/3 cities and rural areas. As a result, the advertisement share gap and the advertisement premium of English print over Regional Print should narrow over time. However, they may not converge as

English would continue to command a premium as it targets higher SEC categories which would continue to be attractive for advertisers.

Prior to 2009, advertisement yields were growing across English and Regional Print. The year 2009 has witnessed an overall reduction in advertisement yields, which have now established a benchmark with advertisers. Most newspapers may therefore find it challenging to grow their advertising yields to the 2008 levels and beyond. English newspapers witnessed the highest drop in rates with some English newspapers reducing advertisement rates by 15–20 percent²⁹. Further, across English newspapers the level of discounts over the card rates also increased. While the major Hindi newspapers did not reduce rates substantially, there were however a number of sales promotion schemes which reduced the overall yields.

Currently, most of the advertising revenues are generated from the metro cities for English newspapers and from limited cities in regional territories by the Regional newspapers. Broadening the local advertisement generation especially from smaller towns and cities and effectively monetizing their reach is likely to be a key challenge for regional print going forward.

Exhibit 7 Monetization of Reach

Category	Approx.Reach (Millions)	Monetization(INR/Person)
English	38	1266
Regional	457	130

Source: IRS 2009 R2

3.3 Newspapers' Performance in 2010

The total print industry revenues in India are based on other hand, niche magazines that typically have high operating advertisements in newspapers and magazines and circulation costs found it difficult to scale. Going forward, we expect the revenues from subscriptions, newsstands and other retail newspaper-magazine revenue contribution. The print industry revenues are estimated to be INR 193 Billion in 2010. Revenues have grown by more than 10 percent in the last year. It has been a mixed story of a rebound from 2009 along with a healthy pick up in advertising. Advertising revenues grew over by 13 percent while circulation revenues increased marginally by 2-3 percent. Companies such as HT Media reported a 20-25 percent growth in their advertisement revenues in the Diwali period from Oct-Dec 2010 compared to the same period in 2009. Similarly, Jagran Prakashan and Dainik Bhaskar grew their ad revenues by approximately 30 percent last year. Circulation revenues, on the other hand, saw marginal growth with several newspaper companies dropping cover prices by 10-15 percent on an average to aid their geographical expansions. In the Indian sub-continent, in countries such as Pakistan and Sri Lanka, average newspaper cover prices are as high as INR 8-12 while it is INR 2-4 in India. Yet, on average, cover prices have dropped further in 2009 year. For prior years, the advertisement-circulation revenue mix has been approximately 60:40 in favor of advertising in 2005 and has been increasing gradually through 2009. In 2010, this ratio is now estimated to be 65:35 and going forward we expect the print sector to have an increasing dependence on advertisement revenues, such that by 2015, they will account for over 75 percent of total revenues. This is because advertising spend is likely to be strongly correlated to economic growth.

The print market is heavily skewed in favor of newspapers which account for 94 percent of the total print revenues in 2010 with 5 magazines contributing the rest. In 2010, newspaper revenues continued growing on the back of product and geographic expansion by print players and increasing advertisement spends while magazine revenues declined by approximately 4 percent. The magazine market in India is highly fragmented with a large diversity in languages, genres, cover prices and target customers. The fortunes of the print industry in India are increasingly tied to those of the advertising industry, which in turn is correlated with nominal GDP growth. By 2015, we expect advertising to account for upwards of 75 percent of total revenues with circulation making up for the balance.

Industry participants agree that regionalization will gain prominence in the years ahead as a key growth driver. One indicator to track this trend would be to track the revenue contributions from Vernacular, Hindi and English languages in the coming years. Traditionally English language revenues have enjoyed a majority share; however, revenues from regional languages (Hindi and Vernacular) will catch up with English by 2015 erasing the historical advantage that English enjoyed. With a quicker than expected rebound in the economy last year, print players are looking to scale up through geographic and product expansions as well as foraying into digital delivery formats. Localization of news through special editions has plenty of growth opportunities as well.

