# Moving into multiple business models\*

Outlook for Newspaper Publishing in the Digital Age



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## Introduction

The global publishing industry is going through a period of turmoil, as broadband penetration rises and new devices for delivering digital content arrive on the scene. Consumers are increasingly switching from traditional print media to digital media, although the manner in which they are making the transition varies with age, gender and nationality. In this study, we have examined the outlook for newspaper publishers, advertisers and media buyers, as they adapt to the digital revolution and deal with a global economic slowdown. This survey has been carried out by PricewaterhouseCoopers in cooperation with the World Association of Newspapers (WAN).

Our research focuses on two key issues: the change of consumer behaviour with respect to their consumption of news content, and the response of newspaper publishers, advertisers, advertising agencies and media buyers to these changes. Our conclusions are based on an online survey of more than 4,900 consumers in seven countries, and on interviews with leading publishers, advertisers and media buyers around the world. The surveyed countries are Canada, France, Germany, the Netherlands, Switzerland, the United Kingdom and the United States. Additional input and research was included from Australia, India, Italy and Spain. We have supplemented these findings with findings from industry reports, annual reports, analysts' reviews and our own expertise. For details of our methodology, please see Appendix 1.

It is an exciting time to be part of the ever-evolving publishing industry. We, as members of the PricewaterhouseCoopers Global Publishing Centre of Excellence, are pleased to present you our view on the outlook for the newspaper publishing industry, and we look forward to sharing our thoughts with you further.

If we can be of service to your business in any way, please contact one of the PricewaterhouseCoopers Publishing Centre of Excellence team members in your region (see page 53) or visit our website www.pwc.com/e&m for details of the Entertainment & Media specialist in your territory.

Finally, we thank you for your support and hope you enjoy our publication.

Sincerely,

Marcel Fenez PricewaterhouseCoopers Global Entertainment & Media Leader Marieke van der Donk PricewaterhouseCoopers Global Publishing Centre of Excellence



Marcel Fenez



Marieke van der Donk

# Executive Summary

The newspaper publishing industry is facing a structural challenge in which paid titles have seen a long-term decline in circulation volume while advertisers have been moving from newspapers to online channels and into new formats. These trends are forecast to continue, and structural changes are now being exacerbated and accelerated by the global economic downturn.

How can newspaper publishers successfully address these challenges? In this report we look at consumer and advertiser trends, and at how industry leaders in a number of countries are responding.

### Our research shows that:

- Although there is a huge potential for growth online, print remains the largest source of revenue generation for newspaper publishers, and will continue to be so for some time.
- Newspapers have a long-term future and will coexist with other media. However this is unlikely to be either in the formats or volumes seen today and there will some casualties and losses of well-known papers along the way.
- Consumers place high value on the deep insight and analysis provided by journalists over and above general or breaking news stories.
- Consumers see breaking news and general interest news as commodities, but there is always a market for high value online content in specific topics. Our consumer research indicates that consumers are willing to pay for this content, but newspapers need to develop strategies for monetising their content and intellectual capital.

- Newspapers have been able to earn their readers' trust and loyalty, giving them the opportunity to both lead and follow audiences as they migrate online and into the use of portable electronic media. Indeed, with the core principles of deep analysis and trusted editorial, the medium is secondary to the brand.
- Use of video in online news sites gives the feel of a 'TV-like' experience (consumers' favourite medium for news) giving newspaper brands the opportunity to secure online audiences beyond their print readership and into the television audience more generally.
- Newspaper publishers have responded to the economic downturn by increasing their focus on cost reduction.
   Many are also using multiple platforms and new technologies as channels for content distribution in order to reach their audiences. However, many have still to fully review their existing business models to take full advantage of the innovation in the marketplace and the demands of consumers.
- The rapid adoption of the Internet and mobile technology have created a market for mobile devices – particularly for the 'net generation', those under 35 in age. Though the devices give immediate access to breaking news and information, they are low on the list of preferences for accessing information due to the difficulty of reading content on the devices.
- Sustainability has increased in importance both for the newspaper publishers and for their readers, who attach high values to a publishing company using sustainable production methods. Some newspapers have addressed this issue, but many have not.

- For advertisers, access to mass markets remains key, so major newspaper brands with large loyal customer bases will be high on the spending plans of advertisers. The overall shift from print to online will continue however, so newspaper publishers must continue to develop innovative advertising packages combining both print and online to secure the advertising spend for their brands.
- Niche audiences continue to demand specialised, targeted and relevant information. This creates both an opportunity for advertisers to reach their consumers and for newspapers to develop 'hyper-local' or 'local-local' sites addressing content at the neighborhood and suburban level. This is particularly prevalent in the USA.

- How will you deal with the cultural aspects of change so as to maximise quality and minimise inefficiencies?
- Have you maximised the mass-market nature of your total readership (print and online) in discussions with advertisers?
- What sort of business will you be running in five years' time?

### **Key questions**

- Is your brand identity clear both internally and externally - and focused on what differentiates you from your competitors?
- Are print and new media run as separate operations or as simply two different distribution mechanisms for the same core activity?
- Do you have an integrated paper and online advertising sales team?
- Are you using online to extend your core audience beyond the traditional print readership?
- Will video journalism and print journalism co-exist online?
- What does your audience want from you and do you know what they will pay for?
- Can areas of non-differentiation be outsourced?
- Have you identified non-core activities that should be downsized or stopped?
- Are you investing today with a clear view of the payback on that capital allocation?



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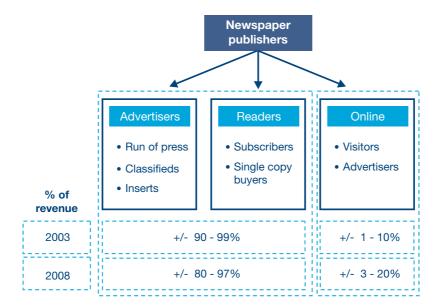
# Market Description and Outlook

Although the long-term potential for growth online is huge, print remains the main revenue driver for newspaper publishers. The stakeholder groups that are the main contributors of revenue are print and online advertisers, subscribers and single copy purchasers of the print version, and online visitors (see Figure 1).

The percentage of total revenue generated through either print or online varies per country, and is highly dependent on the penetration level of new technologies. On average, however, between 80 and 97% of revenue was still being generated in 2007 from print sales and advertising, down from 90 to 99% in 2003, with the balance being generated online.

Both technological and market developments influence the outlook for the newspaper publishing market. The rapid adoption of the Internet and mobile technology have both facilitated the introduction of new online business models and created a large market for mobile devices. The penetration rate of the Internet and mobile telephony is a key factor that leads to differences in opportunities for newspaper publisher as they depend on platforms for their delivery. There is a difference in penetration rate between the surveyed countries (see Figure 2).

Figure 1: Newspaper business model



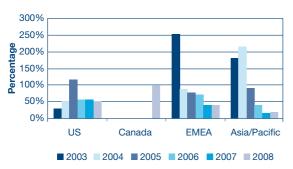
Source: PricewaterhouseCoopers newspaper publisher survey

Figure 2: Penetration rate of the Internet by country and mobile telephony by country/region

Wired Internet Household Penetration



Mobile Internet Access Growth



Sources: PricewaterhouseCoopers Global E&M Outlook 2008-2012 and interviews

The Internet penetration rate in the Netherlands, for example, is among the highest in the world, creating opportunities for video on demand and data traffic through mobile networks. Other national factors have an impact in this respect as well. The oligopoly in the market for data traffic in Canada has, for instance, been argued as being a slowing factor in the adoption of mobile technology. Swiss publishers have only recently begun to invest in online activities as the country has a strong print tradition. Due to the introduction of new UMTS phones in Germany, people are spending more time online with their mobile devices, requiring newspaper publishers to increase their focus on providing online content.

As a result of these technological developments, new devices, concepts and media platforms have emerged, drastically changing the competitive media landscape during the last decade. Companies such as Google, YouTube and Facebook have been able to profit from these developments and captured media time from traditional providers. At the same time, traditional media providers in general and newspaper publishers in particular have found it difficult to adopt new technologies and use them to monetise content.

The world economy is moving into a major recession. The impact on the global newspaper market will be significant, especially in terms of reduced print advertising revenue, and most newspaper publishers do not expect recovery to begin before 2011 (see Figure 3).

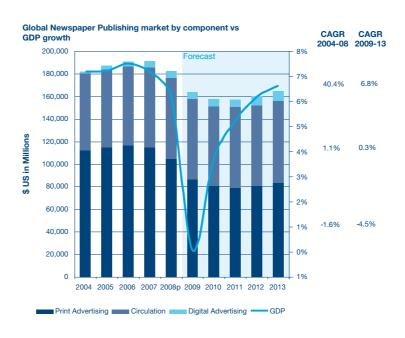


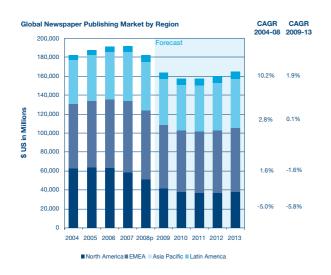
Figure 3: Global newspaper publishing market by component vs. GDP growth

 $Source: Pricewaterhouse Coopers\ Consensus\ Estimate$ 

The global newspaper market is forecast to decline by 10.2% in 2009 and average a 2 percent compound annual decrease to 2013. Print advertising income showed moderate growth between 2004 and 2007, but is expected to decline by 4.5% each year between 2009 and 2013 as the recession exacerbates the ongoing migration of readers and advertisers to online media. Meanwhile, online advertising showed double digit growth rates between 2004 and 2008. Although it too is expected to be impacted by the economic downturn in 2009, that same migration means its long term prospects are favourable.

