Shaping the Future of the Newspaper
ANALYSING STRATEGIC DEVELOPMENTS AND OPPORTUNITIES IN THE PRESS INDUSTRY

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5.1

New Revenue Strategies

The fragmentation of media markets and revenue streams need not spell doom for newspaper companies. Innovative companies are fighting back, with success, and are on track to make new media a blockbuster revenue category

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CONTENTS

Executive Summary

The inexorable fragmentation of media in the modern era presents a daunting challenge for traditional media companies. The Web has yielded formidable new rivals such as Google and Yahoo!, which siphon off audiences and advertising. Fragmented media also means fragmented revenue streams, which don't fit well with business models built well before the dawn of digitalization. But the digital realm need not spell doom for media companies – indeed, those that have stopped skulking in their caves have already found new ways to produce revenue, and to take advantage of a media audience with an increasing fondness for consuming content in multiple ways.

Still, the frenzy of fragmentation creates vast challenges for media. Questions that need answering include:

Which new media channels present a solid investment opportunity, which are a gamble and which fool's gold? Which sales channels will produce the highest return on investment? Which sales tactics work best in each new channel? For that matter, what pricing works for these new products?

In a vexing development for many traditional media companies, the Internet has made it much easier for international companies to operate regionally and even locally. In fact, competition for local advertising is a hallmark of the Internet era, as pure-play Web companies like Google have proven.

Yahoo!, eBay, Monster, MSN and CraigsList have all penetrated local markets worldwide, and now say they will become hyperlocal in their pursuit of revenue. These Internet pure-plays stand poised to take billions of dollars out of local media advertising budgets worldwide this year. For just one example, www.CraigsList.org, a free classifieds website that provides listings in hundreds of cities worldwide, cost the San Francisco Bay area newspapers \$50 to \$65 million annually, according to former SFGate.com general manager Bob Cauthorn.

Such developments cloud the crystal ball when it comes to the future of newspapers. Still, some new revenue strategies have clearly emerged from the plethora of possibilities in today's media world. Companies in North

America, South America, Australia, Northern Europe and Asia have successfully integrated print, web and sometimes other forms of revenue, creating diversified revenue streams that hedge against downturns in traditional revenue makers like print advertising.

Indeed, virtually every newspaper company profiled in this report has diversified its revenue streams to:

• Compete against new market players like Google and Yahoo!,

• Reach new audiences and increase market penetration

• By adding new media revenues, publishers hedge against downturns in advertising, as with the advertising downturn of 2001.

Thus, the phenomenon of fragmentation spawns new forms of revenue, including:

• Selling advertising across a company's multiple media assets

• Increasing the value proposition of online advertising, including getting print-oriented sales people to give equal treatment to the Web, through educating both salespeople and advertisers about the value of multiple channels, and training on proactive, not passive sales techniques

• Increasing the media company's understanding of the value of its online audience, through online registration software, research of consumer habits and study of the website's user logs

• Exploring which content should be paid for and which should be free

• Expanding the advertising base by targeting local advertisers through new media channels, including smaller advertisers who may have never advertised before

• Exploring new revenue streams, such as cost-per-click (performance) advertising, video and audio advertising online, and local search keyword networks

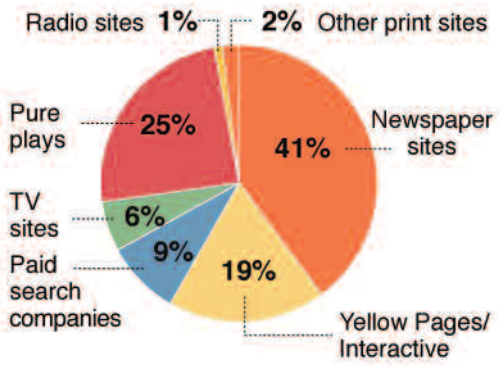
• Aiming at being the No. 1 website or portal in the market by aggregating nationally or regionally with former competitors

• Changing the metric from circulation to print-web readership to reflect the true reach into the marketplace, and then re-educating media buyers about the new metric.

This report will examine the various revenue streams being developed by media companies worldwide, as well as how those companies are finding success beyond printed advertising alone. For example, while U.S. Internet Advertising revenues hit $12.5 billion in 2005, according to the Interactive Advertising Bureau's annual report, online news sites reported far fewer revenue streams than the industry as a whole, and in vastly different proportions.

