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NEWSPAPERS MUST EMBRACE
 ALTERNATIVE FORM FACTORS

Tomorrow's news today: strategies for survival

by David S. Evans and Karen L. Webster. As the internet chips away at the newspaper value proposition, industry leaders must honestly confront survival scenarios.

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Tomorrow's news today: 5 strategies for survival

NEWSPAPERS MUST EMBRACE ALTERNATIVE FORM FACTORS

if they are to avoid the same fate as the typewriter. As the internet continues to chip away at the newspaper value proposition, industry leaders must honestly confront different scenarios for survival. **by david s. evans and karen l. webster**

It's 5:30 a.m., and your alarm awakens you from a deep sleep. As you open your eyes, you see the red light flashing on your Daily NewsReader, letting you know your morning news has been downloaded. As you pour your coffee, you quickly power up the reader and scan a front page that looks remarkably like the print version. An article about a thwarted terrorist attack on a major international airport catches your eye. Reading further, you discover you are able to switch to a live news feed, and then quickly click on the BBC blog network to see how they are covering it. Since your daughter will probably have to do a report for school this week, you save this information to your favourites archive for access later. On that same page is an advert for a Marco Bicego necklace that your wife has been hinting she would like for her birthday next week. You quickly click through a link and buy the necklace in one step. Yet what you find most appealing about your new mobile digital paper is that your profile can be tailored daily — even hourly — by managing your preferences on your mydailynewsreader.com web site. And the cost to you is zero: You got the reader for free since you were a long-time print customer.





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Future or fallacy? Maybe a little of both. But what's clear is that something as bold and as radical as this might be the only way to save the newspaper from going the way of the typewriter.

Despite recent upbeat reports by the World Association of Newspapers (WAN), it's hard to deny that the industry is gasping for breath. Worldwide statistics that consider the growth of newspapers in developing markets mask the real story. Advertising revenues are down sharply in most major markets. Paid circulation in those same markets is in decline as well, with most of that drop occurring over the last two years. Newsroom staff is being slashed, with 25 percent of the San Francisco Chronicle reporting staff among the most recent casualties.

The newspaper business is being disrupted by the same phenomenon that gutted so many other businesses in recent years: the internet. It has given younger audiences a more familiar medium by which to access information. It has compressed news cycles from 24 hours to 24 seconds. With its many blogs and niche sites, the internet is blurring the lines between news and opinion. It has also broadened the ranks of news reporters. News can now be reported by almost anyone with a camera phone and an internet connection. Younger audiences likely place as much importance on the information they get from YouTube as they do from CNN.

Perhaps the internet's greatest impact has been the profound change to the business model it has forced and the new expectations it has created among users. Newspapers are catalysts, making profits by bringing different groups of customers together onto the same platform at more or less the same time and helping them to interact. Until the rise of the internet, advertisers were willing to pay for the privilege of reaching newspaper readers because newspapers made it easy, convenient, and cost-effective for advertisers and readers to form a bond.

Newspapers, like many other media catalysts, perfected a business model that got lots of readers on board via low newsstand or subscription prices and high quality content so that the advertising community would place ads in those newspapers. The cost of production was mostly offset by the prices readers paid. The real money was made on the backs of advertisers. That dynamic — lots of readers, and

advertisers who wanted to reach them — was critical to how newspapers earned their profits. Ironically, it has become the source of great conflict in the newspaper world today.

ENTER THE INTERNET. The internet has spoiled the traditional newspaper reader by introducing the notion of free content from a multitude of sources. In part, that was a deliberate strategy designed to build a community online that could later be monetised. Forced to keep up, newspapers built their own web sites and tried to follow the same catalyst strategy that they had offline. Yet there were two problems: online readers proved to be only 10-15 percent as profitable as print readers, and print and online readers proved to be two different communities.

Even though the combined online and print audiences had never been higher, only 5-7 percent of people who read a physical newspaper also visited that same newspaper's web site. Suddenly, newspapers found themselves supporting two separate groups of customers, with a sharply reduced ability to capture profits from either side.

LEARNING FROM OTHERS. The newspaper industry isn't the first to find itself at the mercy of a technology that quickly subsumed its business. Some have looked death in the eye and bounced back.

