

Letter from Simon Dixon, CEO of Idea Engineering, Inc.

Recently it was revealed that General Motors cut their advertising budget by \$600m in 2006. (Out of a staggering \$2.4B budget). No surprise here necessarily considering the woes that GM has been suffering through (although I strongly believe the General is finally starting a comeback). What is interesting, upon further analysis, is *how* this budget was cut.

Although everything but internet advertising saw declines of some degree, GM's newspaper advertising was cut *64 percent*; an ominous portend that I believe will play out in the major markets countrywide. I think, interestingly, that it is the *larger* dailies such as the NY Times and Washington Post that are under the biggest threat to their existence. Smaller local dailies are always going to have readership because they provide the easiest option for local news delivery. Where else does one go for compressive high school sports coverage for example? But for national and international news there are a whole host of delivery options and the massive infrastructure of the large dailies is starting to buckle under ever dwindling readership and commensurate declines in advertising. As advertising revenues decline, costs must be made up from subscriptions but there has to be a limit to this. Will people pay \$1 for a copy of the LA Times? \$2? At Idea Engineering's East Coast office our automotive clients have reduced spending on newspapers by an average ratio greater than that of GM's (over 80%!) with most being re-directed to internet and broadcast. And we are seeing similar (though not yet so aggressive) re-allocations from other industries.

I believe that the end is in sight for the major market dailies. In 5-10 years (but maybe much faster) many newspapers will most likely not exist in their current form. As always, one of the challenges for any company or its marketing agency will be to figure out not just what marketing message resonates with its customers but where best to place that message so customers and prospective customers can see it. The changes roiling the newspaper industry are an important factor in our equations these days.