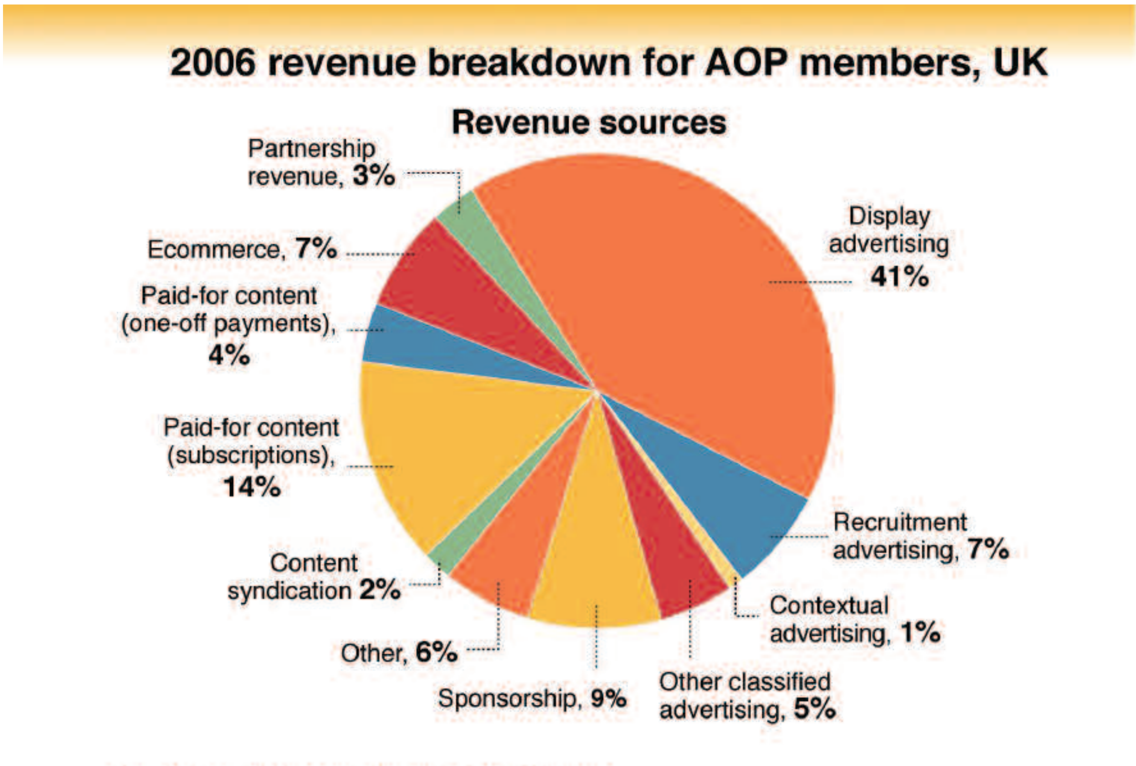
According to Borrell & Associates' fourth annual survey of local media website earnings, released in April 2006, news websites in the U.S. and Canada relied on classifieds for 75 percent of their revenues on average, with display advertising like banners and skyscrapers comprising almost the rest of revenues, on average. Just in the past few years, a handful of sites are adding other significant forms of revenues, like local search advertising, and email advertising. Newspaper websites earned $2 billion in 2005 in the U.S., up 67 percent from 2004, according to Borrell. Meanwhile, the average individual newspaper site share is declining, suggesting these online newspapers are not keeping pace with the growth in online spending in their markets. One reason behind this decline in share comes from the growth of localized key word search advertising by the likes of Google and Yahoo !; in response, newspapers are building their own local search functionality, both in local efforts such as Cox Interactive's Kudzu.com, McClatchy's Triangle.com, and the Patriot Ledger's WickedLocal.com as well as a U. S. national play planned by Tribune, Gannett, and the former Knight Ridder.

Who's sharing $4.8 billion in local spent online advertising

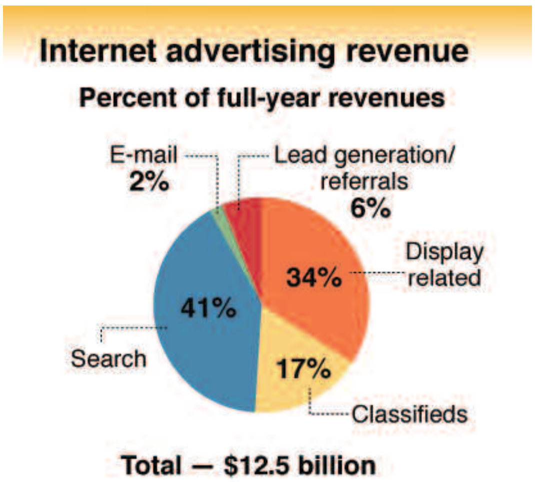


Source: Borrell Associates Inc. WebAudit data and 2005/06 Local Revenue Survey

According to the AOP Census, the annual online survey of the Association of Online Publishers members in the UK, the breakdown of revenue sources favours display advertising and paid content.



Source: Association of Online Publishers 2006 Census, UK



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From 2005 to 2006, advertising rose 53% for AOP members located in the United Kingdom. Online news members include BskyB, Economist Group, Financial Times, Guardian Unlimited, Independent Digital, ITV, Reuters, News International and Telegraph. The membership represents 1,828 different print and online titles.

The Census found that 34 percent of the consumer publishers charge for content, three quarters of which are from subscriptions. That number has been reduced considerably since 2004's survey, when 58 percent of the consumer publishers charged for content.

A variety of media companies around the world are employing various strategies to make money online. This report will feature case studies from around the globe, featuring Schibsted, Knight Ridder, Gannett, Tribune, Media News Group, New York Times, Asahi Shimbun, RBS Group and more.