Take Western Union, for example. The US\$3 billion money transfer business found itself on the verge of extinction in the 1980s after nearly 130 years of operation. Western Union began in 1851 as a telegraph company and was the industry behemoth in the latter part of the 19th century. By 1929, more than 200 million telegrams were sent each year. But by 1994, fewer than 20,000 telegrams were sent worldwide. It was then that they made the only decision they could to stay alive: leverage their core asset — their worldwide telegraph network — into a platform for person-to-person money transfers. It turned out to be a brilliant stroke. Today, their network of 270,000 agents in 200 countries and familiar yellow and black signs have put them in the driver's seat of the US\$230 million market for money transfers, in particular transactions between the world's unbanked population. They have a loyal >>>

{paid circulation is in decline

U.S. NEWSPAPER PAID CIRCULATION: 1984

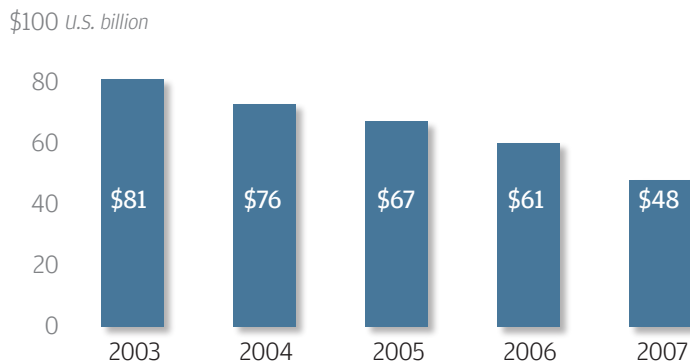
63 million newspapers (1,600 dailies)

U.S. NEWSPAPER PAID CIRCULATION: 2007

53 million newspapers (1,450 dailies)

Sources: "Newspaper Daily Circulation Down 2.6%," The New York Times, November 8, 2005 and "Rumours of newspapers' demise..." The Toronto Star, April 8, 2007.

market capitalisation of u.s. newspapers



Sources: Yahoo! Finance; Bloomberg. Data as of May 2007.

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customer following, a proprietary network that has been amortised over their many years in business, and a cost basis that makes a formidable barrier to entry even for those with cooler technology and seemingly better ways of doing business.

The typewriter industry is a much different story. Typewriters are today by and large extinct after failing to successfully transition the product or business model in the face of technological change. From the late 19th century through most of the 20th century, typewriters were an office essential. The industry had a reputation for innovation, designing and improving machines with great regularity. When personal computers were first introduced in the 1980s, big typewriter manufacturers countered that threat by producing portable electric typewriters and word processing machines (basically typewriters with small hard drives) which were sold at much lower price points. But as PC prices plummeted and word processing programmes got more bells and whistles, typewriter sales ground to a virtual halt. Today, the industry has lost 95 percent of its value.

Schwinn bicycles ended up somewhere in the middle. Bicycles were a primary mode of transportation in the late 1880s and early 20th century, and Schwinn was regarded as the industry leader. At the turn of the century, Schwinn had 30 factories and sold as many as one million bikes each

year. Not surprisingly, their business began to sputter as motorised bicycles and cars were introduced in the 1920s, but it quickly shifted focus to a more recreational niche market. At one point, Schwinn began private-labeling its bikes for sale in department stores, a move they quickly disbanded after low sales and flat margins reinforced the value of their brand name. Its delay in launching a mountain bike line forced Schwinn into bankruptcy in the early 1990s and again in the late 1990s after a series of management missteps. Today Schwinn is owned by Pacific Bicycle and sells a wide variety of bikes through mass retail outlets. Schwinn maintains its reputation for producing some of the best-known and best loved bikes of all time. But, like other bicycle makers, Schwinn had to adjust to the fact that automobiles were the primary transportation device for consumers.

THE BIG CHALLENGER. The newspaper industry uses content as bait to attract readers, but the internet greatly reduced the value of that content. The supply of content exploded and, unlike newspapers, the supply was replenished every nanosecond rather than every day. Search engines made it much easier for consumers to find content they cared about. Most decisively, the internet found its killer application: targeting advertising at consumers who were looking at search results or other web pages.

If one wanted to point the finger at just one villain, then Google has no equal. It perfected a way of doing advertising where advertisers only pay when people click on an ad. Newspapers are still trying to persuade advertisers to pay for ad space without being able to promise that anyone will actually read the ad.

5 SCENARIOS FOR SURVIVAL. There are many industry fixes being bandied about today. Many solutions seem to lack a fundamental understanding of the newspaper business model, source of profits, and appreciation for the value of its core asset: news. Here are a few ideas that just may help pull newspaper properties off of life support.

1. Marry a Billionaire. It used to be that newspaper properties created billionaires; now they seem to be the “must-have” billionaire accessory. Philadelphia public relations mogul Brian Tierney led a coalition of investors who paid more than US\$560 million for the Philadelphia Inquirer in May 2006. Sam Zell made headlines in early 2007 when he masterminded a US\$8.2 billion buyout of the venerable Chicago Tribune. A consortium of business leaders led by former General Electric CEO Jack Welch, tried to make a run for the Boston Globe in 2006 and a bevy of tycoons from David Geffen to Eli Broad have tried unsuccessfully to gain control of the New York Times Company. Rupert Murdoch made headlines in May of 2007 when he threw down a US\$6 billion gauntlet for Dow Jones and the Wall Street Journal.