Historically, the vernacular market has enjoyed the highest total readership closely followed by Hindi and then by English and this trend continued last year also. However in terms of revenues, English continues to garner the lion's share of revenues accounting for 40 percent of total revenues. English market scope is primarily restricted to urban pockets and hence sees its consumer base limited in comparison to the regional language markets. Times of India, HT Media and The Hindu dominate the English landscape. Dainik Bhaskar, Dainik Jagran and Hindustan have dominated the Hindi market. The Hindi market can further be sub classified into Hindi heartland pockets and urban/semi-urban areas as the extent of market penetration and competitive intensity varies across the states within the Hindi segment. For Hindi newspapers, in a particular geography, the top three to four players tend to dominate the market. The combined market share for the dominant players varies from 60-85 percent with Rajasthan seeing the top two players leaving very little room for the others.

Exhibit 8 Source TAM AdEx, Exchange for Media

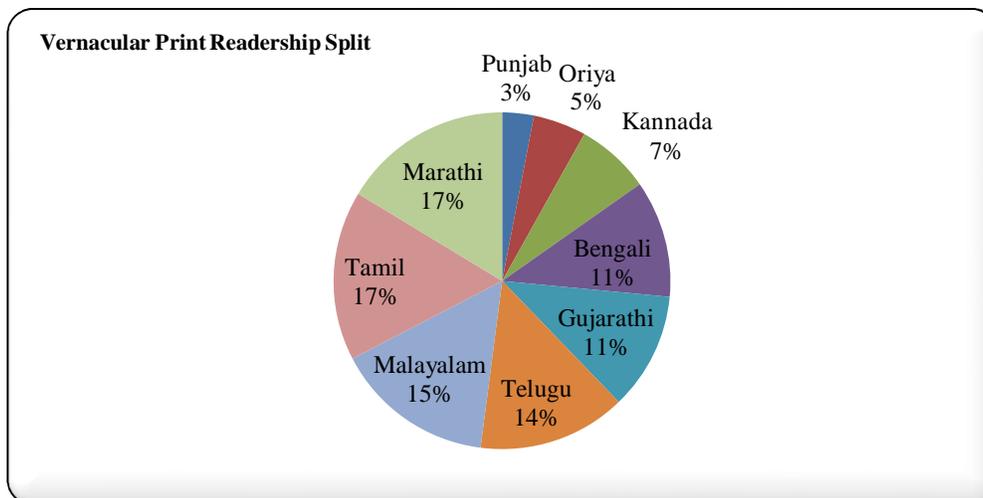


Exhibit 9

Category	Approx.Reach (Millions)	Monetization(INR/Person)
English	40	1248
Regional	468	148

Source: KPMG Analysis

Despite the fact that regional languages command better readership in comparison to English, advertisers have had a higher preference towards urban geographies with English newspapers catering primarily to SECA/B households as target audiences. Though the top six metros constitute only 30 percent of the total consumption of goods and services, roughly 60 percent of the media spend is diverted to these top 6 cities. In 2007-09, the advertising rate premium commanded by English newspapers was roughly 10x times that commanded by regional languages. This was because English newspapers were perceived to have better coverage in Sec A, B homes corresponding to consumers with higher purchasing power and concentrated in urban pockets. However in 2010, this disparity contracted from the historical 10x multiple to roughly 8x. Tier 2 and 3 cities witnessed higher advertisement spends in consumer sectors in regional languages and local newspaper editions. Regional language dailies also demonstrated increasing coverage in Sec A, B homes while holding on to their broader readership bases in semi-urban and small towns. Going color was another strategy to increase advertising premiums by regional players. We expect the ad premium disparity between English and Regional languages to continue correcting as the value proposition of a strong and expanding regional readership base gains momentum in the years ahead.

The English language market is projected to grow by 7 percent whereas Hindi is pegged at 11 percent and Vernacular languages at 12 percent given their larger reach and relevance to the emerging geographies in India. The advertising growth rates of Hindi and vernacular segments are expected to be higher than that of English in line with the expected correction in advertisement premium disparity, going forward.

3.4 Newspapers' Performance in 2011

In the calendar year 2011, the INR 209 billion print industry grew by 8.4 percent from INR 193 billion in 2010, slightly lower than expectation of 9.5 per cent in year 2010. Even though the long term growth story of Indian print industry remains promising, the sector was impacted due to the overall macro environment being depressed. The macroeconomic environment remained challenging and dampened the advertisement spends. The print players continued to adopt a cautious and pragmatic approach with the primary focus on consolidating their position in core markets. The growth in advertisement revenues has been at a CAGR of 8.7 percent, whereas circulation revenues have displayed a CAGR of 3.7 percent between 2007 and 2011. The advertisement revenues continued to be the main source of revenue for the print industry, contributing 67 percent to industry's revenues.

