

Newspaper Crisis: The Cut-throat Price War

THE HONG KONG NEWSPAPER INDUSTRY

Hong Kong has about 20 Chinese-language daily newspapers. The top five sellers are *Oriental Daily News*, *Apple Daily*, *Sing Pao*, *Tin Tin Daily News*, and *Ming Pao*. Apart from *Apple Daily* which was launched in June 1995, the other four have had a long history in the market. *Oriental Daily News* started publication in January 1969, *Sing Pao* in May 1939, *Tin Tin Daily News* in November 1960, and *Ming Pao* in May 1959.

The target readers of Chinese newspapers can be divided into two major groups: mass market and niche market. *Oriental Daily News*, *Apple Daily*, *Sing Pao*, *Hong Kong Daily News*, and *Tin Tin Daily News* all target the mass market, a segment favored by advertisers. *Ming Pao*, *Hong Kong Economic Journal*, and *Hong Kong Economic Times*, on the other hand, serve more specific market segments. The first is directed at the middle-class and higher-educated individuals while the latter two specialize in local financial news. They all have their own regular readers.

The cost of a Chinese-language daily newspaper falls into three types: distribution, newsprint, and operational costs. For each copy of

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a Chinese-language daily newspaper, on average, \$0.50¹ is given to the distribution agent and \$1.50 to the newsstands, making the distribution costs of each paper about \$2. Other than the distribution costs, the average newsprint and operational costs are estimated to be between \$6 and \$8. Thus, the average cost of one copy ranges from about \$8 to \$10 (Table 14-1). Before the price war, all Chinese-language newspapers were priced at \$5, so the revenue gained from the sale of each newspaper was less than its costs. Therefore publishers relied heavily on advertising for additional revenue which represented a large part of the total income. The volume of advertisements is, in turn, determined by the circulation figures of a newspaper. At the outbreak of the price war in December 1995, some publishers preferred to cut their prices in order to maintain high circulation figures and to keep their readers from switching to a cheaper publication.

Table 14-1 Unit revenues and costs of a typical newspaper in Hong Kong

Revenues	\$
Revenue from newspapers sold	5.00
Advertising revenue	4.00
Costs	
Production	7.48
Distribution	2.075
Loss per unit before the price war	0.555

Source: The Newspaper Society of Hong Kong, cited in Chan & Lam, 1996.

There are many unfavorable factors that create tough times for the newspaper industry. Negative factors in recent years include newsprint costs which have soared about 30% and shrinking advertising revenue mainly due to a drastic reduction in the number of China property advertisements. The total advertising revenue for all newspapers in the first three months of 1995 was \$974 million, down 10.1% from the previous year (Survey Research Group Limited). The price of all Chinese-language daily newspapers rose from \$4 to \$5 in October 1994 which affected the desire of readers to purchase more than one newspaper. Newspaper sales were also deteriorating.

¹ All currencies in Hong Kong dollars unless otherwise stated.

Two Chinese-language newspapers, *Hong Kong Today* and *Wah Kiu Yat Po* closed on November 26, 1994 and January 12, 1995, respectively. A few Chinese newspapers operated just at the margin and some smaller papers could follow *Wah Kiu's* lead. Meanwhile, the proximity of Hong Kong's handover in 1997 was expected to exert some unpredictable impact on the freedom of news reportage. Thus, the general atmosphere of the newspaper industry market was highly unfavorable for a new contender. However, *Apple Daily* took a bold step into this market on June 20, 1995 and successfully attacked the market leader—*Oriental Daily News* directly. Hong Kong has a very dense population which can support substantial advertising. Therefore it is a very competitive market. This is exactly what makes Hong Kong so attractive to publishers and is also the reason why the territory is one of the world's most competitive markets.²