While all regions are being impacted by the current economic gloom, the mature markets in EMEA and North America face stronger declines in circulation and in advertising income in particular (see Figure 4).

Figure 4: Global newspaper publishing market by region



Source: PricewaterhouseCoopers Consensus Estimate

Various strategies have been employed in an effort to mitigate these market developments. In a number of countries, including France, the Netherlands and the USA, price increases have offset some of the decline in circulation. For several newspapers in the US, including the New York Times and San Francisco Chronicle, demand has proven fairly elastic, allowing overall gains in subscription revenue. Niche papers and free sheets were able to remain profitable in EMEA and North America in the period from 2004 to 2007, but declines in print advertising are expected to lead to cutbacks in print runs for free dailies during the next two years. In some countries, such as Switzerland, Sunday editions of newspapers remain successful, and some

publishers have successfully increased circulation by offering various subscription alternatives. The historic home delivery model in the UK involved the local newsagent delivering the newspaper to people's homes for a fee. Now some UK newspaper groups are trying to develop direct home delivery services of their own. Both the Times and the Financial Times have introduced direct-to-the-home delivery services, currently restricted to London, to develop a more loyal subscriber base.

Some US newspapers have had to adopt radical measures in order to survive. The Seattle Post-Intelligencer produced its last print edition in March 2009, transforming itself into an Internet-only news source. The move enabled the 'paper' to reduce its staff from 165 to 20. Staff members for the Rocky Mountain News, which was closed in February 2009, plan to start an online news publication if they can get 50,000 paying subscribers by April 2009. The site would offer some news free, with advertising revenue footing part of the bill. Readers who buy subscriptions starting at \$4.99 a month for a year's commitment would get extra features, including columns, interactive features, feeds to mobile devices and customisable content. Many other US newspapers, such as the Philadelphia Inquirer and the Minneapolis Star-Tribune, are in the midst of restructuring, while the Chicago-based Tribune Co., owner of the Los Angeles Times as well as the Chicago Tribune itself, filed for Chapter 11 bankruptcy protection in December 2008.

The issues faced by local newspapers in particular present a mixed picture internationally. Both in the US and the UK, for instance, this segment is seen as being at great risk. One source recently predicted that half of the 20,000 jobs in the local newspaper industry in the UK would be lost in the next five years. In Canada though, the local newspaper market is particularly large and still relatively healthy.

Advertising is declining for both national and local newspapers, leading to major cost reduction and restructuring initiatives.

Contrary to the trends mentioned above, the newspaper industry is still growing in some developing countries. In India, for example, where the economy remained relatively buoyant through 2008, both traditional print circulation and advertising revenue have continued a steady growth. In 2007, the Indian print media industry recorded a growth of 16% over the previous year. Newspaper publishing, which constitutes 87% of the segment, grew at 17% in 2007, whereas magazine publishing, which contributes the remaining 13%, grew at a marginally lower rate of 15%. The Indian newspaper industry is highly fragmented and regionally-dominant. India has over 60,000 registered newspapers printed in 22 Indian languages. Furthermore, newspapers in Arab countries showed steady growth figures in recent years and are expected to grow further in the coming years. For a detailed analysis of the Arab newspaper market, we refer to the Arab Media Outlook 2009-2013.

A further development is the growing importance of sustainability issues. Newspaper publishers are increasingly aware of this, and several interviewees indicated that they either already incorporate 'greener' solutions in their production process or have them high on their agenda. A Canadian publisher indicated that the need for 'being green' as a publisher is partly driven by the readers who attach high values to a publishing company using sustainable production methods.

The shift to online will mitigate criticism of paper use. This criticism is aimed in particular at the free paper sector, due to the quantities of wastage and litter it generates. An Australian publisher is, however, quoted as saying: "As a lot of our product is made on recycled paper, our carbon footprint is not too bad". In Germany, a new distribution

concept 'Lesezirkel' introduced a new kind of recycling process. Readers are provided with a monthly assortment of newspapers, either as first or subsequent readers, using the same copies several times and eventually returning them to the subscription service.



### **Highlights**

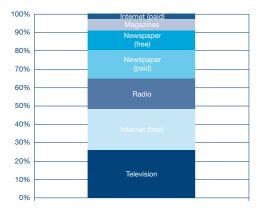
- Our research reveals that consumers have a willingness to pay of 62% for general online news content compared to 100% for general print news content. The abundance of free content, however, has an impact on demand and supply.
- While the vast majority of consumers indicate that they
  are primarily interested in general news, a growing
  segment is increasingly demanding specialised, targeted
  and relevant information. In our research, newspaper
  publishers identify the niche approach as an opportunity
  for future growth.
- Both consumers and advertisers have demonstrated a willingness to pay more for high value, topic-specific publications than they would for newspapers providing general news only.
- We expect the mindset of consumers with respect to paying for online content to change in the next few years as a result of increased general consumer spending on the Internet.
- The majority of consumers use TV and free Internet content as the main media for consuming news and background information, closely followed by radio and paid newspapers.

- The current potential for e-readers seems limited, mainly due to unfamiliarity with this medium.
- Consumers are currently unwilling to pay for online content on mobile devices. The respondents to our survey indicated that this was mainly due to the difficulty of reading the information on screen. However, additional studies also identify the data transfer charges made by telecom providers as a major factor.
- Readers expect to be part of the intellectual debate and to be able to contribute to 'their' newspaper, both in terms of commenting on stories and in providing content.

The respondents to our online consumer survey were asked to indicate which media they prefer to gather news and background information, the reasons for their preference and the type of news content they prefer to read in newspapers. We also asked them to indicate their willingness to pay for different types of content, online and on traditional paper, and whether they would consider buying goods and services from newspaper websites after reading reviews of them.

Survey respondents state that television and the Internet (when content was provided free of charge) currently represent the media mix they use most for gathering news and background information. Nevertheless, while television and 'free' Internet were independently the most popular media, newspapers were given a comparable ranking to each of them if free and paid-for titles are combined (see Figure 5).

Figure 5: Media preference when gathering news and background information



Source: PricewaterhouseCoopers newspaper consumer survey

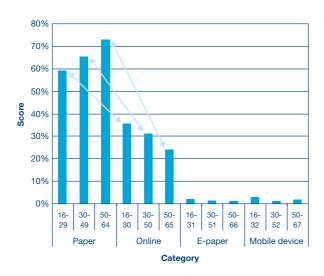
Regarding the amount of time spent each day on gathering news and information from each medium, the consumers in

our survey indicated that they spend most time on television, free content on the Internet and paid newspapers. Television is the most intensively used medium, with an average of around 43 minutes a day, perhaps an edition of evening broadcast news together with some background information from more in-depth programming. Newspapers were ranked second, with an average time spent per day of 33 minutes. Consumers who pay for online content spend on average 20 minutes a day on the Internet, while users of free online content spend 15 minutes. Time spent on magazines and radio averages less than 10 minutes a day.

When asked their preference in the hypothetical situation of price not being a factor and if their choice was restricted to paper, online, e-paper and mobile devices, however, our respondents told us that traditional newspapers would be their first choice for news consumption. An average of 69% of respondents across the seven surveyed countries indicated that newspapers would then become their first choice, 29% chose online sources, with the remaining 2% opting for e-paper or mobile devices first. The gap between traditional newspapers and online was, however, significantly smaller for younger respondents (see Figure 6).

Among those respondents for whom newspapers became the first choice when price is ignored and TV is taken out of the equation, 90% indicated that online sources would be their second choice for news consumption. The choice for traditional paper is relatively consistent across the seven surveyed countries. The US was the only exception in this respect, where only 53% of respondents gave newspapers as their first choice. While age produced marked differences, educational level and gender had no significant impact on the first choice of medium. Of the US respondents, 43% rated online as their first choice of news consumption. This is 10% more than the average of the Canadian, UK and German respondents, and almost 20% more than the Dutch and Swiss average.

Figure 6: First choice of medium for news consumption (ignoring price)



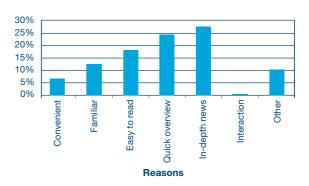
Source: PricewaterhouseCoopers newspaper consumer survey

This balance between print and online illustrates the challenge publishers face globally in satisfying significant numbers of readers across both platforms. According to a US publisher, the ability to balance this demand will be key to the future of his business. In addition to only 2% of all respondents rating e-paper or mobile devices as their first choice of news consumption, mobile devices are the last choice with regard to news consumption for 70% of all respondents surveyed. The main reasons given were difficulties with reading and unfamiliarity. As noted in the previous section, the situation in developing markets is often different, as evidenced by the continuing growth in traditional newspaper circulation in India.

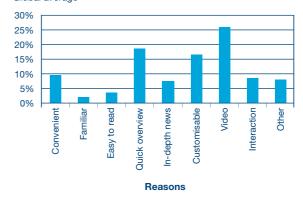
The three main reasons respondents gave for their preference for traditional paper were the in-depth news coverage, the ability to provide a quick overview and its user-friendliness (see Figure 7).

Figure 7: Reasons given for traditional newspapers and online sources being first choice medium for news consumption

Reasons for choosing traditional paper as 1st choice Global average



Reasons for choosing online as 1st choice Global average



Source: PricewaterhouseCoopers newspaper consumer survey

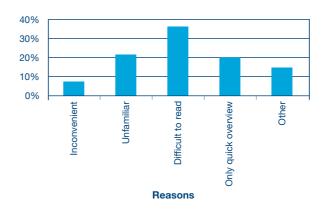
Older readers in particular indicated in-depth news coverage as the main reason for their preference for newspapers. Respondents who favoured online also mentioned that it provided a quick overview, but the availability of video was their principal reason, as well as the ability to customise content. It is interesting to note that the inclusion of video gives online news delivery one of the benefits of TV as a medium. It is quite remarkable that the desire to receive real time, up-to-date news (including breaking news) was not mentioned by the respondents.

