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Re: Newspaper Association of America.  
National Advertising Program.

Dear Ms. Kursh:

This letter is to describe the proposed national advertising program under consideration by the Newspaper Association of America ("NAA") and to request a business review of this program pursuant to 28 C.F.R. § 50.6.

The program is part of an industry effort to attract national advertisers to newspapers. The percentage of national advertising placed in newspapers has been trending downward. It now stands at about 5%. The ability to reverse this trend is seen as critical to the long-term future of the newspaper industry.

Newspapers need to take a number of steps to achieve this objective. One of the most important is to respond to advertiser concerns that national advertising in newspapers is too expensive and cumbersome to buy. This involves creating a market mechanism by which a national advertiser can be offered space simultaneously in all markets in which it is interested, at a price which is competitive with other media. Some "packages" of

space in multiple newspapers are now available but such packages usually do not include all the papers an advertiser wants for a national campaign. As some newspapers and groups sell national advertising directly, some use agents or "rep firms", and some participate in local or regional networks which may also use rep firms, an advertiser contemplating a national campaign involving a hundred or so newspapers can rarely deal with a single source to buy space in all the desired newspapers. The advertiser typically deals with several papers or rep firms, waits for the rate and other information needed, places multiple orders and pays multiple bills. Even when the advertiser is relieved of some of the paperwork by "one-order one-bill" service, multimarket newspaper space is usually more cumbersome to buy than other national media. Moreover, the newspaper advertiser is usually quoted the aggregate of the national rates of each paper (or group) in the buy. Such an aggregation makes no allowance for the size of the total buy. Advertisers have frequently decried the fact that individual papers' national rates are higher than local display rates. When individual national rates are aggregated without discount for the size of the buy, the resulting rate may seem to advertisers to be still more objectionable. Usually there is no single person to whom an advertiser may turn to try to negotiate a reduction in campaign cost.

Network television, by contrast, is sold to advertisers by network sales personnel, who frequently take the initiative in submitting proposals to advertisers and who negotiate a single price with the advertiser for ads to be run in a large number of markets. This is made possible by the fact that the network has contractual commitments from its "affiliated" stations in those markets. These stations agree to broadcast network programming, complete with the commercials supplied by the network. Network television commercials are embedded in the programming that is beamed by satellite to network affiliates for broadcast in local markets. Affiliates are compensated for broadcasting the network feed, but are not paid for carrying particular ads. The network sales reps do not negotiate different rates for different markets, and do not arrive at their network rates by aggregating rates of local affiliates. An overall network rate is quoted to an advertiser, for example, \$100,000 for a 60-second ad on a particular program. Each local affiliate also sells separately available commercial air time outside network programming and during station breaks from network programming on the half-hour and hour. For the advertising categories the proposed NAA program hopes to reach, network television garners forty (40%) percent of the total spent on national advertising in all media.

The essential thrust of the proposed NAA program is to respond to advertiser complaints on cost and cumbersomeness by empowering an industry-sponsored joint venture to offer advertisers space in a network of papers at a single, competitive price to be determined by the joint venture. This would enable national advertising in newspapers to be bought much as TV coverage is bought, and at prices which are competitive with other media.

The program is meant as a limited-life demonstration effort. If successful, it is expected to attract newspapers and others to continue some form of national network selling and pricing for advertisers.

More specifically:

- (a) NAA would form an entity to be known as National Newspaper Network ("NNN"). An independent highly-qualified executive sales director would be hired to run NNN. He or she would be assisted by approximately six sales executives. NNN's mission would be to call on national advertisers which make little use of newspapers, ascertain their advertising objectives, and suggest how they could fit newspapers into their schedules. For example, NNN might suggest to a manufacturer of toiletries introducing a new product that the launch include newspaper ads, perhaps with a coupon permitting the manufacturer to test the response to the ads. NNN would submit a proposal to run an ad in the participating newspapers at a specified price, probably based on cost per thousand of circulation. The proposal could also include specifics such as frequency and the section of the newspapers in which the ad would appear. Making concrete proposals is believed much more likely to generate interest than the current system, which imposes many more burdens on the advertiser.
- (b) Since the purpose of the program is to demonstrate that newspaper advertising can be an effective vehicle for more national advertisers, NNN will concentrate on advertiser categories which do not currently place significant national advertising in newspapers. The current candidate categories include toiletries, food products, medical products, household supplies, alcoholic beverages and automotive manufacturers. All these categories

devote more than 90% of their national advertising dollars to other media, mostly television.