THE SUCCESSFUL ENTRY OF *APPLE DAILY*

Apple Daily is a mass-market product with a planned circulation of 200,000 copies originally and an initial investment of \$300 million. Advertisers were generally unwilling to expand their budgets to sustain another mass-circulation daily that may only extend their reach by another 1% or 2%. However, *Apple Daily* after nine months had already achieved a circulation of nearly 300,000 copies and ran second in popularity in the Chinese newspaper industry. *Apple Daily* decided to invest further to raise its full daily capacity to 400,000 copies. It also declared that it would be within striking distance by early 1996 to challenge *Oriental Daily News* for the number one spot. Although the paper was initially suffering a daily loss of \$50,000, it was expected to break even soon after its production capacity was upgraded in the middle of 1996.³

To understand the factors behind the successful launch of *Apple Daily*, one needs an insight into Jimmy Lai, the founder of Next Media Group. Lai's first brush with fame came as the boss of Giordano, a fashion chain store in Hong Kong, when he donated proceeds from the sales of T-shirts emblazoned with pro-democracy slogans to student protesters in Tiananmen Square in 1989. While many have fallen silent in the aftermath of June 4, Lai had maintained a strong anti-communist stance. Lai insulted the Chinese premier in his *Next Magazine* and hence *Apple Daily* fell out of favor with the Chinese authorities.

² "Out with the old, in with the new," *Asian Advertising and Marketing*, March 24, 1995.

³ "Bite of the big apple," *South China Morning Post*, November 25, 1995.

While Lai's anti-communist stance may have helped him sell papers, it affected negatively his business investments.⁴

Those who worked with Lai have described him as intelligent, hard-working, and down-to-earth. He was also noted for his generosity. Senior journalists at *Apple Daily* were reportedly on a yearly salary of \$675,000, and section heads earned as much as \$1.5 million or more a year. Lai took a hands-on approach when it came to the day-to-day running of *Apple Daily*, chairing the daily editorial meetings. He said that his contributions to the meetings were limited to suggestions as to what should go on the front page. To guarantee feedback from his readers, Lai started a focus group made up of ordinary people who are paid to come into the office to tell the editors what they think of the paper.⁵

Product

Apple Daily offered sufficient exclusive news and good editorials to tempt readers away from the top-read *Oriental Daily News* and *Sing Pao* newspapers.⁶ For example, the team in charge of city crime consists of more than 90 reporters and photographers working round-the-clock. Hong Kong celebrities often slam the newspaper because they are distressed by the details of their private lives being splashed across the pages of the paper.⁷ *Apple Daily* responds to the demands of customers by providing timely news items which are tightly-edited, concisely-written in colloquial text and highlighted by big headlines, full color photos, and innovative graphic designs, all strongly influenced by *USA Today*, a popular newspaper in the U.S. To compete with its rivals, *Apple Daily* provides a broader editorial content and contains more pages despite high newsprint costs (Table 14-2).

Price

Apple Daily, which was not a member of the Newspaper Society of Hong Kong, argued that newspapers should have the freedom and flexibility to decide how to price their products. During the first month of its launch, the nominal price of *Apple Daily* was \$5 but readers only paid the discounted price of \$2 if they presented a coupon which had been enclosed in *Next Magazine* and *Easy*

⁴ Ibid.

⁵ Ibid.

⁶ *Asian Advertising and Marketing*, March 24, 1995.

⁷ *South China Morning Post*, November 25, 1995.

Table 14-2 Editorial content of the top three Chinese-language newspapers

Editorial content	<i>Apple Daily</i>	<i>Oriental Daily News</i>	<i>Sing Pao</i>
Main news			
Local	6	4	4½
International	2	2	2
China	2	1	1½
South China Special	1	—	—
Sports	1	1	1
Business/Finance/Property	8	4½	4
Entertainment	4-6	3	3
Horse racing	3-8	3½	3
Supplement	6	6	6
Total pages	33-40	25	25

Finder, both sister publications of *Apple Daily*. This was accompanied by a series of promotional campaigns, for instance, a free apple was given to customers with each newspaper purchased at 7-Eleven convenience stores. After the promotional month, *Apple Daily* resumed its price of \$5 until the price war broke out.