As such a small percentage of our respondents made e-paper and other mobile devices their first choice as alternatives for reading newspaper content, it is perhaps more useful to look at the reasons why these were their last choice. (see Figure 8).

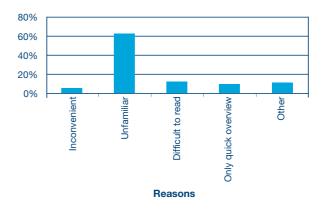
According to the survey, the main reason why respondents select mobile devices as their last choice is that these are difficult to read, leading to the conclusion that these devices obviously do not serve their purpose. Rather than full newspaper content, there may be a good market for headlines and breaking news on mobile devices, but this was beyond the scope of the current survey. The main reason for selecting an electronic paper as a last choice was unfamiliarity with this medium.

Figure 8: Reasons given for mobile devices and e-paper being last choice medium for news consumption

Reasons for choosing Mobile Device as last choice Global average



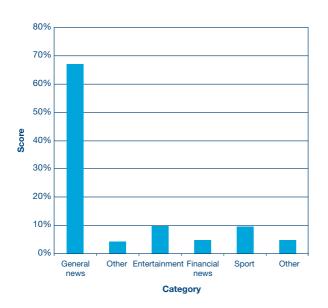
Reasons for choosing Electronic paper as last choice Global average



Source: PricewaterhouseCoopers newspaper consumer survey

The consumer survey also addressed the respondents' preferences for types of newspaper content. According to our research, general news is the first choice of preferred content for the vast majority of respondents (see Figure 9).

Figure 9: Type of newspaper content respondents gave as their first choice

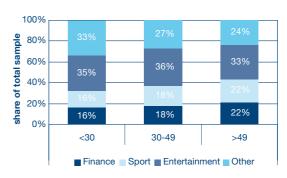


Source: PricewaterhouseCoopers newspaper consumer survey

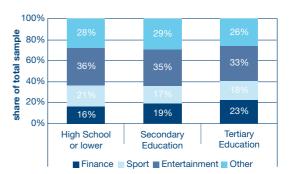
This is consistent across the seven surveyed countries. It also remains the preferred content category across the different age groups. Our analysis also showed that more than half of the respondents of every age group and educational level preferred sports or entertainment content (see Figure 10).

Figure 10: Preference for specific content type by age and education

Content preference by age



Content preference by education



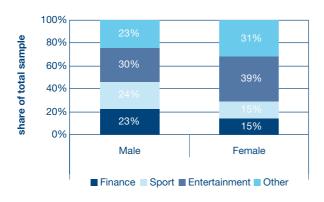
Source: PricewaterhouseCoopers newspaper consumer survey

Older respondents showed a higher preference for paid high quality finance and sports content than younger respondents. Higher educated respondents also preferred financial content more often. For other content categories, there appears to be no link with level of education.

Examination of gender differences showed that males valued finance and sports content more highly, whereas entertainment content was more valued by females (see Figure 11). More than half of both males and females indicated a preference for sports and entertainment content combined.

Figure 11: Preference for specific content type by gender

Content preference by gender

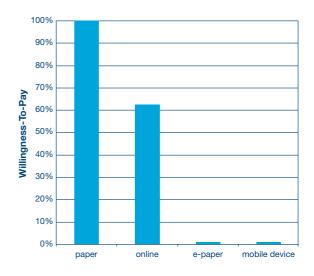


Source: PricewaterhouseCoopers newspaper consumer survey

The consumer survey also examined the willingness to pay for content on the various platforms: traditional paper, online, e-paper and mobile devices. 'Willingness to pay' is defined as the maximum amount that respondents are willing to pay for a product. Within this amount, however, they will choose the cheapest available product with comparable quality. To estimate the respondents' willingness to pay, the statistical method of conjoint analysis was used, allowing participants to express their preference on different news options multiple times. An overview of the methodology can be found in Appendix 1.

The overall initial finding was that respondents were only willing to pay a maximum of 62% for high quality news content online (with the same content on traditional paper stated at 100%) (see Figure 12).

Figure 12: Overall willingness to pay by medium



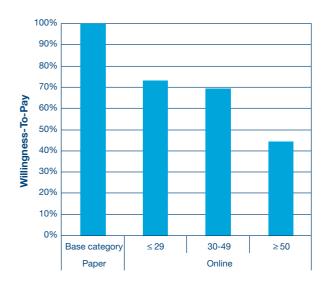
Source: PricewaterhouseCoopers newspaper consumer survey

This does not mean that they would actually buy online content at this amount however. Free content is abundant online and consumers would choose free content when the quality was comparable or sufficient for their purpose. On average, respondents expressed no willingness to pay for general news and background information on e-paper or mobile devices, and they do not see them as alternatives for full newspapers.

A breaking down of willingness to pay for high quality general news content online demonstrates that the main target audience for this segment is the group of people younger than 50. Older respondents are less willing to pay for high quality online newspapers compared to high quality traditional papers. The youngest respondents are willing to pay about 28% less for high quality general news online, whereas the oldest group is willing to pay 55% less for high quality general news online (see Figure 13).

Note that the willingness to pay for the different age categories is compared to the willingness to pay for a traditional newspaper (100%). This base category of 100% can be different for different age groups, i.e. they can have a different willingness to pay for a traditional newspaper.

Figure 13: Willingness to pay for general news online compared to paper, by age group



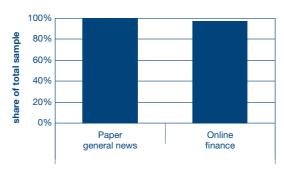
Source: PricewaterhouseCoopers newspaper consumer survey

Interestingly, consumers with a particular interest in sports and financial content expressed a relatively high willingness to pay for this content online when compared to a 100% willingness to pay for general news content in a traditional newspaper (see Figure 14).

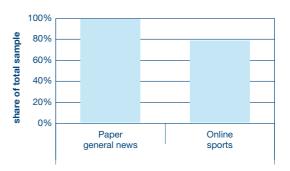
Respondents preferring financial content are willing to pay a maximum of 97% as much on average for a high quality online newspaper with a focus on finance compared to general news on traditional paper. The average willingness to pay of respondents preferring sports content was particularly high. They told us that they would be prepared to pay as much as 77% of what they would pay for a high quality traditional paper with general news for an online newspaper with a focus on sports. It should be noted that print subscriptions for financial newspapers typically cost around twice as much as general newspapers.

Figure 14: Willingness to pay for preferred content online compared to general news on paper

Willingness-To-Pay for preferred content (finance) online, compared to traditional paper



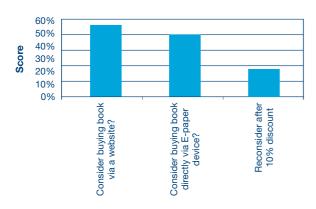
Willingness-To-Pay for preferred content (sports) online compared to traditional paper



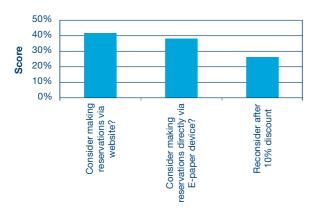
Source: PricewaterhouseCoopers newspaper consumer survey

Figure 15: Percentage of respondents who would consider purchasing a book or booking a holiday after reading a favourable review

After reading book review in newspaper / on E-paper *Global average* 



After reading travel review in newspaper / on E-paper *Global average* 



Source: PricewaterhouseCoopers newspaper consumer survey

Our consumer survey also examined the extent to which the respondents would consider buying goods and services from newspaper websites after reading reviews of them. Our research indicates that the majority of consumers would consider buying a book or booking a holiday through a newspaper website after reading favourable reviews in a newspaper or on e-paper (see Figure 15).



### **Highlights**

- Advertisers are searching for an integrated approach to achieve the best return on investment, choosing a selection of multiple platforms to achieve their strategy.
   They are looking for a constant dialogue with customers.
- The shift of advertising revenue from print to online is expected to continue over the next few years. In order to maintain overall advertising market share, newspaper publishers will have to develop innovative advertising packages for advertisers, covering both print and online.
- According to some advertisers, newspaper publishers have neither adapted to nor invested enough in new technologies.
- TV appears to remain the most attractive medium for advertisers. It is considered to be reliable and able to reach a mass audience.
- In contrast to the results of our consumer survey, advertisers and their manufacturers have fairly high expectations of mobile devices.
- Developing commercially successful models for user-generated content and social networking sites appears to be difficult. Advertisers are still reluctant to invest in these initiatives due to the difficulty of controlling the environment. For newspapers, however, social networking is an inexpensive mechanism to connect to content-creating consumers.

- Advertisers with a larger spend still mainly aim at mass markets, as the relative costs are lower and the rewards are higher compared to niche targeting. Niche content can provide an increased ROI on ad spend though, a key advantage amidst the renewed focus on accountability in the economic downturn. Advertisers are also looking for greater 'accountability' from the media they use, translating their mass spend into measurable results.
- The economic downturn will accelerate the shift of advertising budgets to media types that are perceived as more reliable and measurable.

"It is key to have the capability of validating and measuring results of strategies and design new ones that imply new media and communication objectives. If something does not work properly, it is necessary to detect it." Spanish advertiser

Advertisers and media buyers can nowadays choose from a variety of channels to target their desired audiences. They are looking for an integrated, multi-platform approach in order to achieve the best return on their investment (see Figure 16).