It may be that the best strategy for newspapers is to become the trophy asset for a really rich guy. But, as any New York socialite or Sloan Street girl who

has walked that road will say, there's a price to be paid. Happy unions almost always bitterly dissolve a few years later. If you are an attractive asset and can enhance a billionaire's ego, perhaps that's the path for you. But be prepared for that rainy day. Of course, this strategy is only viable for the sexiest of properties.

2. Milk the Asset. The typewriter business was never able to make the transition to a technology-enabled world. So it milked the business for all it was worth as it rode the market down, expanding their sales and service business and finding new markets in rural areas around the world. For some newspaper properties, the most prudent strategy may be to manage the exit or to work towards a soft landing at a much lower value. Milk the news asset and brand today and plan for life as a much smaller player.

3. Build the Core and Find a Niche. Schwinn recognised there was great value in its brand name and its reputation for quality and reliability. They also realised that selling via third-party channels people knew and used was far more efficient than having its own stores or even investing in and selling through independent dealers no one had heard of. It could be that a viable strategy for newspapers is to abandon their catalyst business model in favour of one that simply positions newspapers as manufacturers of branded content sold to news aggregators and other third-party channels. This is a sea change for newspapers, but one that could allow newspapers to focus on what they do best (produce great content) and leave the packaging and distribution to other channels that already have the eyeballs. Newspapers would be worth a lot less than they are today, but they could at least survive.

4. Stop the Presses. Today's readers seem content to trade off the physical, tactile experience of a newspaper in favour of something more convenient, readily available, and digestible in bite-sized chunks throughout the day.

Most newspapers now live in a physical and an online world. It's not hard to imagine, though, that in a decade or even less, the landscape will change as devices like mobile phones and smaller laptops make reading a newspaper online less onerous and the idea of a completely online edition of the newspaper less radical than it may now seem.

Here's a case in point. Sweden's PostOch Inrikes Tidningar, the world's oldest newspaper, recently abandoned its print version for a totally online experience. For some newspapers that provide niche content or cater to a small, localised market, a totally online experience could be the ticket.

5. Change the Form Factor. This scenario as described in the opening may not be as far-fetched as it seems. Belgium's De Tijd made its own news in 2006 when it piloted a mobile digital newspaper. Some 200 test subjects received free readers that delivered their daily news via a high-tech reader using e-ink to present the content. Content was interactive but to a limited degree. The pilot was abandoned, not because people didn't like the product but because

hardware failures made it difficult for the test subjects to properly experience this new media.

The impetus for innovations like this is attracting advertisers. The newspaper "form factor" as it exists today is a fairly inefficient tool for advertisers. This two-dimensional, more or less broadcast medium makes it nearly impossible for advertisers — those guys who drive newspaper profits — to actually know if they have reached a prospective buyer. Mobile digital newspapers give both content producers and advertisers infinite space to produce news and deliver ads — and potentially serve as a beacon of hope if the newspaper industry is to preserve its catalyst business model.

As free wi-fi is rolled out in large cities throughout the world, it seems entirely plausible that someone like Google or Microsoft could produce readers and give them away for free in order to capture the *de facto* distribution channel of news and the advertising profits that come with it. The idea is a good one and quite technically possible. The question is whether this will be something that the newspaper industry will innovate or have innovated against them.

ONE SIZE DOES NOT FIT ALL. The recommendations of a landmark study suggest that newspapers think small by cutting circulation and then expand their portfolio of assets to serve as an information resource for a smaller, more localised community. It's hard to imagine that this implemented *en masse* will save the industry. At some point, most small properties will find themselves gobbled up by larger ones. Further fragmentation of the industry into millions of community-based properties will only drive advertising prices down, delaying but not averting their flight to larger properties where their customers are.

Most newspapers will need to find a strategy that allows them to reposition and regroup in light of this new reality. It may mean milking assets over the next few years or raising prices to readers and advertisers who value them most highly. In this scenario, newspapers must recognise that this will lead to short-run profits but not prevent long-term death. A few lucky ones may find a happy marriage for awhile with an aging billionaire. Some could be saved by a new technology for delivering news and advertising.

Our view is that the future will look much more like the scenario that opened this piece. Newspaper form factors have always evolved with the times. They have successfully transitioned from the bastion of the wealthy and literate in the early 1800s to a widely available and affordable medium that brought news and information to life through new printing techniques, pictures, and advertising. It's not a stretch to imagine mobile digital newspapers in a world where most content-driven devices are connected to the internet. Rather than commissioning more studies to develop "what if" plans, the industry would be much wiser to fund a new venture to create the newspaper form factor of the future before someone beats them to it. ♦