THEORETICAL FRAMEWORK OF THE THESIS

Chapter 3

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1) Managerial Economics of Newspaper Management (NM)

Managerial Economics is concerned with application of micro and macro economics to problems in business management. These problems have many dimensions like scientific analysis, statistics, econometrics, managerial accounting, organizational behaviour and management of resources - manpower, machine, method, money and time. To these other branches are added that of management science and art viz event management and crisis management. This multi-disciplinary approach to managerial decision making and problem solving is the need of the hour - absolute requirement of modern times. The fundamental problem to which managerial economics addresses is the problem of rational resource allocation and mobilisation in the various departments of business organization viz sales, purchase, marketing, production, personnel.

Decision making for these areas require a rational and planned approach supported by a foresight, and dynamic changes in the macro environment around business as a 'micro unit'. Real business like experiences are many and complex and a business manager has to continue to take business decisions for survival and expansion in competitive, ever changing and uncertain atmosphere adding to 'risk' in business.

The science of managerial economics of business is fundamentally concerned with the 'art' of 'economizing' i.e. 'organized' and 'spontaneous' decision making - choosing the 'best' of several rational choices - minimizing costs and maximizing returns on investment of money and manpower. When all the concerned business decisions are properly communicated and co-ordinated, the expected results materialise. A successful business manager has to master the basic concepts and principles of logic of managerial economics. A discriminatory use of principles and tools of traditional and modern managerial economics is necessary for rational resource management in the case of all business organizations and much more in the case of management of an organization running newspaper business.

2) Characteristics of a Micro Unit in Newspaper Industry

By the end of 20^{th} century and during the first decade of 21^{st} century problems in newspaper management have multiplied and the period has been placing a growing premium upon basic factors of a 'micro' newspaper business unit. The problem of survival and expansion has become more complex in publishing and circulating newspaper in competitive market conditions. Journalism in the context of 'views' paper vis-a-vis the 'news' paper invariably means that the 'editorial' side of publishing subjected to the limited concept of 'editorial department'. This invariably led to an approach to newspaper management, which did not pay much needed attention to the 'business' aspects of publishing a newspaper.

However, both the 'management' of a newspaper unit and the 'public' representing readership show view newspaper business as a 'whole'.

The editorial department is not sufficient unto itself, without paying regard to other technical aspects of newspaper management. Similarly, advertising department cannot be conducted without regard for its revenue, circulation and 'quality' of newspaper as a business product manufactured by the production department. This implies that there are no separated or 'isolated' watertight compartments which are segregated in the schemes and policies of a newspaper organization and managerial decision working in its context.

Analysis and appraisal of functional problems in newspaper management should be done in the context of daily 'news' paper other than editorial. It should also consider the most important characteristic of working of a daily newspaper and their 'product' whose durability and selling point last for an hour after the newspaper is read. In other words newspaper, as a commercial product for a day becomes a waste paper to be thrown in a dustbin or to be sold as waster paper (Raddi) as a source of income (a part of the amount of subscription) to be recovered in future. As a result managerial decisions relating to any specific department. (e.g. decision relating advertisement rates) should be taken in the light of both the positive and negative results of the decision.

3) Important 'Micro' Factors Influencing Managerial Decisions in a Newspaper Unit

Newspaper publishing is a **manufacturing process**. The basic raw material is - **news** (including editorial opinion indicating newspaper ideology and newsprint). <u>Features</u> of newspaper creating 'image' of newspaper in public mind and <u>advertising</u>.

The news is gathered and process by editorial department. Features determine the nature of readership and build or hold circulation. Advertisements displayed and classified are collected and serviced by advertising department. Actual production is planned and completed by mechanical department and printed newspaper is the 'furnished product'. Distribution or marketing of a newspaper is handled by the circulation department.