- (c) If the advertiser is interested in NNN's proposal, the advertiser may wish to choose among the newspapers willing to participate. This would be entirely up to the advertiser. If the advertiser wishes to negotiate other changes in the package, it could raise these subjects with NNN. However, NNN could not negotiate proposals for single papers or single markets. NNN's authority would be limited to arranging packages or "network" coverage involving multiple markets and multiple papers.
- (d) NNN's executive sales director would determine the price of the packages it offers to advertisers. NNN prices would be guided by competitive alternatives and would have no necessary relationship to individual national rates of participating newspapers. Individual newspaper rates vary widely. For NNN to be competitive with other media, its package price is expected to be less, on a CPM basis, than the aggregate of the individual prices of network participants.
- (e) NNN would operate with guidance from an advisory committee composed of newspaper industry representatives. The advisory committee will not participate in, review or approve the price of packages NNN offers to advertisers. The advisory committee will operate in accordance with rules designed to prevent access to confidential information of competitors, and to avoid any effect on individual newspapers' price or output decisions.
- (f) Newspaper participants in the NNN program will agree for a three-year period (subject to extension for a maximum of three additional years) to support the program by running ads in accordance with the commitments NNN undertakes to advertisers. The newspaper's compensation will be a formula-determined share of NNN's revenues from ads sold, less applicable expenses. It is anticipated that the formula will be based primarily on the amount of advertising run by the participants and their circulation. Each participant will also

have the opportunity to designate limits on its participation, including CPM floors below which it would not be remunerative for it to accept advertising. The designated floor would be communicated only to the NNN executive sales director, and would be treated as confidential information of each newspaper, not to be made available to other newspapers or NNN's advisory committee. If NNN determines to make proposals at prices below the floors designated by some newspapers, it will leave those newspapers off the list of willing participants for those proposals, but may seek their participation to make the proposal more palatable to the advertiser.

- (g) Participation in the NNN program would be on a non-exclusive basis. Each participating newspaper would remain free to solicit advertising directly, through a representative firm, through another network, or otherwise.
- (h) At the expiration of the program NAA will evaluate the impact of the program. If the program is successful, the viability of network selling at competitive prices will have been demonstrated and rep firms or others should be stimulated to make the necessary investments to offer similar programs to newspapers and advertisers.
- (i) All newspapers would be eligible to participate in the program, whether daily or weekly, and whether or not NAA members. A sign-up fee and annual maintenance fee would be collected, solely to cover expenses not recovered from sales.

As was true of the licensing program involved in Broadcast Music, Inc. v. CBS, 441 U.S. 1 (1979), the proposed joint venture would enable customers to purchase, in a single transaction, a package of services that would otherwise be time-consuming and burdensome to assemble. The package would also be a combined product beyond the ability of any individual newspaper to supply separately. The joint venture could not have market power in national advertising, since over 90% of national advertising budgets are spent in other media, or in the particular advertising categories to be served by the venture, since these categories devote over 90% of their expenditures to other media. By limiting access to confidential information of competitors, the structure

of the joint venture safeguards against unnecessary coordination among competing member newspapers as to their individual business decisions. As with the joint venture of lawn and garden supply distributors to bid for the business of national accounts, which was the subject of a business review letter of January 29, 1993, the joint venture may produce a significant pro-competitive effect by creating an additional "national distributor" to serve national accounts, while potential anti-competitive effects are minimized by the existence of competitors dominating the markets involved, together with the ability of the joint venturers to negotiate independently with national accounts.

The purpose of the program -- to test whether the currently-declining trend of sales of national advertising in newspapers can be arrested by methods which are highly likely to produce transactional efficiencies -- is pro-competitive and is expected to result in lower prices for national advertisers.

We are of course at your disposition to respond to questions you may have as to the proposed program. We are submitting separately the materials listed in the attachment to the Department's release of December 1, 1992 and respectfully request expedited processing as described therein.

Sincerely,



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