

Theory of subscription pricing for weekly community newspaper websites

[Our-Hometown, Inc.](#)

Many newspaper publishers have left their websites free and open to the public with the expectation that advertising would eventually be used to monetize their efforts. To a large degree, website advertising has not readily followed and has not been as financially rewarding for the newspaper industry as first thought. Our experience as a technology and services supplier focused on the weekly community newspaper sector has confirmed this. Generally publishers have found that web advertising revenues have been costly to generate and pale in comparison to their print efforts.

Today, the industry seems to be moving to “paywalls” to monetize its websites and the need for real data and economic theory to explain that data is heightened.

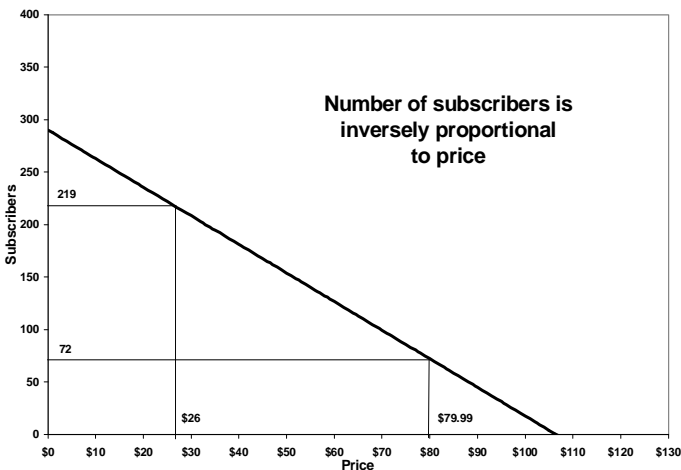
The purpose of this paper is to present our theory of pricing for online, subscription-based, weekly community newspaper websites. Over 50 of our newspaper customers charge for access to their websites and offer discounts for a combined print and online subscription; pricing strategies and tactics vary widely. Our focus in this paper is in maximizing hard dollar revenues for online subscriptions, so the data used is from a publisher that doesn't offer a discount for a combined print and online subscription. This discounting significantly complicates measuring the value of the online portion of subscriptions.

We believe the data and the basic logic presented in this paper is valuable to all publishers including both daily and weekly newspapers and those that discount combined subscriptions and those that don't.

Number of subscribers at various price points

The number of people that will take an online subscription is inversely proportional to the subscription price. As the price of a subscription goes up, the number of subscribers goes down.

At a price of zero, the maximum number of subscribers is attained. As the charge increases, the number of subscribers eventually reaches zero.



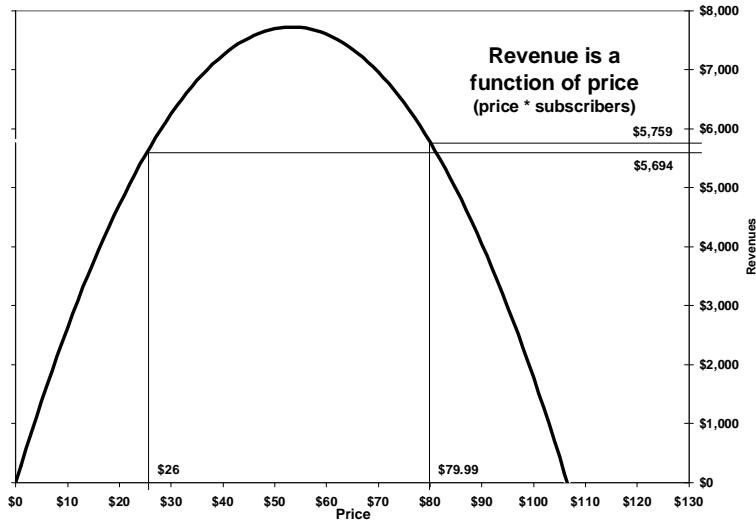
Clarke County newspapers of Grove Hill, Alabama provide two data points that we map onto the graph. Prior to December of 2009, Clarke charged a price of \$26 per year for an online subscription, the same price as the print edition. No combination discount for subscribers taking both online and print was offered. On December 1 there were 219 subscribers.

In December of 2009, the price was raised to \$79.99 per year. Annualizing the rate of renewals through June 30, 2010 at the higher price, we project there will be 72 subscribers in December 2010.

Due to the economic principle of price elasticity of demand, this graph is an over simplification at the end points of a zero price on the left and zero subscribers on the right. However, within the range of the data points, the graph is sufficiently accurate to predict the number of subscribers one should reasonably expect at a given price point.

Revenue at various price points

Revenue generated by a website is equal to price charged times the number of subscribers. The graph below shows our sample data and the revenue curve calculated from our assumed inversely proportional relationship between subscriptions and price.



Revenues approach zero quickly at low subscription prices and as price is increased there is a slowing in revenue growth to a peak and then an accelerating drop off to zero.

At \$26 per year with 219 subscribers, the website generated \$5,694. At \$79.99 per year; 72 subscribers generate \$5,759. Sixty five dollars more at the higher price in spite of a 67% drop in subscribers: the \$79.99 price, over three times the \$26 price, makes this possible.

The graph below indicates that the maximum revenue is generated at a subscription price of \$53 per year. The 146 subscribers expected will generate \$7,738. We expect to implement this pricing after one full year at the \$79.99 price to further confirm our theory.

Conclusion

The Clarke data indicates that the price at which publishers like Clarke can expect to maximize online subscription revenue is higher than most think, at over 200% of the price of the print edition.

For local community papers that can cost effectively generate or repurpose content for their website and wish to implement a paywall, a revenue stream can be created without putting at risk a lot of production, web design and lost local sales hours on

advertising that generates only modest returns. Better still, with a paywall in place the local publisher can monetize and protect the content that is most valuable to them and their readership.

The basic math used in this paper is described in further detail in the following file on Wikipedia:
http://en.wikipedia.org/wiki/Price_elasticity_of_demand#Effect_on_total_revenue.