Local newspapers have local interest and they are published in specific local language attracting the local readers. The primary motive of a local newspaper unit is to create an attraction by organizing local readership and thereby earn maximum profits. This is how local 'monopolies' are created. When specific public interests are satisfied it is unlikely that business operations for survival and development (with a reasonable profit margin) are disturbed by instability. This fact help in enjoying the benefits of local monopoly in competitive conditions. However occasional downfalls can be managed by adopting the following managerial decisions as the need of the hour :

a) evolution of innovative business methods.

b) maximizing operating economies

c) changing the nature of frequency of issue of newspaper (e.g. size of a regular newspaper can be increased by additional supplements on current social issues).

d) efforts to increase revenue through advertisements and adjusting advertising rates.

e) stabilization of circulation.

f) revised copy pricing.

g) sales promotion measures like aggressive marketing by improving transportation or distribution network.

h) more long term investment in infrastructure and modern technology.

i) stepping up the scale of mechanical production.

j) win over 'weak' papers.

4) Advertising and Circulation - The ABC's of Newspaper Economics

From the point of view of marketing a newspaper has two important selling points viz <u>space</u> offered to advertisers, by the newspaper and circulation. Space for advertising should be marketed and sold in such a volume and at such a price that break-even is to reached in early stages of production. Revenue from advertising is helpful in redemption of debt by increasing scale of production and providing a replacement of old machines by new ones and thereby solve the problem of obsolescence. This is required to adopt modern sophisticated technology leading to product innovation. As a result there are no seasonal ups and downs. Stability and development objectives can be achieved simultaneously.

5) Advertising and circulation are highly interdependent

Both should not get sacrificed to the pressures of rising prices (implying raising costs of manufacturing). Newspaper's circulation is not sufficient to support a newspaper unit. Conversely a newspaper unit cannot get adequate revenue from advertising unless circulation of a newspaper is extensive. Extensive circulation also enables a newspaper unit to keep its 'freedom' intact, without fear or favour outside financial and other business pressures. A newspaper with sound financial footing can render its full measure of community service. It is supported by sound financial backing, to adopt a managerial policy which enhances rather than detracts from the 'news' and 'editorial functions' of newspaper managements. This tact spells opportunities for the newspaper organization and these opportunities should be explored and exploited by business managers in charge of managerial decision making.

Circulation is the blood of a newspaper. It is an index of the influence of a newspaper. (newspaper's image in public mind and its value.) Survival and expansion of a newspaper unit depends upon to a great extent on the revenue from advertisements which may be little or nil. Marketing department looking after sales and distribution of newspaper looks after the vital problem of circulation. Unit price of newspaper, (in both the inflationary and depression situations) is low, affordable to a customer - (reader who is the chief beneficiary) price adjustments are not made.

However, higher trend in price change may be warranted to offset to some extent loss of revenue from advertising or increased publishing costs. There has been standardization of newspaper prices for all the competing newspapers. It is based on the principle that in setting up an operating budget the copy price should be fixed to bring what the product is 'reasonably' worth and to cover certain part of production cost and pay for the newsprint and circulation cost leaving the income from advertising to cover all other costs and provide reasonable profit.

Factors which determine newspaper circulation are - economic, social, geographic, and mechanical policy (concerned with printing technology and promotional). They determine the size and characteristics of market for newspaper e.g. population, satisfactory level of literacy with stable income, the level of business activity and social intercourse. A newspaper should be able to count upon a steady and sizeable group of readers who include patronizing advertisers too. A newspaper can adopt an ideology independently and have long record of public service and can keep public opinion on its side - creating consumer loyalty.

Large circulation of a newspaper is the result of construction of road linkages, modern sources of transport and greatly extended home delivery of a newspaper at the readers door. Coverage of a large territory on the day of publication of a newspaper earns economies of scale and reduces cost per unit of the newspaper. Promotional efforts for newspaper such as aggressive advertising by utilizing modern media of commercialization are contrived because there is no such thing as 'natural' increase in circulation. Circulation network must be built and cultivated faithfully by follow up and feedback. High circulation is the result of improved 'image' of a newspaper as a sales unit. The purpose and ideology of a newspaper also go a long way in improving circulation.