India is no longer isolated from the global economic slowdown and movements in key economic indicators reiterate slowing economic activity in India. Losing growth momentum over a liquidity crunch, policy paralysis and spill overs from the global financial turmoil, the economy which was expected to grow by 7.5 percent this fiscal year is now expected to barely grow by 7.0 percent as per RBI's estimates and 6.9 percent as per the CSO estimates. The strong correlation between economic growth and advertisement spends was reflected through weak advertisers' sentiments. Some of the big spending sectors such as education, BFSI and retail tightened budgets. The newspaper advertisement volumes increased from 238 million column centimeter of ad space in 2010 to 280 million column centimeters in 2011. Overall, the ad volumes have

increased at a CAGR of 13 percent from 2007 to 2011. The industry also saw a 22 percent increase in the number of advertisers.

In 2011, 94 percent of total print revenues were contributed by the newspaper publishing sector up from 92 percent in 2007. The newspaper industry is estimated to be worth INR 197 billion while magazine industry is estimated to be INR 13 billion. The Indian print industry has to be looked at from two perspectives- the urban centers and the emerging centers of consumption. Thus far the metros and tier I cities were the hub of economic action; however, the focus is now shifting to the next 40 cities which are experiencing rapid urbanization and a greater economic growth. Powered by strong consumerism, these centers have been insulated to a large extent from the impact of global slowdown. The playing field in both these markets is quite different. The urban centers observe high levels of media penetration, faster adoption of technology, deeper penetration of internet and mobile and a rapid change in consumer behavior and media consumption patterns. On the other hand, the tier II and tier III markets continue to be attractive due to increased affluence and a consumerist outlook.

Exhibit 10 Language Wise Revenue and Readership Split 2011 (Source: IRS2011)

Language	Revenue Split	Average Issue Readership of Any Daily Split
English	40%	11%
Hindi	30%	35%
Vernacular	30%	54%

Together, the Hindi and Vernacular markets are expected to grow at a CAGR of 10.9 percent over the period 2011-16, outpacing the English language market's growth of 6.3 percent. The pan India reach of regional newspapers is 173.80 million compared to only 22.21 million in case of English newspapers. At present, English enjoys an advertising premium over vernacular languages; however, experts feel that there is a potential for the Hindi and Vernacular dailies to increase their rates. In 2007-09, the advertising rate premium commanded by English newspapers was roughly 10x times that commanded by regional languages. However this disparity has contracted from the historical 10x multiple to roughly 8x and is further expected to come down to 5x to 4x in the long term.

In 2011, the industry participants experimented with new business models to be more relevant to their readers. In the urban centers, players employed different strategies such as launching their editions on digital platforms while some went ahead and even experimented with their print versions. Hindustan Times, for example introduced HT Mini, a half-tabloid size newspaper, targeted at readers commuting in metros. The competition amongst the English dailies moved into the tier II and tier III markets. Times of India launched its editions in Coimbatore, Madurai, Bhopal and Indore and while DNA also launched its edition in Indore while Hindustan Times focused on upgrading and setting up printing facilities in Madhya Pradesh in order to tap the growth in income and consumption in these markets which have continued to show an upward trend in growth. The Hindi market saw the launch of supplements on the lines of English dailies. Hindustan launched a supplement like Brunch called 'Anokhi' targeted to cater to its women readers and a Jobs supplement targeted at the Hindi belt. In 2011, the industry participants experimented with new business models to be more relevant to their readers. In the urban centers, players employed different strategies such as launching their editions on digital platforms while some went ahead and even experimented with their print versions. Hindustan Times, for example introduced HT Mini, a half-tabloid size newspaper, targeted at readers commuting in metros. The competition amongst the English dailies moved into the tier II and tier III markets. Times of India launched its editions in Coimbatore, Madurai, Bhopal and Indore and while DNA also launched its edition in Indore while Hindustan Times focused on upgrading and setting up printing facilities in Madhya Pradesh in order to tap the growth in income and consumption in these markets which have continued to show an upward trend in growth. The Hindi market saw the launch of supplements on the lines of English dailies. Hindustan launched a supplement like Brunch called 'Anokhi' targeted to cater to its women readers and a Jobs supplement targeted at the Hindi belt. In states such as Gujarat, Andhra Pradesh and Rajasthan, the market power is concentrated with the top three publications which account for 75-85 percent of the market. Other markets such as Maharashtra and West Bengal are relatively more fragmented with around 50 percent of the market share lying with the top five publications.

