



Media | Strategy

New Business Models for Publishers

Commentary by Jens Meyer and Tim Schlenzig, July 10, 2009

The crisis in printed media is accelerating and publishers must urgently find new ways to adapt to the altered framework conditions. However, instead of redefining their own role within the media landscape, many are attempting to force the old business model of advertising-financed print onto the Internet. The economic problems of the newspapers and the associated bankruptcy applications make it clear that this method is not working. So, which success factors will the publisher of the future demonstrate?

While advertising budgets for traditional printed media, which generally make up more than half of all revenues, have been collapsing for a number of years - a situation that has been exacerbated by the financial and economic crisis - the hope that these losses could be offset by increased advertising income on the Internet has not materialised. Many newspapers have moved online around the world but most of these have not become profitable, despite growing user numbers. A growing number of these users only access the free content on the Web and choose to forgo the printed newspaper. This leads to a situation in which the income sources from kiosk sales and subscriptions dwindle, and at the same time less money can be earned via printed advertisements.

The Rescue Attempts

Publishers are reacting to this situation in various ways. For many, cost cutting is in focus, a result of pure financial necessity and of the pressure from investors and suppliers of outside capital. Costs have been cut in areas where savings are expected, although the quality of the newspaper suffers significantly as a result. Reductions in the coverage and print frequency, and the associated releasing of editors, can only lead to short-term gains in our opinion. This is particularly true in an industry that has always demonstrated that quality is honoured by the reader and is thus one of the most important success factors. A business model based solely on cost reductions is therefore unlikely to lead to success. Especially if strategically important resources, such as parts of the editorial team, are eliminated.

The investment in young companies via internal and external venture capital companies is another route that publishers have followed for many years in order to reduce the dependence on the current core business. This strategy can lead to the long-term success of individual companies but it has little to do with the further development of the actual publishing business. Thus, one of the portfolio of companies can become a long-term 'cash cow,' but it offers little in terms of solving the fundamental problem – as the printed media will continue to do poorly and the sale of flowers over the Internet can make no difference to that.

In the USA, on the other hand, the attempt to develop paid content for the online editions is gaining ground. Even if the Internet users slowly get used to the idea of paying for music at least (again), this still does not apply to information and news. The idea of "Why should I pay for that?" can only be drawn slowly from the minds of users. "Because you have to!" is the answer supplied by the Wall Street Journal, which now charges for many articles. For subscribers to the newspaper, this works well; the financially sound corporate clients in particular do not want to forego the

high quality of their trusted information source. Attempts to earn income via micro-payments for individual articles have proved less effective. Unclear strategies bear some blame in this respect. For example, many of the articles are available for free at Google News or on the iPhone; on the actual website, however, the user is asked for payment. Even if the Wall Street Journal represents a first glimpse of profitable online strategies, Murdoch's empire has not yet been able to transfer this partial success to the other publishing segments, and is thus confronted with the same significant drop in sales as the competition.

The New York Times, on the other hand, is attempting to lead its readers to paid content via e-reader units and corresponding reader software. Up to this point, however, this has failed because the supplementary installation on the PC and the need for another device is perceived as being complicated. The client is generally unwilling to carry around another gadget alongside a mobile phone, blackberry, notebook and MP3 player. Moreover, the client must go without long-established usability standards in both instances. For example, the ability to link to articles in or outside the newspaper is limited.

At the current point in time, there is thus no stable, new business model in existence. One appears to encounter obstacles wherever solutions are sought. We believe that a glance at the current trends can be helpful in deriving a more promising business model.

The Trends

In reality, it is mostly well developed technologies that create new demand and opportunities or lend more importance to them. The dominance and ubiquity of the Internet in the day-to-day life of readers brings about demands that go far beyond the simple representation of the old familiar world on the monitor. This is the place to start if a publisher wants to continue to play an important role in the life of its clients.

While the scope for leisure activities becomes more and more diverse, people are taking less and less time to read. Newspapers delivered as part of a subscription often ends up in the bin unread, before the subscription is finally cancelled. The consumers of today want compact, relevant information that is tailored to them.

Internet users also want to communicate with one another and interact; the spread of blogging, twitter and social media in the past few years has demonstrated this fact. Top-down information in a text form and a limitation on the interaction provided to just a few reader letters selected by the editors will not work for newspapers in the long term. Allowing piecemeal commentary on articles is a first step, although it in no way corresponds to the users' understanding of the concept of Web 2.0.

The trend of mobile Internet also deserves more attention from publishers than it has so far been granted. With the development and spread of comfortable to use end user devices, the users' desire to call up content just as comfortably while being on the move has also increased – with content optimised for the smaller monitors and without reductions in information and substance.

In addition, the significance of integrated services, such as the packages offered by telecommunication providers, with landline telephones, mobile phones and DSL all from one source, is increasing; the demand for such combined services is growing in the area of news as well. As a news aggregator, Google News successfully integrates information from many different newspapers. A large proportion of the visitors to news websites now come via this portal and stay on the target site for only one article. As Google takes a majority of the advertising revenues in this way, publishers are facing the challenge of developing a sustainable reorientation.