Distribution

In Hong Kong, most people prefer buying newspapers from newsstands to taking out subscriptions. The retail sale of newspapers has been extended to convenience stores, supermarkets, and newspaper kiosks within Mass Transit Railway stations. The most common distribution channel is the distribution agents, who first take the newspapers from the newspaper publishers and then act as wholesalers to perform the bulk-breaking function by assigning the newspapers to smaller distributors in each district. They then redistribute the newspapers to the hawkers in newsstands and kiosks. Sole-agent circulation is similar to distribution agent circulation, except that the sole agent performs the functions of distribution agents and smaller distributors by delivering the newspapers to newspaper hawkers.

On the first day of its launch, *Apple Daily* alleged that five major Chinese-language newspapers formed a cartel with the specific aim of hindering the

circulation of *Apple Daily* in retaliation for its promotional price of \$2. The refusal of all agents, except one, to distribute the paper forced *Apple Daily* to set up its own distribution network and acquire its own vehicles for the distribution of newspapers. In general, newspaper hawkers earned \$1.50 for selling a copy of a Chinese-language newspaper. However, they were able to earn \$4.50 for each copy of *Apple Daily*. Therefore, *Apple Daily* was successful in setting up a distribution network during its launch. Later, the distribution network changed slightly when the redemption coupons ran out. But sellers could still earn \$1.75 for every copy of *Apple Daily* versus only \$1.50 for other newspapers. *Apple Daily* also adopted a "return paper" policy which was not used by most of the other newspapers (except *Sing Tao Evening Daily* and *Hong Kong Evening Daily News*). Under this policy, the hawkers were allowed to return the unsold copies of *Apple Daily* to the distribution agent for \$3. Although during the price war the retail price of *Apple Daily* fell to \$4, the hawkers' earnings for each returned copy remained unchanged.

Promotion

The launch of *Apple Daily* was also accompanied by a \$600,000 television commercial featuring Jimmy Lai surrounded by masked men firing arrows at him and a tag line that read: "An apple a day keeps the lies away." It also offered free apples and T-shirts to create customer awareness and induce product trial. Besides the heavy advertising and promotional program during the first launch of *Apple Daily*, the company also provided a series of guarantees to vendors and advertisers. *Apple Daily* guaranteed newspaper vendors that they would be able to triple their profit as it would offer \$4.50 for sales in the first month of its establishment while other papers only offered \$1.50. It also guaranteed the advertisers and advertising agencies that its circulation would not be less than 200,000 copies, and claimed that its advertising rate was the cheapest among all the top-selling Chinese-language newspapers. If its circulation fell below 150,000 copies, the gross rate would be reduced by 50%. If the circulation fell below 100,000 copies, the advertising would be free.

As a result, *Apple Daily* sold like hot cakes on its first day of publication, as buyers snapped up the initial print run of 220,000 copies. It grabbed at least a 10% to 15% share of Hong Kong's Chinese-language newspaper market in its first two months of operation. Its circulation surged past the 300,000 mark, just six months after its launch. Most major Chinese-language newspaper

titles suffered a dramatic double-digit decrease in readership six months after the launch of *Apple Daily*, according to *Survey Research Hong Kong*.⁸

THE CUT-THROAT PRICE WAR

As an immediate action to counter its aggressive new rival, C.K. Ma, the publisher of *Oriental Daily News (ODN)*, responded by giving out prizes worth \$10 million to readers and imitated the style and content of *Apple Daily*. *ODN* also acquired additional printing facilities and accumulated a huge amount of newsprint. Once all the new facilities were in place, the paper struck back by cutting its price to \$2 on December 9, 1995 for an indefinite period.⁹ In comparison with other Chinese-language newspapers, *ODN* claimed to have the most variety of content in its Supplement Section. To satisfy customer needs, it also showed a great improvement in both soft and hard news. It also included a new section, *Oriental Finance*, which offered a detailed analysis of news on real estate and international finance. From December 3, 1995, a free coupon was printed on the front page of *Oriental Sundaes* (a sister publication of *ODN*) which was published every Sunday. The readers could present the coupon to redeem a copy of the newspaper at newsstands, 7-Eleven, and Circle K convenience stores as well as TV service kiosks inside the Mass Transit Railway stations on the same day.