3.5 Newspapers' Performance in 2012

The calendar year 2012, was the year when the going got tough and the tough got going. The INR 224 billion Indian print industry grew by only 7.3 percent from INR 209 billion in 2011- lower than KPMG in India's expectation of 8.3 percent growth last year. The high dependence on advertisement revenues resulted in the growth of print industry being dampened by poor macro-economic performance of the country. In 2012-13, the Indian economy slowed down its growth momentum- registering a growth of only 5 percent as compared to 6.2 percent in 2011-12. The slowdown can be attributed to a host of factors such as high interest rates to curb inflation, investment bottlenecks that slowed down corporate and infrastructure investment and poor global economic conditions that took a toll on India's exports. All this has resulted in advertisers adopting a cautious approach towards their marketing initiatives-leading to relatively muted growth in overall advertising spends. In such challenging times, the Indian print industry has adopted a pragmatic approach with most print players now focusing on consolidating their position in core markets and penetrating them further through the launch of new editions rather than entering newer territories. The industry has also made efforts to save the bottom line by effectively managing

operating costs. For example, HT Media has brought down its raw material costs from a high of 38.2 percent in Q2FY13 to 33.8 percent in Q3FY13. The decline in raw material costs was brought about by lower consumption of newsprint and softening of international newsprint prices which have declined from USD 623/tonne in the beginning of CY12 to USD 620/tonne towards the end and further to USD 616/tonne in February 2013. On the other hand, Dainik Bhaskar has over a period of time decentralized its printing operations. The strategy has helped the company shrink average delivery times from seven hours to four hours, and papers are now supplied within a 200-kilometer radius of where they are printed, instead of the previous 350 kilometers. The print industry continued to derive most (94 percent) of its revenues from the newspaper category. The INR 13 billion magazine segment continued to decline in share due to decline in readership of general category magazines. The industry is worried that the readership of the sector is holding flat but not growing. Niche magazines with their defined readership and advertiser base continued to perform better. Advertising, as stated earlier, is a prime contributor (67 percent in 2012) to the total revenue earned by the print sector. However, with advertising budgets tightening and the eventual threat of newer competitive platforms such as digital, in the long run, it would be prudent for the industry to increase circulation / subscription revenue as much as possible.

Accordingly, 2012 witnessed some improvement in circulation revenues which increased by 7.3 percent year on year as compared to only 3.8 percent in 2011. This was achieved through launch of new editions and increase in cover prices of established editions. Going forward, the industry may adopt a differentiated pricing strategy by increasing the price of established editions in mature markets while holding the prices low in case of tier II and III markets or while entering newer markets. Such an approach will enable mature editions to gradually decrease their dependence on advertising revenues. Growth in the previous year was mainly driven by an increase in advertising volumes and circulation revenue. Yield in most markets remained flat or marginally improved and did not have any material impact on the overall growth of the print sector. Overall advertising in the industry has grown 7.3 percent - lower than previous estimate. The English segment faced the roughest weather. While the market for English dailies continues to be tough, the regional and vernacular markets continue to defy gravity and grow on the back of rising literacy and low print media penetration as well as the continued tide of advertisers wanting to spend in these markets. The growth of the overall print industry was, hence, largely driven by Hindi and the vernacular print markets. The Hindi print market grew by 9.8 percent from INR 62 billion in 2011 to INR 68 billion in 2012 and vernacular from INR 63 billion 2011 to INR 69 billion in 2012 respectively.

Exhibit 11 *Print Advertising Advertisements Volume*

Language	2008	2012
English	47%	39%
Hindi	26%	30%
Vernacular	27%	31%

Source: KPMG Analysis

Over the years, there has been a gradual increase in the market share of vernacular newspapers. The combined share of Hindi and vernacular dailies has risen from 53 percent in 2008 to 61 percent (refer graph table) in 2012. The industry expects this trend to continue largely due to volume growth driven by the launch of new local editions and gradual improvement in advertisement rates of these markets.