Figure 16: Advertisers can, and choose to, use a multi-platform approach



Source: PricewaterhouseCoopers newspaper advertiser survey

Historically, no platform has yet become extinct. Advertisers are tending to shift towards the emerging platforms however. Platforms are selected on the basis of the desired target audiences and the effectiveness, reach and costs of the channel. In general, a combination of platforms is selected. As one Italian advertiser told us, "Communication on different platforms is key in the strategy of our company".

Media companies are currently only at the start of their transformation into organisations that focus on cross-platform selling. An Australian media buyer indicated during our research that the cross-platform combination of newspapers and online offers significant advantages: "They are both text based and provide quick consumer satisfaction and delivery in the search for information". The adoption of a cross-platform approach could help newspaper publishers to capture a greater share of increasingly fragmented advertising budgets. The global economic downturn will cause a decline in total advertising expenditure in 2009. While it is forecast to recover and resume its growth in 2010, largely due to increased spending on Internet and TV, newspaper advertising is expected to remain flat at best (see Figure 17).

Note that these figures are the last available, from December 2008. Currently there is a broad consensus in the market that these figures might be too optimistic. Although the 2009 to 2011 outlook may have deteriorated since the forecast, the relative splits of advertising between media remain instructional.

Recent years have seen an increase in the number of free newspapers in major city markets in many developed countries. These free papers have taken some advertising from their paid circulation counterparts. However, since they are 100% dependent on advertising revenue, the overall decline in advertising spend will have an even greater impact on these papers.

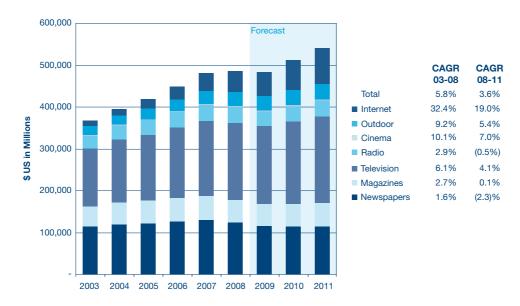


Figure 17: Global advertising expenditure by medium

Source: ZenithOptimedia - December 2008

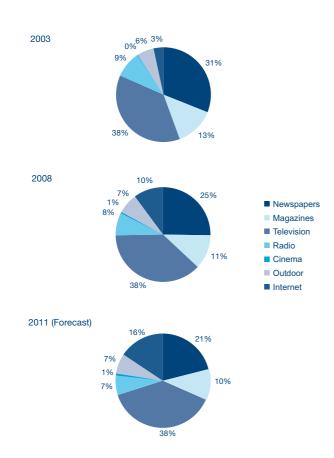
While multiple studies indicate that the best strategy in terms of long-term return on investment is to increase marketing efforts during an economic downturn, many of the advertisers we talked to mentioned that their budget had decreased for 2009. And some revealed that they had already substantially cut spending last year. The economic crisis is also causing advertisers to shift their budget to media that they consider to be more 'accountable' and 'measurable'. The significance of this is, however, lessened by lack of consensus over the comparative value of traditional, online and mobile metrics.

"There will be a clear deviation of the budget from press to Internet due to the high cost of written press in comparison with other media, and the low flexibility in the discounts negotiation. Additionally, Internet offers higher advantages due to its possibility of establishing direct connexion with your target [...]"

Spanish Advertiser

Due to the increasing number of media platforms, the trend towards multi-platform advertising and declining newspaper readership, advertising expenditure has been shifting away from newspapers for the last five years, and this trend is forecast to continue (see Figure 18).

Figure 18: Global advertising market share per channel



Source: ZenithOptimedia - December 2008

According to most of the interviewed advertisers and media buyers, TV remains the most attractive medium, as it is considered to have the highest reliability and the largest audience reach. The increase in number of media channels in recent years has led to fragmentation, as advertisers followed their customers to new media types. Print media in general and newspapers in particular lost market share as a result of this shift. This trend is expected to continue for the next few years. Several advertisers and media agencies expect mobile applications and, in some countries, pay TV advertising to become more mature and gain market share, mainly at the expense of the other channels.

A perception that newspaper publishers lack innovation seems to be exacerbating the situation for them. A Dutch advertiser told us that his company had developed its own platforms for the Internet, and that he expected to spend more on TV and less on newspapers in the coming five years. An Italian advertiser noted: "A more innovative approach to advertisers would attract investors back to newspapers".

Advertisers actively try to incorporate the behaviour of their customers into their strategy and respond to this accordingly. An example is the trend for job seekers to use the Internet rather than newspapers. Recruitment ads have traditionally formed a significant portion of newspaper publishers' advertising revenue, but the comment from one Dutch advertiser that they had shifted 80% of their recruitment budget to the Internet was echoed by several advertisers in other countries. A US newspaper publisher also told us that employment ads had led the flight of classified ad revenue from print to online. Almost all consumer-to-consumer classified advertising has now moved to the Internet in most developed markets. Some important differences can be observed, however, Newspapers in the UK and some other countries have lost significant classified advertising market share to online-only classified advertising websites. Elsewhere, newspapers have been able to move their dominance of classified advertising from print to their own websites, placing them in a better position when the economy recovers. This demonstrates that, providing that they offer attractive and effective websites to advertisers and leverage their brands, newspapers can still make money with online classifieds.

"Google is both a competitor and an important partner for us. We gain a lot of online ad revenues from their Ad Sense programme, and their search engine is a substantial generator of traffic to our website" UK publisher

Advertisers are also increasingly focused on the ability to measure the return on their investment, and many argue that new technologies such as mobile marketing and 2D barcodes offer better solutions in this area. Although many newspaper publishers are moving online, the advertising model that has proven commercially most successful is search marketing. The dominance of Google makes it difficult for them to gain a share in this field. Consumers often dislike online display advertising through banners and skyscrapers, especially where they are seen as irrelevant to their interests and where 'pop-ups' are used. This may change though, as advertisers are creating more and more context-based ads.

While social networking and other sites with user-generated content have become very popular, advertisers have been reluctant to use them, as they are unable to control the environment. Few of these sites have yet been able to develop commercial feasibility, and many are not established with financial motives. As we will see, however, there are some notable exceptions, where advertisers have partnered with these sites to target specific groups in a more controlled way. So how might newspaper publishers become more innovative, leverage the new technologies and respond to

changing consumer preferences and advertisers' demands? One way could be to partner with advertisers to develop cross-platform campaigns linking their core competence of content creation to the product or service being promoted. Some advertisers have successfully used social networking sites to run high engagement campaigns (see Figure 19).

Figure 19: Examples of innovative advertisement concepts



 Hyves (the popular Dutch USG website) offered Bacardi the opportunity to launch a targeted and relevant commercial; users could send a video to their friends with an invite to drink a Mojito



• Tilllate offered Absolut Vodka the opportunity to launch a targeted and relevant commercial

Source: PricewaterhouseCoopers advertiser survey

Australia and New Zealand-based energy drink manufacturer V partnered with MySpace to target young audiences for V-raw, its community website for people looking for careers in the creative industries. Hyves, a popular social networking site in the Netherlands, offered Bacardi the opportunity to

run a targeted campaign where their users could send a video to their friends with an invite to drink a Mojito. The Swiss 'nightlife Internet portal' Tilllate partnered with Absolut to run a co-branded vodka campaign. Newspapers could consider linking special interest or localised content in print and online with similar targeted campaigns.

Although most newspaper publishers offer multiple platforms, the advertisers and media buyers we talked to for this study told us that they seldom develop a common cross-platform strategy. Many advertisers set up their own platforms, such as e-commerce sites or temporary sites to run specific, targeted campaigns. Such platforms give advertisers full control over the environment in which they communicate their message. They also give them the possibility to have a continuous dialogue with customers, providing them with

valuable feedback and ideas for new product development. Here again, the value of advertisers partnering with third parties who provide content offers opportunities to newspapers. They could perhaps learn from the example of Dutch magazine publisher Sanoma, who partnered with the Rabobank to develop the 'Moviq' portal, targeted at the housing market.

Newspaper publishers could also partner with advertisers to leverage the potential of one of the new technologies: 2D barcodes. While both publishers and advertisers will need to find ways to develop a profitable business model, this is one technology that creates a connection between print, mobile and online media (see Figure 20).

Figure 20: How 2D barcode technology connects print, mobile and online media



Source: PricewaterhouseCoopers - Market Xchange Medien 2009

Mass markets remain most important for advertisers who have the largest budget, but new technologies enable all advertisers to target niche audiences as well.

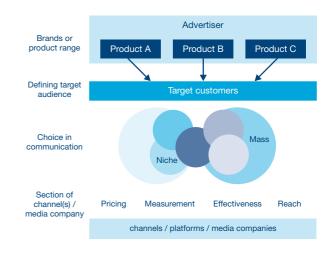
The view expressed by most of the advertisers and media buyers we interviewed was that TV and newspapers were seen as the vehicles for addressing mass markets and brand building. Targeting mass markets is seen as relatively less expensive, with a potential for higher rewards. Advertisers are increasingly investigating and researching the target audience they want to attract for their brand or products (see Figure 21). And the Internet and mobile devices were seen as more appropriate vehicles for reaching niche audiences and for tactical ad campaigns.

Newspapers are losing attractiveness as an advertising medium due to declining readership, the inability to reach specific target audiences and the lack of flexibility to make deals with advertisers. Newspapers are still in a push mode instead of a pull mode. Additionally, newspapers are not perceived as being innovative and as having difficulty in dealing with new technologies.

In terms of mass marketing, TV is seen as being more reliable and as offering a greater reach. Both the Internet and mobile devices were seen as more innovative for reaching niche audiences, thus driving a higher ROI.