After a series of promotional programs and discount pricing, *ODN* succeeded in obtaining a new circulation record in the Hong Kong newspaper market—838,487 copies on December 16, 1995. However, the revenue of *ODN* was reduced by more than \$3 million per month. Although the discount price led to a tremendous loss of revenue, it had regained its market leader position. The market share of major Chinese dailies and the list of press industry events during the price war are reported in Tables 14-3 and 14-4, respectively.

Apple Daily

After the outbreak of the price war, *Apple Daily* quickly reduced its price from \$5 to \$4 on December 10, 1995. It also provided a price guarantee to consumers by claiming that the retail price of \$4 would be maintained until July 1, 1997. Its circulation dropped from its peak of 310,000 copies to 275,000 copies

⁸ "Apple Daily eating away at readers of rival papers," *Media: Asia's Media & Marketing Newspaper*, March 15, 1995.

⁹ Chan, R. and P.L. Lam, "The price war in the broadsheet market: The Hong Kong experience," *Pricing Strategy & Practice*, 4: 26-31, 1996.

Table 14-3 Market share of major Chinese dailies in Hong Kong

Chinese daily	Average daily sales in 1994 ^a	Average daily sales in 1995 before the price war ^b	Average daily sales one week after the price war ^c
<i>Oriental Daily</i>	400,000	300,000	500,000–830,000
<i>Apple Daily</i>	Not yet launched	300,000	250,000–270,000
<i>Sing Pao Daily</i>	200,000	210,000	n.a.
<i>Tin Tin Daily</i>	175,000	n.a.	n.a.
<i>Hong Kong Daily</i>	105,000	100,000	200,000–270,000

Notes:

n.a. = Figures not available.

^a Estimates by *Ming Pao Daily*, December 12, 1995

^b Estimates by Standard Chartered Securities.

^c Estimates by individual dailies.

Source: Chan & Lam, 1996.¹⁰

gradually. On February 27, 1996, Jimmy Lai sold a 27% stake in his Giordano fashion company for nearly \$188 million. He was almost certain to put most of it in a fighting fund to defend his publishing group in a price war.

Sing Pao*, *Hong Kong Daily News*, and *Tin Tin Daily News

Sing Pao, *Hong Kong Daily News*, and *Tin Tin Daily News* followed the lead of *ODN* by cutting their prices to \$2 (December 10, 1995), \$1 (December 11, 1995), and \$2 (December 12, 1995), respectively. They were forced to make cuts in their prices to stop the decline of their circulation. Had they not taken this action, advertisers might have switched to *ODN* or *Apple Daily*. As a result, all the discounted newspapers showed an increase in both circulation and sales figures. The \$1 or \$2 newspaper price was so low that it could not even cover the fees paid to the distribution channels.

The actions of *Sing Pao* and *Tin Tin Daily News* were aimed at maintaining their market position, while *Hong Kong Daily News* wanted to dramatize the event by reducing its price to only \$1, which was its selling price in 1983. After the price cut, the circulation of *Hong Kong Daily News* more than doubled. On December 14, 1995, *Tin Tin Daily News* introduced an additional edition of its newspaper, which updated local and world news between 2 a.m. and 7 a.m. and was distributed to the newsstands at 10 a.m.

¹⁰ Ibid.