Extent of circulation is measured by the number of readers and publication. It is like radio and TV audience. There are many kinds of circulation at the different stages of expansion of a newspaper unit. One or several types of circulation exist. **Gross circulation** is indicated by the number of copies distributed on a given day. Regardless of returns from dealers, advertisers, exchange copies, free copies and copies for office use. **Net circulation** is indicated by the number of copies 'sold'- including all editions. Net circulation indicates the 'hold' of a newspaper organization on the newspaper 'market' indicated by the extent of readership. **Forced circulation** is the result of sales promotional efforts of the news paper organization, extreme and sensational editorial policies, the dress display and getup of the copy and use of premiums. Forced circulation implies increases in costs and it is unstable and uncertain for the publisher and advertisers. Whatever may be the nature of circulation the fundamental rule is that circulation must be 'effective' for the advertisers. Circulation should not be slow or uncertain. It should be measurable in concrete terms in 'numbers' of copies **actually** sold in the market. Net paid circulation is most important for a newspaper organization. Postal regulation and the extent of waste are important and relevant while determining the 'cost' of circulation. The nature and extent of circulation must satisfy the needs and expectations of readers and advertisers. Steadiness is the most important quality of a good or optimum circulation.

6) Newspaper Unit as a Commercial Proposition

Commercial economies (advantages) of a large scale newspaper unit arise from the status of large sized unit. The commercial economies arise in the areas of purchases of material and sale of goods. Because of the bargaining advantage credit in the market enabling the unit to dictate the terms of purchase and sale - in the large circulation. Large unit receives preferential treatment in getting concessions and discounts, in railway and roadway transport, cheap credit from banks, prompt delivery. This increases profit potential for large unit which gets the advantage of latest technology (IT) research and experiments and aggressive advertising to increase the sales volume (Circulation of the newspaper). There is larger choice in purchases and selling costs can be reduced. Adventurous schemes of marketing for sales promotion can be undertaken. Financial and risk bearing economies can be enjoyed to the maximum limit. Economies of information increase competitive strength of a large scale unit.

The following managerial economies are enjoyed by a large scale newspaper unit.

a) Creation of special departments for functional specialization.

b) Proper delegation of authority.

c) Reduction in managerial expenses.

d) Size of establishment can be reduced by integration of units.

e) Economy in the use of manpower.

f) Managerial decision making is quick and accurate leading to reduction of risk.

g) Vertical and horizontal division of labour reduces labour cost.

h) Material costs are reduced by the use of advanced technology.

7) Business Unit in a Capitalist Economy and Socialist Economy

In a capitalist economy a business unit operates under the conditions of monopolistic competition. Prices of commodities and factors of production are determined by the forces of total demand and total supply. All the managerial decisions viz. what to produce, how to produce and how to sell the product are solved through the functioning of price-mechanism. The influence of price mechanism is characteristics of capitalism. Price mechanism is an impersonal system, and automatic without central direction and control.

Likewise in a socialist economy the managerial decisions in respect of resources allocation are determined by impersonal price mechanism. However, 'free' price mechanism is disturbed by 'assigned' prices by the State, which is the Central planning authority. The 'free' price mechanism may play a secondary role when the state dictates prices and controls prices for regulating production, consumption and distribution.

In the case of a mixed economy like India, managerial decisions pertaining to production and marketing are taken by studying and a constant follow-up of changes in government policy looking after social welfare and not necessarily according to profit of an individual and of a particular business unit. Micro policies of a business unit, for production and marketing thus are taken against the background of macro (aggregate or total) events in the Indian economy having characteristics of a capitalist and social economy.

<u>Economies of scale, returns and costs and management decisions for break-even (optimum) position for survival and growth under conditions of monopolistic competition</u>.