The Internet is currently perceived as offering the advantage of superior measurability. However, the lack of widely accepted measurement tools and standards inhibits faster growth of advertising spend on this medium. Many believe that making mobile devices commercially sustainable as an advertising channel will still be a challenge.

Figure 21: The process of defining and reaching target audiences



Source: PricewaterhouseCoopers analysis

One Australian media buyer we talked to questioned the value of the distinction though, saying: "You cannot separate the two - the more segmenting, the more valuable mass audiences are. Mass is often a collection of niches". In a similar vein, a Dutch advertiser told us that both niche and mass media platforms were needed: "Search marketing on the Internet is very valuable to us. TV is a better medium for reach, as a lot of the brand message gets lost online."

# Publishers' Perspective

## **Highlights**

Our study has identified four key consumer and technological trends, together with a number of strategies and tactics that newspaper publishers are adopting to respond to them. All are also influenced to a greater or lesser extent by the economic downturn. In this section of our report we first summarise these trends and how publishers are addressing them. This is followed by a more detailed analysis of the trends and the publishers' responses to each of them.

#### **Revenue models**

- Traditional newspapers still have a strong and relatively loyal reader base, as their reliability is perceived as being greater than that of other media. Nevertheless, gathering news online and through mobile devices has been gaining popularity. Younger readers in particular prefer to read news online
- Many newspaper publishers are using multiple platforms and new technologies as new channels for distributing content to their target audiences. They are also reassessing the role of the aggregator, introducing new subscription models and aligning with advertisers by diversifying their product offerings.
- While players in adjacent industries, such as telecom providers, are becoming media participants, newspapers can leverage their advantages of being a trusted source of information and having content creation as a core competence.
- Publishers are using their core content generation capabilities to develop new products. They are also increasingly incorporating user-generated content as an example of diversifying product offerings, and at the same time linking with younger readers' habits. They recognise the importance of providing tailored and specific content.
- As the advertising market is increasingly dominated by multi-platform campaigns, newspaper publishers will need to re-think their marketing and sales efforts.
- Although consumer-to-consumer classified advertising has largely been lost, business-to-consumer remains an opportunity for newspaper publishers.

 Offering flexible solutions such as template-based self-service options can both facilitate cost savings and be attractive to advertisers.

### Niche audiences

- Another key trend is the growing demand from consumers for specialised and targeted information, which is driving a move from mass markets to niche audiences. The associated pressure from advertisers for less wastage and more accurate targeting is accelerating this move and driving increased ad rates for niche products.
- 'Niche' is used in a broad sense here, as it is applied not only to topic-specific preferences but also to the application of a more location-specific focus.

### **Operational excellence**

- Newspaper publishers have responded to the economic downturn by increasing their focus on cost reductions in all aspects of their business, from editorial through advertising to production and distribution.
- Publishers have sought efficiencies both by leveraging each other's assets and capabilities and by making their own operations leaner.
- There is a clear shift in the organisational structure of newspaper publishing operations from a structure based on channel distribution to one based on content production. The emphasis is placed on core competences and where value can be added.

### **Consolidation & ownership**

- Following four years of increasingly intensive M&A activity, this trend fell off somewhat in 2008, with deal volumes and confidence in the media industry declining.
- The trends towards changes in ownership structure and increasing consolidation are strongly influenced by the deteriorating economic conditions.
- The industry is likely to benefit from owners who are able to maintain a long-term and strategic view.

### **Revenue models**

New technologies such as enhanced web services, 2D barcodes, smart phones and RSS offer newspaper publishers new opportunities to reach various target audiences, although a number of them tell us that finding innovative solutions with revenue models that are profitable remains a challenge. Most agree that new technologies are key to attracting younger audiences, who are harder to reach through newsprint, and to retaining some mature audiences. They help meet the demand for more targeted news and services whenever and wherever the customer wants them. And when it comes to content, as one US newspaper publisher told us: "whether it is in print, online or in mobile, we have to be able to deliver it."

In addition to the ability to provide ubiquitous content, new technologies offer opportunities for publishers to monetise content in new and expanding ways. In some cases, more radical moves have been necessary, as evidenced by the Seattle Post-Intelligencer which recently produced its last print edition and has become an Internet-only news source. While deriving revenue from paid web content remains a struggle, consumers have demonstrated a willingness to pay for content on devices such as Apple's iPhone and Amazon's Kindle.

"We have sold subscriptions .... on a Kindle. People seem to understand that on a Kindle they have to pay.... (and) there are a number of content providers ... that are charging for content on the iPhone".

US publisher

The immaturity of technologies such as e-paper has the upside that these technologies are both improving and becoming less expensive relatively quickly, so they are expected to become increasingly attractive in the long term. In the shorter term, however, their familiarity to a wider

market and lack of standardisation are both disadvantages, and publishers' understanding of them has tended to lag behind that of players in the ICT sector.

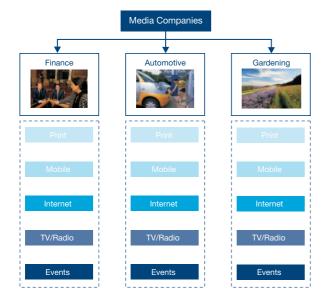
Newspaper publishers have been expanding their media scope to increase their ability to distribute content to their target audiences. Media companies have been building their brand across platforms to offer people access to their content through various channels. La Gazetta dello Sport in Italy, the Financial Times in the UK and Het Financieele Dagblad in the Netherlands are examples of this brand building. Despite expansion into various media channels, newspaper publishers seem to have difficulties with integrating these channels to serve their advertisers more effectively. This is not only a key issue in mature markets, but also in India and other developing markets. For example one of largest media conglomerates in India still does not provide an integrated solution to clients and many of their media businesses are managed and operated independently.

Most agree that these channels need to be integrated from a brand and content perspective in order to satisfy their customers. Product market verticals offer the opportunity to reach a specific target audience using various media channels (see Figure 22).

As well as reaching them efficiently, these verticals enable advertisers to gain knowledge of their target audiences, and, as a US publisher told us, "Advertisers are willing to pay more for delivering high quality and targeted audiences." In addition to advertising, vertical sites can be monetised through subscription fees and transactional income. Paid online content is a source of debate within the industry and publishers struggle to determine what, if anything, readers will pay to view behind a 'walled garden'.

Most publishers agree that the majority of general news should be free content. However, sites such as the Wall

Figure 22: Examples of specialist market verticals



Source: PricewaterhouseCoopers newspaper publisher survey

Street Journal's wsj.com have had success by providing both free and paid content, reserving the deeper analysis, opinion, and topic-specific insight for paying readers only. A number of other titles have also adopted this approach, including the Australian Financial Review (afr.com). Transactional revenue can also be generated by offering events or cruise trips. La Gazetta dello Sport is for instance known for offering all kinds of sports events, while Het Financieele Dagblad is known for organising conferences and seminars. Smaller newspapers may not have the scale to create competitive verticals, but consortia and partnerships offer potential solutions. There have been

successful examples of these in Canada, and unsuccessful ones in the UK.

"We should learn from how the Internet has enabled unbundling music. You used to have to buy an album for \$30 for just two songs. Now you can just buy the two songs. Pay TV is the same. With newspapers in the past you bought the whole paper, but you may have only wanted the sports section."

Australian publisher

Although digital platforms offer the potential to offset decreasing traditional newspaper revenues, the print model remains dominant in most countries. The proportion of revenues obtained from digital platforms remains very small almost everywhere, from around 2% in India to around 15% in a best case scenario in Canada, and is not expected to reach more than 20% or so in the coming five years. A number of publishers in our survey described the difficulties they were having in demonstrating a profitable business case for the use of new technologies. For example, a Dutch publisher told us that despite the success of some initiatives with new technologies, it was a challenge overall to continue building a sustainable revenue model from them.

"It's important to choose the channel based on the kind of content, and when using more than one channel, to adapt the content to it and to the user's needs." Spanish publisher

A publisher in the UK pointed out that there are significant barriers to generating mobile revenues for their content because of the number of gatekeepers involved in the distribution chain. A Canadian publisher who currently has some difficulties generating revenues from online and mobile platforms told us that their current investments in new technologies were made on the basis of anticipated future demand growth. A publisher in Germany brought up the concept of the App Store, which he saw as having real potential as a way of deriving revenue out of online content.

An integrated approach to content delivery through multiple platforms can also be used to retain readership for traditional printed newspapers. An Italian publisher told us that his strategy is to provide news stories online about an event that has just happened, especially for local markets. The same news is then provided through radio to reach a broader audience. Both online and on the radio, consumers are invited to read about the event in the next day's newspaper to gain a deeper understanding of the event and read comments and analysis. The same journalist prepares the news in each case across all the different media channels.

### **Niche audiences**

An increasing demand for specialised, targeted and relevant information is driving a move from mass markets to niche audiences. When it comes to topic or special interest-specific niche audiences, there have been a number of successes in this area for some time. Perhaps the best long-standing examples can be found in the financial and sports news

areas. In finance, for instance, the US has the Wall Street Journal, the UK has the Financial Times, the Netherlands has Het Financieele Dagblad and France has La Tribune. In sports news, three clear examples are Italy's La Gazetta dello Sport and Spain's Marca, the most popular sports newspapers in Europe, and L'Équipe in France.