Table 14-4 Significant events in the press industry from December 1995 to March 1996

Date	Events
December 9, 1995	<i>Oriental Daily News</i> reduced its newspaper price from \$5 to \$2.
December 10, 1995	<i>Apple Daily</i> reduced the publication price to \$4 and pledged it would not change its press price until 1997. <i>Sing Pao Daily News</i> announced a price cut to \$2.
December 11, 1995	<i>Hong Kong Daily News</i> announced it would reduce its cover price from \$5 to \$1.
December 12, 1995	<i>Tin Tin Daily News</i> cut its cover price to \$2. <i>TV Daily News</i> declared immediate closure.
December 16, 1995	<i>Express News</i> and <i>United Daily News</i> folded.
December 19, 1995	<i>Hong Kong Economic Journal</i> announced it would stop its Sunday publication.
December 28, 1995	<i>South China Economic Journal</i> was shut down.
January 4, 1996	The Newspaper Society of Hong Kong reported that the five newspapers which had cut their prices had lost \$110 million since the outbreak of the price war.
January 6, 1996	Culturecom Limited, publishers of <i>Tin Tin Daily News</i> , laid off about 100 staff and sacrificed <i>Ching Sun Chow Hon</i> .
January 12, 1996	<i>Hong Kong Daily News</i> increased its cover price to \$2.
February 9, 1996	<i>Apple Daily</i> said it would lay off 16 members of its staff.
February 14, 1996	<i>Tin Tin Daily News</i> announced it would raise its price to \$3.
March 18, 1996	A new newspaper, <i>Mad Dog Daily</i> , was introduced into the market.

Through such innovative measures and the effect of its discounted price, *Tin Tin Daily News* increased its circulation by almost three times during the price war.

Ming Pao, The Hong Kong Economic Times, and Hong Kong Economic Journal

These newspapers vowed to stay out of the war and believed that they were in a different market from the mass-market newspapers. It was reported that *Hong Kong Economic Journal* had even shown an increase in its sales volume

during the early part of the price war. On the whole, these newspapers improved the quality of their content to prevent the loss of readership. For example, *Ming Pao* increased the number of journalists in every section and invited readers to make suggestions on its editorial content.

The Aftermath—Casualties and Winners

Within a few weeks of the price war breaking out, several less financially-endowed players that could not afford to cut their prices closed down due to the decline in their readership. They were *TV Daily News*, *Express News*, *United Daily News*, and *South China Economic News* which were closed on December 12, 16, and 28, 1995, respectively. These publications shared some common characteristics: they had low circulation figures, were losing money, and had a long history. For example, *United Daily News* had only 20,000 regular daily sales and lost between \$4 million and \$5 million each month. *TV Daily News*, the only Chinese-language entertainment broadsheet, had been in the market for 26 years. Although these victims had their own reasons for leaving the market, they had been directly or indirectly affected by the outbreak of the price war. For instance, the sales of *Express News* dropped 15% within a week of the price war.

The brutal effects of the price war and record high newsprint costs mauled the profitability of the listed Hong Kong newspapers. The stock prices of *Tin Tin Daily News* and *Hong Kong Daily News* dropped by 27% while that of *Oriental Daily News* dropped by 16% just one week after the outbreak of the price war. The stock prices of the other newspapers which maintained their newspaper prices were reduced from between 5% and 18%. As for *Apple Daily*, its daily losses jumped from \$500,000 to \$800,000.

The beneficiaries of the price war were definitely the readers who had to only pay \$2 or \$1 for a paper which sold for \$5 before the price war. The quality of the newspaper content and the number of pages were increased due to the keen competition. Some newspapers upped the stakes by offering large discounts on their rate cards on condition that advertisers did not include key competitors in their buying schedule. Others increased the level of discounting from between 5% and 15% previously to 10% and 30% during the war. The escalating war came amid a decline in the overall circulation figures and a slump in newspapers' share of the advertising expenditure pie from 35.2% in 1994 to 29% in 1995. Although some publications claimed their circulation had doubled or even tripled, advertisers were cautious because the additional readers may not have been the target audience they were seeking. However, Raymond Wong Yuk Man, a well-known commentator in political affairs, saw

the price war in the territory in a different light. He believed that the newspaper price war opened up opportunities for new entrants.¹¹

FINDINGS OF SURVEYS

Two surveys were conducted during the price war to find out its effect on consumers and vendors. The consumer survey was carried out in March 1996, just about three months after the outbreak of the price war. The total number of useful questionnaires returned was 136 and the demographic profile is listed in Table 14-5. The vendor survey took place in April 1996 and the test group was chosen from different districts on Hong Kong island and in Kowloon. The total number of questionnaires used for analysis was 100.