While the English print commands higher 'cost-per-thousand' (CPT) compared to regional print, metro markets are challenging in terms of advertising and circulation, leading to lower growth for the English language dailies. The English segment grew by 3.6 percent versus industry growth of 7.3 percent and Hindi and vernacular grew at 9.8 percent. The segment will also likely face a greater threat from digital platforms, especially considering the imminent shift in media consumption habits due to increased broadband penetration and availability of faster access once 4G is rolled out. The Socio Economic Classification (SEC) and income demographics that the English market addresses is also the market that is most likely to adapt high speed mobile devices and change reading behavior.

By 2017, the scale is further expected to tilt in favor of the Hindi and vernacular markets – together constituting 64 percent of the industry revenues growing at a CAGR of 10.8 percent and 10.9 percent respectively. The English market will be worth INR 114 billion growing at a CAGR of 4.8 percent. Advertising is the cornerstone of the print industry's performance and has witnessed one of the most, if not the most, challenging years in a decade. The strong correlation between economic growth and advertisement spends was reflected in the weak advertiser sentiments. Some of the big spending sectors such as Education, Banking, Financial Services and Insurance, Telecom and Retail tightened budgets and the advertising spends remained flat or declined. The slowdown in advertising volumes was particularly more intense in the case of the English market. The share of English print advertisement volumes declined from 32 percent in 2011 to 27 percent in 2012. Vernacular dailies continued to enjoy volume growth with their share increasing from 37 percent in 2011 to 39 percent in 2012. In 2012 the growth in advertising over the previous year was largely driven by volume. Industry discussions indicate that this trend will continue at least till the first half of 2013. Going forward, with advertising regaining ground on the back of improvement in economic activities, the advertising-circulation mix is expected to swing back in favor of advertising. Print players are looking to scale up through geographic and product expansions as well as increasing the footprint and quality of digital delivery formats. Localization of news through special editions has plenty of growth opportunities as well. Industry

participants contend that localized and targeted advertising is difficult to achieve in nationwide broadcast media, giving print an edge with respect to local businesses such as restaurants, malls, retail shops and neighborhood services. Supplements continue to be launched; the industry believes that launching supplements in existing markets helps them penetrate further by gaining access to new readers and expanding the advertiser base. A few examples of the supplements launched during 2012 include Habitat, Watches Luxury and Beyond and Weekend Life by Hindu, Ebela, Ananda Plus and Bishoy Ashay by Ananda Bazar Partika and Yuva by Hindustan Times. Further, Dainik Bhaskar (Bhopal) brought together ten real estate developers of Bhopal who are developing 'New Bhopal Area' near the International Airport and launched 'Gatefold' a special feature which was distributed in Bhopal.

In an attempt to improve circulation revenues, newspaper companies are trying to encourage readers to purchase multiple papers per day through bundling of editions, for example, bundling business papers and tabloids with regular newspapers and providing them at discounts. Such initiatives are expected to increase penetration and improve circulation revenue. The cover price of newspapers in India is extremely low when compared to other countries. While an Indian daily is sold at a monthly price of ~USD 2-3, the same subscription can be as high as USD 6-8 in Pakistan, USD 18-20 in Malaysia. After last year's price corrections by the magazine players, 2012 saw newspaper players finally opening-up to experimenting with cover prices and taking baby steps towards increasing these in many markets. During the year, some of the leading publishing houses marginally increased the cover price of a few of their editions. DNA increased its cover price from INR 2.5 to INR 3 while Times of India increased it from INR 5 to INR 6 and for D B Corp the average cover price went up from INR 2.5 to INR 2.72. In the print sector, revenues from Hindi and vernacular segments are fast catching up with English, which has, to date enjoyed a majority share of the value. Hindi and vernacular language publications have always enjoyed a healthy readership base. In 2012, nine out of top ten dailies being published were either in Hindi and vernacular language publications. However, in the past this segment had lagged in its ability to effectively monetize.

In 2007-09, the advertising rate premium commanded by English newspapers was roughly 10 times over that of regional language papers. The scenario is now changing with the premium paid by advertisers for English newspapers steadily declining to be in the range of 3-4 times in 2012. The industry believes that there is potential for Hindi and vernacular dailies to further increase their rates. The two segments (Hindi and vernacular) now contribute approximately 62 percent of industry's revenues and cater to 89 percent of the readership. Together, the Hindi and Vernacular markets are expected to grow at a CAGR of 10.9 percent over the period 2012-2017, outpacing the English language market's growth of 4.8 percent.