'Niche' is used in a broad sense here, as it is applied not only to topic-specific preferences but also to the application of a more location-specific focus. A key example, particularly evident in North America has been the development of 'hyper-local' or 'local-local' newspapers and associated websites. The large Gannett newspaper group in the US, which owns USA Today as well as 90 regional and local titles, has been focusing on developing sites addressing hyper-local content at the neighbourhood and suburban level and the interests of special communities. These often use groups of mobile journalists on the teams of local papers, such as the Fort Myers News-Press in Florida. Hyper-local community papers have also performed well in Canada in recent years, as their 100% local market reach makes them highly attractive to advertisers. In fact, several North American publishers have indicated to us that niche approaches produce more revenue from advertising than subscription revenue for either niche or mass market products. The sites associated with these titles also enable the publishers to reap the benefits of hyper-local search advertising, using postal codes for example. In India, newspaper publishers still use traditional models to reach niche audiences. They are realising the benefits of targeted advertising for newer consumer segments by launching special supplements. Over the past year, many smaller compact dailies have been launched. Recent editions have been: Mint by HT Media, Metro Now by a joint venture between Times of India and HT Media, Mail Today by the India Today Group, and Hindustan Times Café by HT Media.

While developing profitable business models for digital platforms has been a challenge, there have been some notable successes. Many have involved the reorganisation of publishers' business models by differentiating between various 'niche' target audiences and developing innovative concepts, often in collaboration with advertisers. Early movement into the online arena in Australia has resulted in newspaper brands owning top classifieds and other information verticals online. Newspaper websites in the US have leveraged their local brand and loyal audiences to attract more unique visitors than many prominent website-only properties. Meanwhile one of the newspaper websites in Spain has become the country's most-visited online diary.

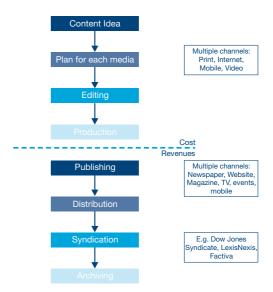
#### **Operational excellence**

Due to declines in both copy sales and advertising revenue in some regions - India and a number of countries in the Asia-Pacific region are certainly exceptions - newspaper publishers had already been focusing on cost reductions across all functional areas for some time. The economic downturn has, however, led to still tougher measures. Some publishers are looking to increase efficiency by outsourcing part or all of their production process and finding ways to collaborate with others in the distribution process. A contrasting approach is being taken by one Canadian publisher, who told us that they had taken the strategic decision to market printing services to third parties in an effort to make it a separate source of revenue. A US publisher indicated that several of their properties are also leveraging both excess printing and distribution capacity to generate incremental revenue from under-utilised assets.

"That's one thing I think the newspaper companies have made mistakes for many, many years. They never leveraged anybody else's facilities" US Publisher

The shift to a structure that is more oriented to content production is in turn leading to changes in the value chain. Newspaper publishers, like the multimedia companies whose model they are using, are able to preserve the value of news and information content online through copyright protection technologies. This online content can then be further monetised by resale through syndicates like Dow Jones Syndicate and third party resellers such as LexisNexis and Factiva (see Figure 23).

Figure 23: The value chain of multimedia companies



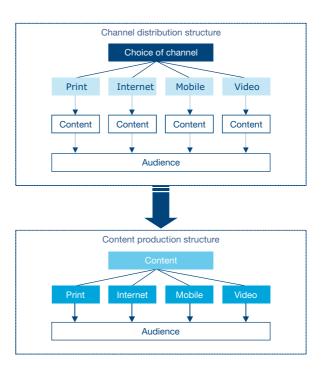
Source: PricewaterhouseCoopers newspaper publisher survey

As more newspaper publishers become involved in media platforms other than print, they begin to face the same issues that multimedia businesses have dealt with for some time. The traditional multimedia business model has been organised based on the choice of channel, with content being developed specifically for each channel. Multimedia companies are, however, increasingly focusing on their core business of content production, and insofar as newspapers are moving into the multimedia model, they too are moving from a channel structure to a structure based on content that is platform-agnostic. The widely accepted mantra has become 'content is king' (see Figure 24).

"We have combined the production of our content for online, print and radio" Dutch newspaper publisher

As one Australian publisher told us: "What you'll see in the not too distant future is a content hub that is feeding a multiple of platforms". This reorganisation process will no doubt vary per publisher, but often presents them with opportunities to collaborate within their production and distribution processes, or to outsource at least parts of them. At the same time, they need to consider outsourcing content production, or sharing generic content. Some US publishers have accepted higher costs, seeing specialisation and decentralisation as allowing them to reach their audiences more effectively. As one told us: "It's better to be effective than efficient". An option taken by some is to consolidate a general newsroom and add local journalists to give the content a local perspective. Not all publishers are able to transform their organisations; some in India and France told us that while they recognise the benefits, they have not yet changed their organisations in practice.

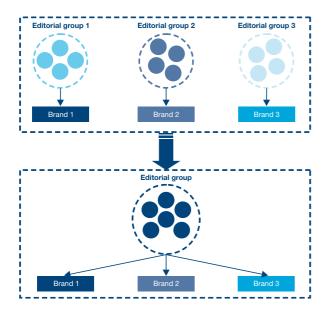
Figure 24: The structural change from channel distribution to content production



Source: PricewaterhouseCoopers newspaper publisher survey

Newspapers around the world have been shedding editorial staff, and publishing groups have been combining journalists from different newspaper brands in an effort to mitigate some of the negative effects. An example of how editorial staff can be combined in this way is shown in Figure 25.

Figure 25: Example of how editorial staff can be combined across newspaper brands

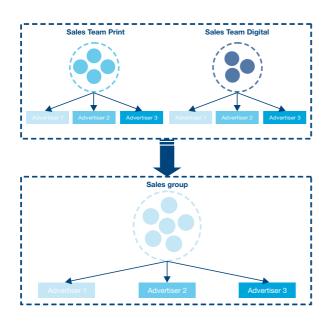


Source: PricewaterhouseCoopers newspaper publisher survey

While cutting and combining editorial staff is an important and obvious way of making short-term structural savings, as journalists produce the content on which they depend, publishers recognise that significant inherent risks are involved. As one German publisher said: "Although cost savings can certainly be realised amongst editorial staff, caution is required since they are the core of every publishing business." Some publishers therefore focus on the effectiveness and efficiency of their staffing rather than on reducing headcount. Combining editorial staff is potentially more beneficial for the production of general rather than specific content. A solution for the latter is the creation of centres of excellence. The main content on a certain topic is generated in these centres, while dedicated journalists at the various brands add specific additional content. Another option for maintaining high quality content while reducing costs is content collaboration and syndication. "Newspapers are fundamentally local," a US publisher told us, "there is no reason for everyone to have a Washington DC bureau."

Advertising sales is a key functional area where publishers are trying to cut costs. One way is to integrate separate sales teams; a tactic comparable with that used in the editorial area. This may involve combining display and classified sales teams, or print and digital teams, as illustrated in Figure 26.

Figure 26: Example of combining advertising sales teams



Source: PricewaterhouseCoopers newspaper publisher survey

One Canadian publisher, however, gave us an illustration of how these efforts do not always work as intended. "In theory everybody sells both online and print." he told us. "However, the reality is that a lot of our sales people are reluctant to sell online because the commissions are not very lucrative. So we have had to develop a specialised online sales force to take up that gap." A number of US publishers told us that many experienced sales people have spent their career selling print and so they are uncomfortable selling digital. Nevertheless, one of them noted that their sales people "have to be able to sell at least the basic packages of audience and digital options we offer in our portfolio package."

Some publishers told us that they thought that the selling process should be taken as the starting point when reorganising the sales force instead of channels such as print or online. Others are looking into the possibilities offered by customer relationship management tools to increase effectiveness.

Especially in North America, publishers are increasingly off-shoring commercial advertisement design and pagination. This is another trend that is being accelerated by the economic downturn. Cost savings are being generated by outsourcing commercial artwork. Still some publishers told us that they had to stay in constant communication with the outsourcing company to remain in control of the design process.

Another major cost reduction area involves the reorganisation of the production and distribution process, which can take a number of forms. One is the consolidation of printing plants, which a Canadian publisher told us had been already advanced there before both the newspaper industry downturn and the recession. Two national dailies in the UK, although rivals on the newsstand, have chosen to share the same press to reduce their costs. Beyond pure cost savings, outsourcing at least parts of the process offers the additional advantage of enabling newspaper publishers to increase their focus on their core business of content creation.

Lastly, various publishers are looking for efficiencies in their distribution systems. This can also take the form of outsourcing or may involve collaborating with others in the distribution chain. Various structural considerations need to be taken into account when reorganising the different elements in the distribution process value chain in order to derive cost reductions and efficiencies. These include demand generation, service standards, service delivery, customer support, agents, carriers and customers. A number of publishers are using innovative software solutions to help them address these, such as finding more efficient service

delivery routes and reducing the work capacity needed by carriers.

#### **Consolidation & ownership**

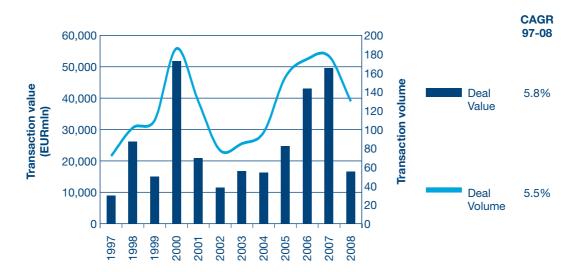
#### Consolidation

As a result of the economic downturn, there is general agreement that the trend towards consolidation in the publishing market will increase. Following four years of growing intensive European M&A activity in the media sector for example, this trend fell off somewhat in 2008, when deal volumes declined by around two-thirds in line with reduced confidence in the media industry and growing economic turmoil (see Figure 27).

Figure 27: European deal activity in the media sector, 1997 - 2008

As economic conditions deteriorate further, and the industry continues to reorganise from falling revenues, cash shortages and bankruptcies, it is, however, likely that the trend towards changes in ownership structure and increasing consolidation will return. The credit crisis has greatly imperilled many US publishers who took on large amounts of debt to make recent acquisitions. One offered a stark assessment of the potential consequences of high debt loads in this economy: "it could be devastating, and I think many of our peers who have a lot of debt may not make it through this."