According to the views of the economists today, the subject-matter of Economics includes price theory (or micro-economics), **income and employment theory** (macro-economics) and **growth theory**. Thus broadly speaking, Economics may be described as a study of the economic system under which men work and live. It deals with decisions regarding the commodities to be produced and services to be rendered in the economy, how to produce them most economically, distribute them properly and to provide for the growth of the economy.

8) Inter-dependence of Macro and Micro Economics and Need for Integrating them in Managerial Economics

Neither of the two approaches outlined above is adequate to help us in analyzing the working of the economic system and business unit therein. It is very essential to integrate the two approaches if we wish to get correct solutions of our main economic problems. Take a period of unprecedented prosperity in an economy. Even in such boom conditions, it is not uncommon to come across examples of individual industries which may be requiring for more investment or may be more dead than alive. Likewise, in a period of deep depression, there may yet be some individual industries which may be enjoying great prosperity. Now to apply the macro approach to such individual industries would obviously be wrong; and it would be equally wrong to apply the micro analysis of these industries to the economic system as whole.

What is needed is a proper integration of the macro and micro approach to such problems. In fact, there are few macro problems which have no micro elements involved and few micro problems that are without micro aspects. It is, therefore, apt to mesh the two approaches both in analyzing the economic problems and in prescribing policy measures for tackling them. Ignoring one and concentrating attention on the other alone may often lead not only to inadequate or wrong explanation but also to inappropriate or even disastrous remedial measures.

9) Monopolistic Competition and Optimum Resource Allocation

The forces of competition and monopoly advantage enjoyed by a few large business enjoying risk bearing economies of scale run counter to managerial economies. When the size of a business unit and scale of production increase management becomes more complicated and costly. To achieve technical economies more investment of capital is necessary. When there is conflict between technical economies and risk-bearing (spreading) economies increase in production may be economical or opposite.

The situation of monopolistic competition is that of oligopoly i.e. competition among a few monopolists who do not produce identical goods. However, the products of monopolistic firms are not totally different from each other. e.g. newspapers of monopoly printing firm are similar with little difference in layout, advertisements, features etc. There are also little physical differences in design and workmanship. Imaginary differences are created by product differentiation for engaging the attention of customers (subscribers in case of a newspaper) and there are a attempts to increase circulation by incentive offers like free copy along with the regular copy whose price is reduced and vendor commission is increased and cost of a newspaper is kept to the minimum so it projects the cost of a scrap or garbage (cost of the newsprint only.) Monopolists competing with each other can also follow an independent price policy in order to increase their market share of circulation. Loss in lowering the price is compensated by gain in sales (circulation) as against the rival firms. However competition is no longer only on price basis. A firm can set its output (circulation) independently depending on the response of the customer. This can be done after achieving the break-even stage at which normal profits are earned - as a part of the cost.

The firm can be said to be in equilibrium (break-even) position when it is maximizing its profits when

Marginal Revenue (MR) = Marginal Cost (MC) in the short run.

and

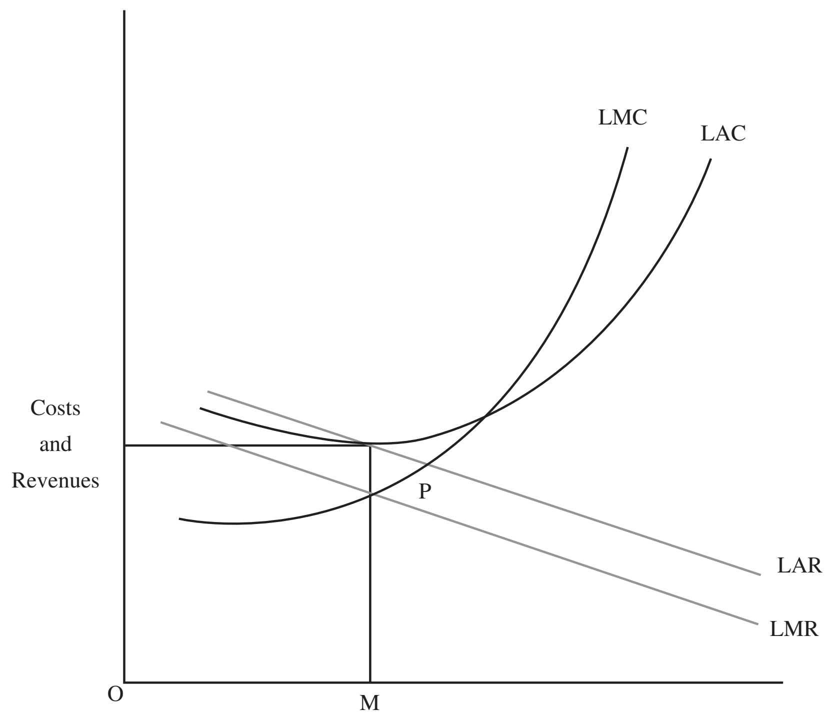
Average Revenue (AR) = Average Cost (AC) in the long run.

