

Is the newspaper market contestable



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This piece of Coursework is an investigation into whether the newspaper market is contestable. I shall research into different aspects of the newspaper market, such as barriers to entry and exit.. I aim to produce a final conclusion which shall discuss how contestable the newspaper market really is. I plan to do this by identifying factors influencing contestability, distinguishing methods of entering a market, and using all resources available to me, such as reviewing recent performances of specific newspapers, so that I can be thorough in my work.

Hypotheses

The Newspaper trade is a vast and powerful market with lots of established competitors, therefore given the advantages which accompany a large business within a large market, it may be difficult for new firms to enter and compete.

Newspaper Market – Background

The prominent newspapers within the industry form an oligopoly, which gives each of the established newspaper owners enormous power. Within the market there are two prominent types of newspaper; populars and broadsheets. There are distinct characteristics between the two styles of newspaper. The popular papers consist of more light entertainment, such as gossip columns; where as broadsheets has a more serious and business-like content, such as stocks and shares. Broadsheets are most likely to be read by business men, or people with an interest in politics and/or economics, where as populars are more likely to be read by others who are more interested with general news and entertainment.

Despite this enormous power which the established newspapers possess, they are still unable to stop the general decline of the newspaper market, specifically the popular papers which have had an overall decline in circulation of 0.5%. Although this seems a fairly small percentage, it means thousands less of newspapers are being bought. This regression is due to a number of challenges that newspapers have to face;

- * The mature newspaper industry is considered to be “old media”
- * Competition from radio, television, and the internet
- * Gradual decline in newspaper market penetration
- * Weakening of the UK and European economy
- * Significant rises in newsprint prices
- * Inelasticity of newspaper cover prices

This means that not only will new business have to contend with large established companies within the market but also that the market itself may be regressing.

Newspaper Market – Figures

Recent circulation figures can show which newspapers are in decline, which newspapers are growing, and can also be used to calculate an estimate of the market share of the main national dailies (excluding certain smaller national dailies).

Factors Influencing Contestability

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Contestability is a way of measuring how competitive a market is. If a market is contestable it is easy for a new business to enter and exit. If a market is not contestable then it will not be very competitive, this therefore means it will be difficult for a new business to enter. There are many factors which influence how competitive a market is:

Gap in the Market

This is where there is a specific target audience's needs within the market which is not currently being explored. This means that for that particular target group there would be no competition to face, therefore no contestability, and a new business could set up within that market relatively easily.

There are few gaps within the newspaper market, such as producing a quality paper and selling at a low price, however, these gaps are not really feasible as the costs are too high to produce and then sell at that price, also the profit margins would be so low that money could not be invested into other divisions of the business, for example advertising.

Cost of Entry

This refers to how much capital is needed to set up a business within a particular market. The more contestable the market, the lower the expense of starting a new business, and therefore the lower the risk.

Within the newspaper market there are substantial firms already formed. They have large turnovers, profit margins, and in turn received profit. This poses as great competition, especially to new businesses as they can easily

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be forced out of the market by these competitors without sizable financial support, and significant entrepreneurship.

Economies of Scale

This refers to increasing output while cutting unit costs, or if an industry is growing.

External economies of scale can contribute to contestability by giving all businesses within the market already an extra advantage. However, it is the internal economies of scale such as technical, managerial, marketing, financial or risk-bearing economies that really effect contestability. This is because the company gains a competitive advantage which increases its market share, power, profit margins and is then able to reduce its price forcing out new and smaller businesses.

The main businesses within the newspaper market are multi-billion pound companies who benefit largely from economies of scale, which means the market itself is less competitive and more difficult for new firms to enter.

Brand Loyalty

This is product loyalty, which means that if a new, and perhaps more cheaper product became available, then people would continue to buy the original product due to brand loyalty. The stronger the brand loyalty towards the companies already in the market, the less competitive the market is and the less likely a new business will succeed.

Individual newspapers have strong brand loyalty among certain groups, such as business men with a specific quality paper. However, there is also a large group of customers within the market which do not stick to a specific brand, but buy the cheapest, or the newspaper that has a free gift.

Expanding Market

This where a market becomes more contestable as it expands. This is because as the market grows it leaves more room for other businesses to enter the market and compete with existing firms.

The newspaper market isn't expanding, in fact sales and circulation are in decline, which means that it will be even harder for a new business to enter the market.

Strategies for Entry

Strategies for new companies to enter the newspaper industry, the market mix has to be considered. This refers to the combination of price, product benefits, promotional activity and distribution effort which covers all aspects of marketing.

The first element to consider where to be what part of the market to target, realistically it would need to be a niche, which gave consumers something innovative yet still remain focused on the main advantages of newspapers are able to offer, such as complete in-depth news everyday, being portable, disposable, and recyclable. In fact these existing qualities can developed and expanded such as being done by the Independent, by introducing a new, more portable, tabloid version of itself.

Branding should then be contemplated as a brand comes to represent the market position and can build up a loyalty which can result in a more inelastic demand for that product. Branding can be achieved through advertising and product promotion. This means that the costs to enter the market as reflected by the price of the product can be justified.

Penetration pricing seems an ideal way of entering the market by lowering the price of the product you draw customers away from leading, established, newspapers. However this could lead to a fatalistic problem whereby your company is forced out of the market and perhaps into liquidation. This is because penetration pricing, especially within a non-contestable market, can lead to a price war, and if there is not enough financial support to compete with the large established businesses, the new firm could be forced to exit the market.

Conclusion

This piece of Coursework investigated into whether the newspaper market is contestable. I researched into different aspects of the newspaper market, such as barriers to entry and exit, and considered elements linking to the marketing mix. Overall, it seems that there are too many large and established competitors in a declining market for a new business to enter and compete successfully. If a new business did want to enter the newspaper industry, they would have to locate a niche, and have a vast amount of capital to cover the costs and expenses of entering this non-contestable market. In conclusion the Newspaper trade is a vast and powerful market with lots of established competitors, therefore given the advantages which

accompany a large business within a large market, it will be difficult for new firms to enter and compete.