The year witnessed regional players increasing their foothold in key markets and also the entry of national players in regional markets. Dainik Bhaskar increased its penetration in Maharashtra with its Marathi daily 'Divya Marathi' while Bennett Coleman & Co. (BCCL) entered the Bengali market by launching a Bengali daily, 'Ei shomoy'. The newspaper ('Ei shomoy') is placed to compete against Ananda Bazar Patrika, which has for many decades now been eastern India's most widely circulated daily. The 'Hindu' has also shared their interest to launch a Tamil daily in 2013.

Backed by the increase in purchasing power across tier II and III cities along with the rise in literacy rates, regional media consumption will continue to rise. As is the trend with many players, editions with local content in regional languages will attract readers and help in consolidating the position of the newspaper, thereby attracting local advertisers. Competition among English print media players has now moved into tier II and tier III markets with leading English-language dailies launching their editions in cities such as Coimbatore, Madurai, Bhopal and Indore. Some players are also setting up printing facilities near these markets to manage their printing operations. These developments indicate continued industry belief in the growth of regional markets. The growth story of the regional print market is stronger than ever and the publishers believe that there are ample opportunities which have yet to be tapped.

3.6 Newspapers' Performance in 2013

The calendar year 2013 saw the print industry in India grow by 8.5 per cent from INR224 billion in 2012 to INR243 billion. The growth achieved was slightly better than KPMG in India's estimation of 7.6 per cent last year. The long term growth in the sector looks promising with industry players witnessing strong growth and a possible future demand in the regional market. Even though print media has shown steady growth in the past calendar year, the macroeconomic environment continues to be challenging. The Indian economy has witnessed a slowdown in the growth momentum, clocking an average GDP growth rate of only 4.9 per cent in FY 2013-14. The slowdown can be attributed to a host of factors, primary among them being the global scenario affecting Indian markets, weakening of the domestic currency contributing to higher deficits, consistently high interest rates and inflation and investment bottlenecks that prevent corporate and infrastructure growth. Contrary to the prevailing trends in global print media, where there is intense competition from digital media, the print sector in India is showing a strong upsurge. The print industry is expected to grow at a CAGR of 9 per cent for 2013-18, as against estimated 8.7 per cent expected last year. Much of this growth can be attributed to print media's advertising revenues and the faith shown by advertisers in this medium.

The print industry continued to derive most (94.4 per cent) of its revenues from the newspaper category. The INR14 billion magazine segments had a roller coaster ride this year. Growth in the previous year was driven equally by an increase in advertisement and circulation revenues. The drivers for advertisement revenue growth were volume and yield increase. 2013 saw a rise in circulation revenues by 8.1per cent year on year as compared to 7.3 per cent in 2012. One of the primary reasons for sustaining this high growth rate was an increase in cover prices of and launch of newer editions. Most publishers have increased their cover prices in mature markets such as metros and tier I cities. Growth in comparison to the overall industry growth, regional and vernacular markets performed exceedingly well on the back of low media penetration, high population

growth and rising income and literacy levels. The growth of the overall print industry was, hence, largely driven by Hindi and the vernacular print markets. The Hindi print market grew by 10.5 per cent from INR68 billion in 2012 to INR75 billion in 2013 and vernacular grew by 10 per cent from INR69 billion in 2012 to INR76 billion in 2013. The perceived threat posed by digital media and clock strong growth in the future. Though the decline in Indian print media isn't as pronounced as it is in the west, yet the flow of English readers from print to digital media and increasing advertising pressure cannot be ignored. In 2013, circulation revenue witnessed growth of 8.1 per cent which is marginally higher than the growth in the circulation revenue in 2012 of 7.3 per cent.