10) Equilibrium position and economic dynamics

Equilibrium is the stage of break-even achieved at a point of time with respect to scale of production at which profits are normal and MR (marginal revenue) and MC (marginal cost) are equal at a particular optimum scale of production. **Economic dynamics is the realistic approach to optimum research utilisation.**

This is because equilibrium once attained at a particular point of time is not relevant for the next moment or day and new managerial policies are to be tried and implemented to attain a new equilibrium position in dynamic situations.

Equilibrium analysis is a static analysis based on the assumption of 'certain parameters' remaining the same. However the various factors (social, political and economic) affecting managerial decisions do not remain the same at different points of time. Process of change is not just an analysis of equilibrium position. Equilibrium analysis cannot assume that resources, population, technology, investment consumers likes and dislikes (buying motives) and competitions remains constant all the times. In reality everything is changing and moving. In economic dynamics we take into account all the changes, lags, sequences, cumulative magnitudes and expectations. Static state is a fiction. Dynamic is reality. Static equilibrium is like a ball rolling at a constant speed. It is like a forest which is assumed unchangeable. (However in a forest, trees, sprout, grow and die and structure of forest constantly changes.) Developing economy (Capitalist or socialist) is like a forest. It is a functioning economy. Against the background of this dynamically functioning economy a business unit takes managerial decision for survival and growth.



At point P
∠AR = ∠AC
∠MR + ∠MC

OM is the output and PM is the price of the product.

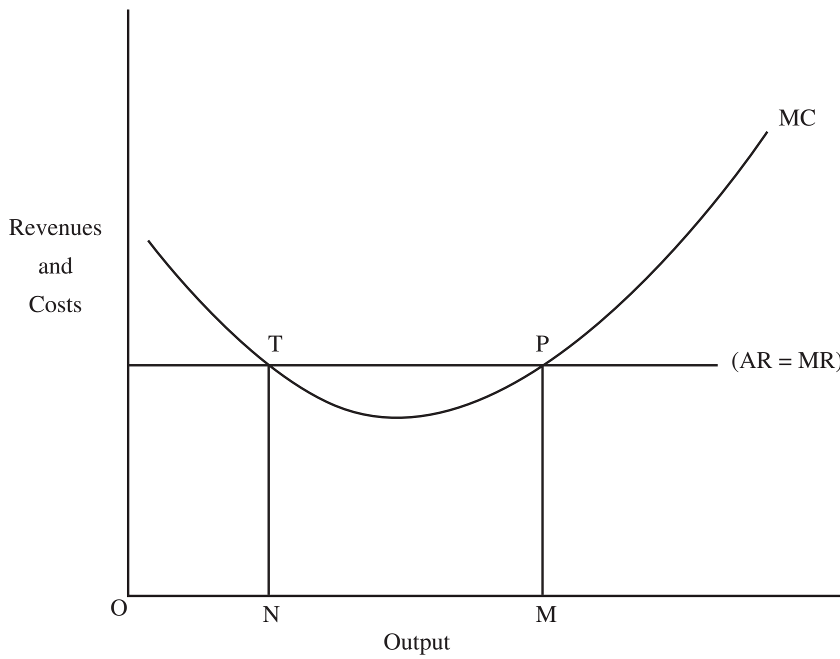
When market is characterized by 'oligo' meaning 'few' and 'poly' means seller, output and sale, sale of newspaper can be increased (without reducing normal profits as part of costs) by increasing selling cost as a result of wide publicity. Thus output which fields maximum return can final optimum resource allocation. The price per unit which is fixed in oligopoly with product differentiation is indeterminate is need not changed.