Some examples of recent global M&A activity in the newspaper activity include particularly high levels in Australia in 2007, due to the merger between Fairfax Media and the Rural Press group in a deal valued at AUS\$ 9 billion, about



Source: PricewaterhouseCoopers Media M&A Insights 2009

€ 5.7 billion at the time. While there were five major transactions in France in 2007, only two comparable deals were struck last year. Four deals were made in Switzerland between May 2007 and February 2009, while 40 transactions were closed that included the sale of newspaper assets during the same period in the USA. In March 2009, a major deal was announced concerning the merger of the Swiss activities of Tamedia and Edipresse. Three transactions concerning regional newspapers have been struck in the UK since 2007, and Alexander Lebedev purchased a controlling 75.1% stake in the Evening Standard at the end of February 2009 from Daily Mail & General Trust for a nominal £1. Two major deals have already taken place in Germany since the beginning of 2009, indicating consolidation in the regional newspaper market in order to generate larger, more cost-efficient units.

"Potential advantages and disadvantages of private equities inversions depend on the profile of the private equity which joins the shareholders. It is critical that editorial line is not affected."

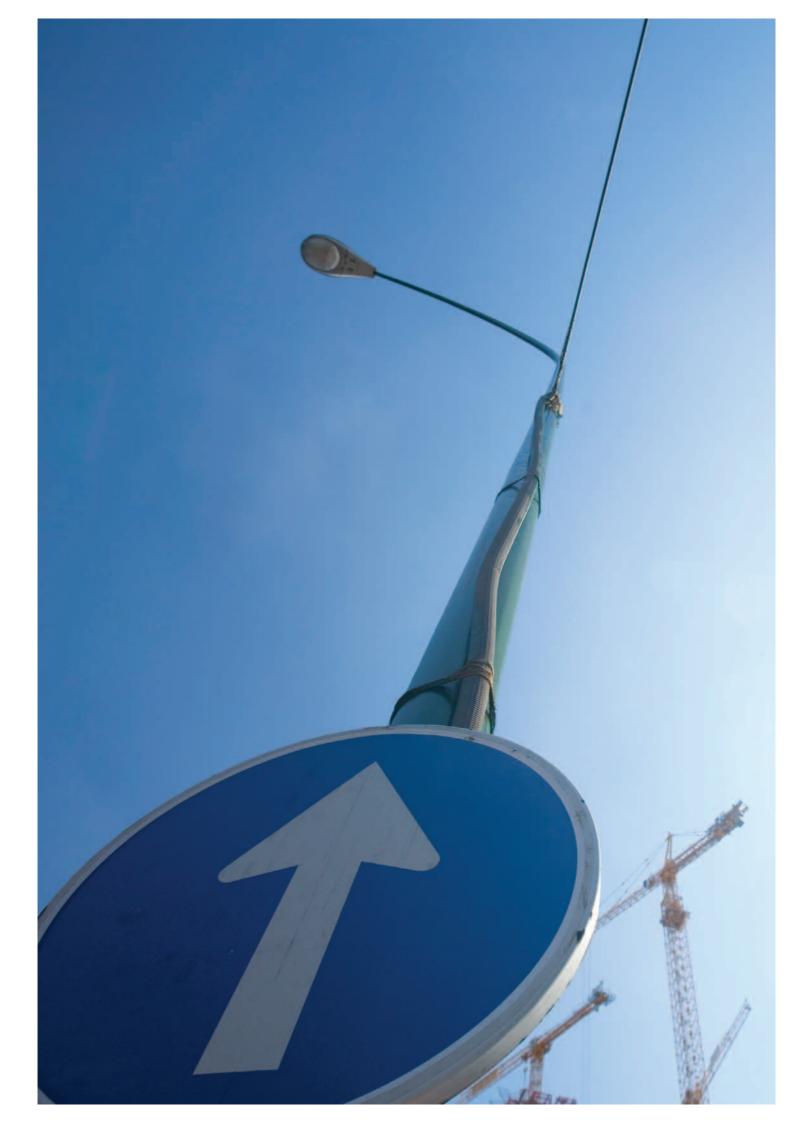
Spanish publisher

#### **Ownership**

In terms of ownership structure, newspaper publishing firms are typically in family or other private ownership in Europe and the US, while in Canada and Australia publishers are mainly public companies. In some countries, ownership structure differs considerably according to size. In the UK for example, the top five newspaper groups are either public or owned by a trust, while most of the others are family-owned companies.

Relaxation of foreign investment norms have helped newspaper publishers access capital for expansion and diversification. Although most newspaper businesses in India are family-owned, recent liberalisation of foreign investment restrictions have opened the doors for foreign investment in the newspaper publishing business. Foreign investment is, however, restricted to 26% of equity.

Each type of ownership structure has its advantages and disadvantages. Family or other private owners are more willing to look at longer cycles and there is sometimes a 'vanity' factor. They therefore tend to provide newspapers with a longer-term view, often with less demanding profitability goals than those set by public companies or private equity firms. Restructuring can also be accommodated without market scrutiny. Disadvantages can include capital and debt funding constraints and difficulties in accommodating cost-cutting measures. Trusts also typically give a higher priority to keeping newspaper titles in the market rather than maximising profits, and tend to provide greater journalistic independence. However, their less keen focus on profitability can diminish efficiency. Both corporate and private equity ownership can often mean that market scrutiny can reduce their ability to plan for the long term, and both often make price cuts in the name of profitability. Nevertheless, the size of corporates often facilitates the advantage of economies of scale, and private equity firms tend to have better access to capital and debt markets. A number of publishers emphasised that the need for a more long-term perspective in the publishing sector makes private equity ownership less appropriate, due to their focus on short-term profitability.



## Conclusion

#### **Revenue models**

Publishers have to find new revenue models to remain profitable:

- Newspaper publishers have a competitive advantage in creating content. Our consumer research reveals that they would benefit from leveraging this competitive advantage online by creating compelling content for specific niche markets and distributing it across multiple platforms.
- They could also engage in strategic partnerships with other content providers to strengthen their proposition.
   Additionally, in order to target more accurately, investments must be made in CRM and content management systems.
- Our research reveals that constant dialogue with readers is crucial for newspapers to stay up to date with readers' radically changing media preferences. Readers must be able to give feedback on the current media mix and to express their needs and preferences with regard to media consumption.
- Technological developments such as directories, e-commerce and 2D barcodes offer newspaper publishers the potential for value added service offerings and to reinforce partnerships with advertisers. Online, they need to offer unique, premium service concepts, as banner display advertising is relatively ineffective, and players such as Google dominate the more successful search advertising market.
- As content production is a publisher's core competence, the traditional organisational structure is moving away from a channel-orientated structure towards a content production structure. This challenges the traditionally

- perceived need for vertical integration, where newspapers not only create content but also print and distribute it.
- As the advertising market is increasingly dominated by multi-platform campaigns, newspaper publishers will need to re-think their marketing and sales efforts.
   Partnering more closely with advertisers will help them to anticipate these developments and optimise their position within custom-tailored campaigns.
- Newspaper publishers need to become more flexible and innovative in their product offerings and need to be prepared to negotiate alternative, flexible, contingency fees with advertisers.
- The disaggregation of classified advertisements has had a major impact on profitability. Although consumer-toconsumer classified advertising has largely been lost, business-to-consumer remains an opportunity for newspaper publishers, at least in some countries.
- Offering flexible solutions such as template-based self-service options can both facilitate cost savings and be attractive to advertisers.

#### **Niche audiences**

- Customers increasingly demand specialised, targeted and relevant information, driving the move from mass markets to niche audiences.
- Many newspaper publishers identify the niche approach as an opportunity for future growth. This is likely to require the development of new products.

- However, the results of the consumer survey indicate that although there is strong market potential for niche segments, providing general news is still key. Publishers should therefore remain focused on providing general news while paying additional attention to specific niche audiences.
- New ways of collaboration are being researched within the industry to facilitate the integration of the nationwide distribution of newspapers.
- There is a trend towards outsourcing advertising production activities such as commercial artwork.