The Success Components of New Business Models

The integration of content is the core element of today's internet and represents the most important components for success for the future. Several newspapers, such as The Guardian or Bild, already enable the integration of content from external sites by using widgets. They could, however, integrate external content themselves. A **cross-media integration of content** is also conceivable. The most diverse journalistic sources on a subject could be displayed in an integrated way by a sort of 'quality gatekeeper,' which acts as an independent authority. As who hasn't already wondered what the Süddeutsche newspaper has to say on a specific subject after reading about it in the FAZ? A critical aspect here is the qualitative pre-selection for the reader, i.e. not only gathering all information on a subject (à la Google), but rather only the most relevant and best. Moreover, the media centres of the television broadcasters and appropriate YouTube videos could also be integrated into the experience, thus achieving the transfer to new media forms.

Closely connected to the integration of content is the **personalisation** of themes. Analyses have demonstrated time and again that the individual reader only ends up in a specific part of a newspaper. Every reader thus selects their own individual 'must read' and 'can read' profile. In this respect, there is an opportunity for publishers - in contrast to the majority of other attempts made so far in this area - to actively engage and select content for the most diverse niches themselves or to take the system of recommendation used by Amazon as a model and personalise content automatically. Supplemented by regionally and locally relevant news for the reader, such a portal would then become so individualised that a high degree of customer commitment would be inevitable.

In the context of the **community** way of thinking, journalism and opinions must be combined. It is important here to create potential for interaction between users above and beyond the possibility to purely provide comments to articles. In addition - and here we link to the previously presented idea of the integration of content - the best reader contributions should be pre-selected and publicised.

The user information generated through community building offers the potential for optimised **targeting** that is far superior to the printed business and thus leads to increased advertising revenues. This is exactly how Google single-handedly receives 60% of all internet advertising revenues. As advertising is no means to an end, but rather will always be oriented to the most effective media and target groups - as we have already pointed out in our commentary on Web 2.0. And it is exactly pointing this respect that many newspapers have failed with their Internet debuts.

All content should be available via commonly available technology using the previously mentioned cross-media integration. The **integration of technology** thus means: Someone who begins to read an article at the breakfast table might want to use a break at work or the commute home from work in order to finish this or consume further articles. 'Consume' in the sense that this will not have to appear in a large-format newspaper layout, but rather in appropriate mp3, text and video files, as well as practical print copy. The preparation of content for monitors, mobile phones and as mp3 audio versions for the car or the iPod enables the user to 'continue reading their newspaper,' regardless of whether they are driving along the motorway at 180 km/h, are stuck in traffic, are on the way to a friend's house in the metro, or are sitting comfortably in a cafe.

Integrated business models must be accompanied by **innovative payment models**. This represents another significant factor for success. The switch from the price of a newspaper to individual user pricing is new for publishers, but is not new from an overall economic perspective. A lot can be learned by observing the

mobile telephone industry. Pricing innovations must offer clients a comfortable cost and billing model for the services accessed. As a result, flat rates for frequent readers and combined tariffs for users of multiple publications issued by a single publisher should be part of the landscape, such as word packages with 10,000, 50,000 or 100,000 words per month. More infrequent users would only pay for what they actually use. Even 'pay per word' pricing is conceivable.

In order to differentiate from free web content, honouring the 'old values' is also decisive. It is exactly in times of rapid change that consumers look for **quality** and security. Thus, quality must continue to be offered, which can only be achieved in the long-term by professional editors. Informed research, a first-class writing style, a highly qualitative pre-selection and integration of content as well as an appealing layout must continue to form part of the monopolistic repertoire of newspapers in the future. These core skills created the basis for past success and will also do the same in the future.

A Result

The traditional (offline) business models cannot be transferred directly to the Internet without being modified; the failed attempts of the past make this clear. Rather, publishers must offer additional benefits in comparison to printed matter, but also in comparison to cost-free competition, and must take full advantage of the technology of the present and future. To do this, it is necessary to establish a role differentiated from the non-lucrative news provider, such as the personalised gatekeeper, and to create an integrated position in terms of content and taking into account the increased number of channels available. Paid content and web revenues will go hand in hand with this, as before.

Until the implementation of a new and sound business model has been achieved, many publishers will be forced to cut costs - even in strategically important areas. The real core skill, i.e. creative quality, must not suffer in the process though, as this remains - even tomorrow and on the Internet - the most important differentiator. Those publishers that also invest in their quality at this time - even while they convert to a new business model - will most probably emerge as victors. In the long term, however, there will be many new opportunities for cost cutting. In the area of news as well as in terms of printing and distribution, the new role will permit greater consolidation. The market for daily newspapers will no doubt see a considerable change in the process.

The funds saved can then be used to create even closer connections to the individual reader through regionalisation and personalisation - which will also apply in print as well, at least to some degree. In this way, newspapers will again increase in importance and publishers can gain client loyalty that promises long-term success.