11) Relevance of the Analysis of Micro-Economics and Macro Economics for Managerial Decision in a Newspaper Unit

Only micro-economics or macro-economic approach is suitable for analyzing problems of a newspaper unit and taking managerial decisions for its survival and expansion. Both microlevel and macro-level decisions for resource allocation for maximizing profits by minimmising costs are interdependent and complementary. A business unit has to survive and expand is a particular economic system characterized by a mixture of competition and monopoly. Business units have to operate is periods of boom and depression. Some units are successful in achieving just an equilibrium position. (break-even) while others become prosperous. This is because they are successful in integrating micro-policies with macro-situations of employment and income. Macro problems have micro-elements and micro-problems are outcome of macro-situation with reference to economic, political and social factors.

Production possibility curve

Employment, allocation of resources by changing the scale of production and scale decide the nature of production possibility curve in case of a newspaper unit production and circulation of a newspaper determine costs and revenues (management cost and average cost and average revenue and average cost.) Managerial decisions are necessary for optimum utilisation of resources.



ON - Output indicates under utilisation. Output beyond the point M indicates over utilisation and more deterioration of resources. NM output is the optimum output indicating a balanced position or equilibrium for optimum profit - as a result of optimum utilisation of resources (neither idle resources nor over utilisation of resources.) All the equilibrium position profits are normal.

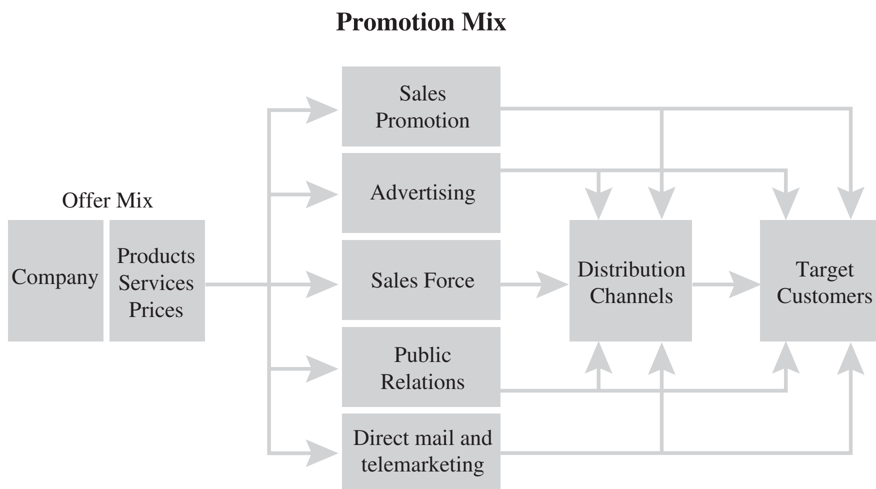
When a newspaper unit operates in a capitalist economy characterized by monopoly and competition its policies are governed by price-mechanism.

Price mechanism - (levels of prices and their fluctuations) determines the direction and level of economic activities and their profitability. Pricing policy is determined by the forces of demand and supply. Manager of a newspaper unit has to take into consideration what other units are doing when price of a unit goes up buyers reduce their demand but the sellers offer to sell more by introducing various incentives (e.g. free supplementary along with the regular copy of a newspaper.) which have important implications for revenues and costs. Thus price fluctuations affect buying and selling decisions. In this fluctuating situation a newspaper unit reaches a break-even point - equilibrium between demand and supply for survival in the short run and development in the long run.