Table 14-5 Respondents' profile in the consumer survey

Marital status			
Single: 54.4%	Married: 45.6%		
Sex			
Male: 47.8%	Female: 52.2%		
Occupation			
Managerial: 3.7%	White collar worker: 20.6%	Blue collar worker: 26.5%	
Technical: 13.2%	Professional: 4.4%	Housewife: 19.9%	
Student: 7.3%	Businessman: 4.4%		
Education level			
Under Form 5: 28.7%	Form 5: 44.9%		
Matriculation: 8.8%	Tertiary education: 17.6%		
Age			
15-19: 3.7%	20-24: 19.9%	25-29: 30.9%	30-34: 17.6%
35-39: 15.4%	40-49: 11.8%	50-59: 0.7%	
Total family income per month (US\$1 = HK\$7.8)			
Under \$8,000: 11.7%	\$8,001-\$15,000: 24.3%		
\$15,001-\$25,000: 33.8%	\$25,001-\$40,000: 19.9%		
More than \$40,000: 10.3%			

Reasons for Newspaper Choice

Of the respondents, 85.4% admitted to buying the discount-priced newspapers. Among them, 36.8% of the respondents bought the newspaper for its better quality, 46.2% bought it out of habit, and 17.1% were influenced by the

¹¹ "Mad but not crazy," *Asiaweek*, March 15, 1996.

discount price. If all the newspapers had been sold at the same price, 87.2% responded that they would still buy the same paper that they did. However, 12.8% reported that they would not continue to purchase the discount-priced newspapers.

Selection Criteria for a Chinese-language Daily Newspaper

All the eight top-scoring criteria for choosing a Chinese-language daily newspaper were concerned with the content of a newspaper (Table 14-6). "Infotainment" (information plus entertainment) was the most popular trend of the Hong Kong newspaper market. Its aim was to imitate the success of *Next Magazine*, the top-selling magazine in Hong Kong. For example, *Apple Daily*, *Oriental Daily News*, and *Sing Pao* had already made "infotainment" the core of their newspaper content. The majority of the respondents (78.8%) only bought one copy of a Chinese newspaper. The majority of the respondents (40%) perceived the most ideal price of a copy of a Chinese-language daily newspaper to be \$3, followed by \$4 (31%), and then \$5 (18%).

Table 14-6 Selection criteria for a Chinese-language daily newspaper

Selection criteria	Mean score
Updated information	1.58
Reliability in reportage	1.66
Variety in content	1.72
Objectivity in reportage	2.00
Interesting news	2.18
Entertainment	2.29
Exclusivity in reportage	2.42
Gossip	2.58
Price	2.59
Ease of purchase	2.69
Reputation	2.76
Color	2.81
Paper quality	2.85
Column design layout	2.96
Headline news on front page	3.07

Note: Most important = 1; least important = 5.

The majority of the paper vendors (80%) found that the price war affected their business. On average, the sales of discounted newspapers increased by 27%, and there was a decrease of 20% in the sales of those which did not offer discounts. Despite the fact that the net profit of the vendors had increased by 12.5% in the short run, about half of the vendors were worried about the prospect of the press industry as they found it difficult to sell newspapers not engaged in the price war. About 30% of the vendors perceived the price war to be the result of market domination while another 30% saw it as revenge against *Apple Daily's* promotional pricing. Most vendors were afraid that if the market was dominated by one publisher their business would be badly affected. The most appropriate price was \$4 from the point of view of the vendors. Vendors also thought that the price war would not last very long.