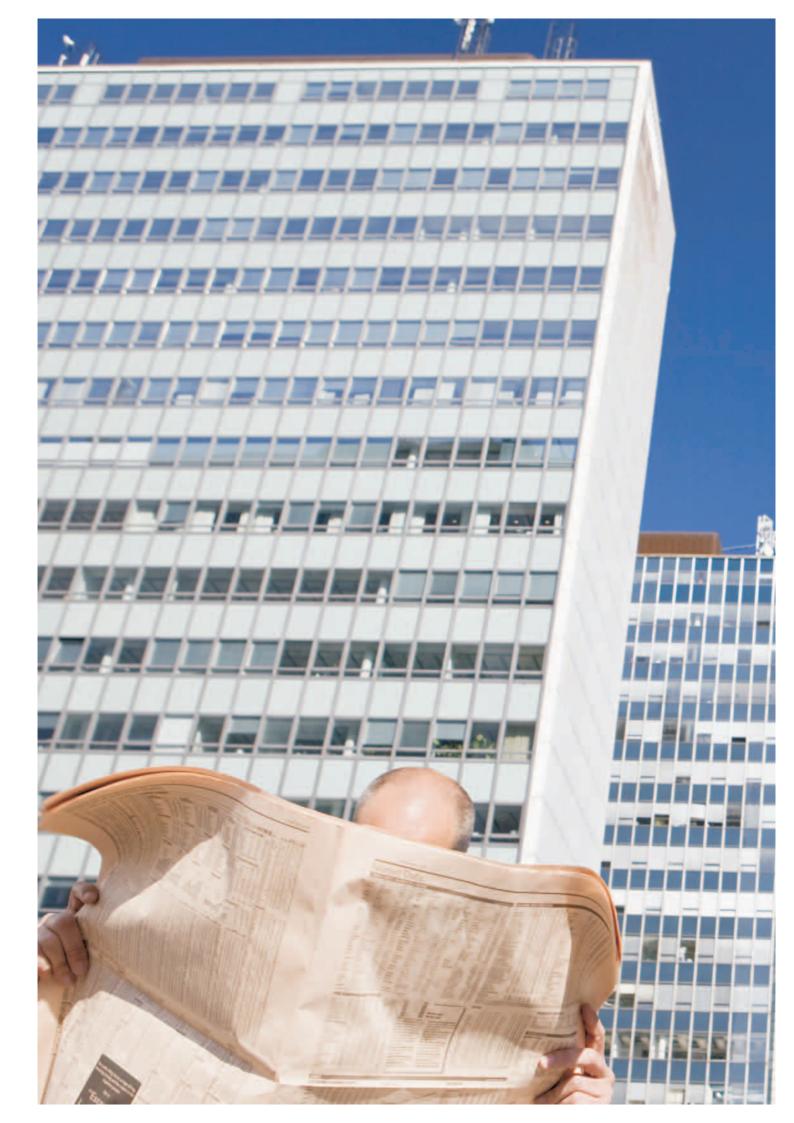
#### **Operational excellence**

Especially during the economic downturn, cost reductions in editorial, advertising sales, production and distribution will be crucial for newspapers to maintain a viable business model.

- Dedicated press centres are becoming economically unsustainable due to scarcity of capital. Many newspaper publishers are considering outsourcing their printing and distribution activities, while others are marketing their own operations in these areas to third parties.
- 'Generic' editorial is increasingly being off-shored / syndicated and centralised newsrooms are being set up to create content which may be 'tailored' at a local level.
- Successful journalists are moving toward a multi-platform approach, where they are also responsible for taking photographs, delivering video material and producing versions of their content designed for each platform. Newspaper publishers need to be open to collaboration with visual content production houses.
- Newspaper publishers are looking at the effectiveness, productivity and ability of their sales force to sell cross-platform. Sales forces need to be reorganised according to the selling process, using automation and content management systems for example. The development of sales teams that understand both print and online sales is an urgent priority.

#### **Consolidation & ownership**

- As a result of the economic downturn, the ongoing consolidation in the newspaper industry is expected to increase. For newspapers, ownership structures that allow for a long-term perspective are optimal.
- Newspaper publishing is a capital-intensive business, so expectations of shareholders with regard to the return on their investment need to be managed.



# Appendices

### Appendix 1 Methodology

The survey we conducted to gain insight into consumer trends and preferences involved 4,900 respondents. Our consumer survey sample comprised approximately 700 respondents from each of seven countries: Canada, France, Germany, the Netherlands, Switzerland, the UK and the USA.

As the consumer survey was conducted online, we note that the results are likely to be positively biased towards a preference for online news. Our findings are also representative of the prevailing situation in countries where broadband penetration is extensive, which applies to the seven countries surveyed. Nevertheless, we feel it is reasonable to assume that the results may point to future trends in media usage in those countries where broadband penetration is still relatively low but likely to increase over time.

We used conjoint analysis - where respondents are asked to choose between different attributes and statistical techniques are employed to estimate the average value of each attribute - to determine how much consumers would be willing to pay for various types of content in digital and printed versions of newspapers. Each news option consisted of a content focus, the medium on which the news is published, and a monthly price. Respondents were also able to choose a free, lower quality alternative. Two of the following content categories were shown as a combination for each option: financial news, sports, entertainment and background & opinion. Monthly prices ranged from €16 to €32 for news on paper, from €10 to €22 for news on e-paper and from €6 to €12 for news online or on a mobile device (or the equivalent amounts in the respondent's currency). By presenting different sets of options to every respondent and combining all the responses, sufficient information on preferences with respect to content, media type and price was generated to make statistically significant conclusions with respect to the willingness to pay for each of these factors.

The results of this analysis are based on the responses of the 4,900 consumers who answered every question in the section of our survey that covers willingness to pay. They include at least 700 respondents from each of the countries we covered. It should be noted that our survey does not address the potential costs of purchasing the devices required to receive digital media or any technological hurdles associated with their development.

We also conducted interviews with 30 leading newspaper publishers and 10 leading advertisers and media buyers around the world. We supplemented this qualitative research with industry reports, annual reports and analysts' reviews, as well as drawing on our extensive experience of advising clients in the newspaper publishing industry.

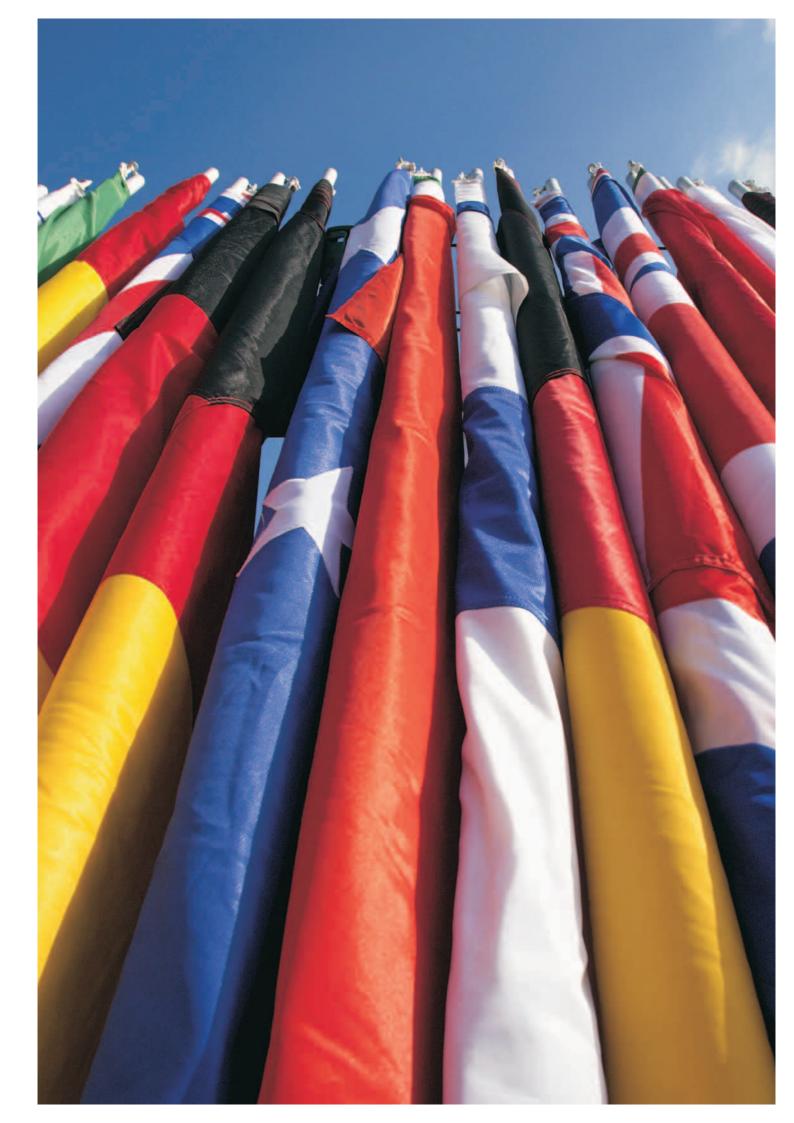
## Appendix 2 Electronic paper

Electronic paper, referred to in this report as e-paper, is a portable display technology that gives the appearance of traditional ink on paper. Like other mobile devices, the information to be displayed is downloaded through a connection to the Internet, but it can also be created with mechanical tools such as an electronic 'pencil'. Unlike most other mobile devices, such as many mobile phones, which use a conventional flat panel display using a backlight to illuminate its pixels, electronic paper reflects light like ordinary paper and is capable of holding text and images indefinitely with no need for additional power.

While there are some applications that are truly paper-like in that they are very thin, flexible, and can be rolled, wide-scale commercial flexible e-paper applications are still in the future. Several companies have developed rigid devices using e-paper technology that tend to appear more like large-screen mobile phones or tablet computers. Well-known examples include the Sony Reader and the iRex iLiad. Amazon launched its first Kindle device in late 2007, and a much-improved version - the Kindle 2.0 - in the US in February 2009.

At the time of writing, no less than 25 US newspapers, including almost all the major titles, seven European papers and the Shanghai Daily were offering special electronic edition subscriptions for Amazon's Kindle. Most of the early European trials of newspaper editions for e-paper have used the iRex iLiad. The Belgian daily De Tijd first experimented with the distribution of an electronic version of the newspaper on this e-reader as early as February 2006. In France, Les Échos launched two e-paper versions of the daily on the iLiad and on another lighter device developed for the publisher by Ganaxa in September 2007. The Dutch daily NRC Handelsblad has distributed an e-paper version for the iLiad reader since January 2008.

While we have maintained a distinction between e-paper readers and other mobile devices in this report, this may become blurred in the future. Some mobile phone manufacturers, such as Motorola, have already marketed phones that also use electrophoretic displays, the main e-paper technology. It should also be noted that the innovative touch-screen and web browser technologies and ease-of-use of devices such as Apple's iPhone increase the direct competitiveness of these products to e-readers for reading newspaper and other textual content. Perhaps in recognition of Apple's install base, technology and marketing lead, Amazon released a free Kindle application early in March 2009 for the iPhone and iPod Touch.



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