12) Managerial Decision of 'product mix' and 'marketing mix'

Product-mix and 'marketing mix' are important managerial decisions. As shown in the following charts -

The four of Ps of the Marketing Mix



Marketing Mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

There are literally dozens of marketing mix tools. McCarthy popularized a four factor classification of these tools called the *four Ps* : product, price, place (i.e. distribution) and promotion. The particular marketing variables under each *P* are shown in figure. Marketing mix decisions must be made for both distribution channels and final consumers. Figure shows the company preparing an *offer mix* of products, services and prices and utilizing a *promotion mix* of sales promotion, advertising, sales force, public relations, direct mail and telemarketing to reach the distribution channels and the target customers.

Not all marketing mix variables can be adjusted in the short run. Typically the firm can change its price, sales force size and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. Thus the firm typically makes fewer period-to-period marketing mix changes in the short run than the number of marketing mix variables might suggest.

These are the efforts made for winning the market through market oriented strategic planning. It is a kind of bidding which has impact on company's profit in the range of 16% to 81% on the marketing programme. It is a method of promotional pricing. It is a kind of cash rebate (reward) supplement offered on the main copy of newspaper to encourage the purchase of the main copy of the newspaper along with a free supplementary literature. It is not a direct cash-rebate on the price of the main copy of the newspaper which is neither increased nor reduced. It is a kind of incentive as a result of which a customer is inclined to purchase the main newspaper for the free gift which he receives alongwith the main product. Product-mix and marketing-mix are the complementary marketing programmes for increasing circulation is a wider market against the competitors. This would enable the production and marketing organisation to stabilize profits in the long run. Free supplementary material distributed along with the main product may also be a source of income earned through advertising on a large scale and thereby inducing advertisers to subscribe their advertisements to the main newspaper. Shopping-weary customers can be attracted to newspaper distribution stalls for purchasing the main copy because the free-supplements form an important part of the income from waste paper (raddi) sale in future. A refined product-quality can be built thereby improving product-image through advertising implying future gain. Such marketing strategies can be followed by other competitors for increasing their market share - to that extent are adverse effect on profitability may be created in the long run.

Customer Oriented

**As per Prof. Choudhari and Gokhale - This marketing strategy is known as product-line or line-trimming. When product organization observes non performance or lower-demand for its brand. This may happen because better offerings are made by the nearest competitor or when current technological upgradations are not adopted by the organization. Therefore new product mix or marketing-mix policy is adopted by taking into consideration customers changing views, likes, dislikes, tastes habits and performance of the target segments.

Limitations to this marketing strategy may be created by scarcity of input raw materials and inadequate and improper support by marketing channel members. However when there is immense pressure to grow market share and profit marketers must find out measures to sustain the impact of adverse circumstances. Business can always flourish by serving new products in the existing markets and in untapped market segments. A new market penetration must be attempted for survival and expansion.

Business Analysis (Sales Promotion, Marketing Strategy development, Concept Testing, Screening of idea.)

Large sized leading companies (newspapers) have systems of rating and screening ideas. The marketing strategy (consisting of marketing mix and product mix-product modification or product differentiation) are based on.

**Ref - Marketing Management by Prof. C. C. Chaudhari and Nilesh Gokhale, Nirali Prakashan. Page - 1-25.

(1) market estimates - (circulation)

(2) Product price - (which may or may not be changed)

(3) Costs w.r.t. new supplementary product developer.

(4) Costs and returns (short run and long run.)

Target markets are determined and product is positioned in the context of new marketing strategy marketing budgets are prepared with reference to product price, distribution. Long run sales are estimated in the context of profit goals. Supported by analysis of price elasticity and break-even analysis. Risk measurement is also done with reference to counter marketing strategies of competitors and its effects demand, consumption pattern and marketing channels for distribution.