Various national as well as regional players have expanded their reach by means of launching newer editions in local languages or sub-editions by adding printing centers in the local areas. Some examples include The Hindu launching a Tamil edition; Times of India launching a Gujarati edition NavGujarat Samay and Dainik Bhaskar's entry into Patna. DB Corp has also consolidated its presence in MP with the launch of a 4th edition. HT Media also has separate editions for Gurgaon and Noida. With the metros and larger cities increasingly witnessing intense competition, marketers, advertisers and publishers are trying to consolidate their presence in the regional markets through new launches and acquisitions. The process of expansion and consolidation has been taking place for the last couple of years and states such as Maharashtra, West Bengal, Gujarat and Tamil Nadu have seen several major players enter the market. The regional media has been an important element in the growth of the Indian M&E industry over the past few years. Given the size and diversity of the Indian market, media owners and advertisers are increasingly adding a regional element to their strategies. As a result, regional markets have grown in size and importance. Changing demographic dynamics and rise in incomes most likely have ensured a surge in purchasing power in tier II and tier III cities. The rise in literacy rates, significant population growth, high aspiration, resilience of the agrarian economy, increasing demand for region-specific content, and expansion by players into new geographies and languages could drive future expansion of regional newspapers' circulation and readership across India. Further, the penetration levels of product categories such as consumer durables, automobiles and financial products in these towns are substantially lower than in the large cities. Circulation growth of Hindi and vernacular papers is and would continue to be higher than English papers. Existing Hindi and vernacular players are expanding by either launching editions in new geographies or by launching sub-editions at a place, where an existing edition is already available for e.g. it is in recognition of the power of Hindi that both BCCL and HT Media have thrown their clout behind Navbharat Times and Hindustan respectively. Navbharat Times re-launched its Lucknow edition earlier this year, after closing it in 1985. Hindustan Media Ventures Ltd. (HMVL) Hindi daily, Hindustan, is also planning to start more editions in its core markets of Uttarakhand, Bihar and Uttar Pradesh. Moreover, from the point of view of advertisers, the cost of reaching the audience is much lower compared to national media like television mostly due to lower advertising rates. However, with the rollout and implementation of radio phase 3, print is expected to face some competition in these markets. Traditionally, English language papers have enjoyed a substantial share in revenues; however, revenues from non-English papers are growing, erasing the traditional advantage that English papers enjoyed. As more advertising spends are being directed towards tier-II and III cities, existing players are expanding in these regions, by launching more editions. Share of English papers was 37 per cent in 2013; however, it is expected to be 31 per cent by 2018.

4. Key Action Points for the Newspaper Industry

- a. It would be critical for the Print sector to recoup lost ground by addressing the decline in advertising rates and growing them back to at historic levels. This may prove challenging as there may be significant push back from advertisers.
- b. The Print sector needs to focus on managing the readership decline through increasing penetration and also by increasing content relevance for various demographic sections and age groups. This is already a serious problem in developed markets which are seeing declining overall readership levels (after adjusting for migration to online readership).
- c. The Print industry needs to increase focus on online editions to tap into potential migration onto the internet. There is a consistent migration onto online news noted in developed countries, which though currently not a major concern in India, is inevitable as internet penetration grows. Given that increasing number of eyeballs will be viewing news online, monetization opportunities of online editions requires more focus.
- d. A continued focus is required on operational improvements and retaining efficiencies. There is a risk that as the economy improves some of the operational improvements may be lost and companies would revert to adding more flab.
- e. Regional media needs to improve its profile among advertisers through improved product quality, innovative use of reach and bundling of services to provide advertisers with 'more bang for their buck'. This would be essential to narrow the gap in advertising share between English and Regional Print.
- f. English media needs to focus more on localizing the content in terms of relevance and attractiveness, continuing to add niche and special interest segments, etc. This would be essential to gain a higher wallet share from their existing markets and also to penetrate into the advertising share going to regional media.

5. Conclusion

The sector is projected to grow at a CAGR of 9 per cent and touch INR373 billion by 2018. The opportunity may lie in capitalizing on expansion opportunity and tapping the growth potential in regional markets while concurrently the challenge could be to explore consolidation opportunities within the existing markets. Innovation in product, content and distribution; increasing demand for region-specific content; and expansion by large players into new geographies and languages resulting

in increased penetration of regional print media; appropriate usage of social media and increase in below the line activities can pave the way for growth in the next year. The print industry operates in a dynamic environment with readers' needs and preferences changing continuously. In such an environment, it is imperative for publishers to innovate consistently and also engage and interact with their readers on a real time basis. There are a plethora of opportunities that could benefit the flexible players who can adjust to the changing environment. Going forward we may witness expansion in regional markets and consolidation in established markets with only the fittest players survive the changing environment.

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