

E-commerce:

The Breakthrough to Profit

A report based on a WAN Study Tour to newspapers in the United States with the leading electronic commerce activities.

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*This report is based on a WAN study tour to online newspapers
in the United States in July 1999*

INTRODUCTION

The World Wide Web has been an opportunity for newspapers but also a source of frustration; in a constantly changing market, many 'buzzwords' and 'killer applications' have emerged only to disappear later due to technological and business developments. Newspapers, traditionally relying on a combination of subscription and advertising revenue, have had to relinquish their 'old world' mentality and adopt the Internet way, where news is a commodity, content is free and advertising space is plentiful.

Recent trends however show that electronic commerce is most likely to prove the key revenue generator of the future. This report is an executive summary of the study tour organised by the World Association of Newspapers to a selection of the newspapers with the most innovative and successful e-commerce activities in the US. It covers e-commerce topics such as:

- Online advertising
- Partnerships and links with advertisers
- Portals and city guides
- The merits of different business models
- Community publishing

The report features an e-commerce overview by Jupiter Communications, information from the web activities of the New York Times, New Jersey Online, Washington Post, Chicago Tribune, as well as a summary of the Revenue theme presentations at the Newspaper Association of America's Connections Conference in Chicago.

SOME FACTS ABOUT THE US ONLINE NEWSPAPER INDUSTRY

1. More than 950 North American dailies have launched online services (as of April 1999)
2. All of the top 100 newspapers by circulation have online products
3. More than 75% of the daily newspapers on the web have circulation under 50,000
4. Seven of the top 20 online news sites by reach are newspaper sites (Media Metrix)
5. More than 75% of newspapers on the web offer online classifieds
6. According to a NAA survey, 82% of online newspaper readers read the printed newspaper with the same or increased frequency
7. Internet usage has recently shifted from a 50:50 at work vs. home, to 60:40 at home
8. It is estimated that slightly over 40% of the US adult population is online regularly
9. In 1998, expenditures on online newspapers totalled \$219 million, including \$157 million in advertising

(source: NAA)

JUPITER

Jupiter is a new media research firm based in New York. Seventy to 80% of its business is US-centred, with a London office handling international work. With the boom in Internet however, it will soon be opening offices in the Asia-Pacific, Australian and Latin America regions, demonstrating the explosive growth of companies in the Internet industry.

Spending forecasts

According to Jupiter, US e-commerce spending in 1998 was \$7 billion, with a forecasted rise to 12 billion in 1999; by 2002, this figure should reach 41 billion, an increase of almost 600%. Of this, one third is due to the seasonal gift market around the Christmas holidays, says Nicole Vanderbilt, Vice President and Senior Analyst at Jupiter's Mindshare Executive Research. The driver of this tremendous growth is mainly due to the growth of the online audience, leading to more online buyers and increased marketing spend online.

Jupiter divides 1998 spending into the following business segments:

travel	11,7 billion
PCs	6,4 billion
software	2,4 billion
books	3,7 billion
music	1,6 billion

Vanderbilt admits that some commerce activities are much more suited to the web than others, at least for the time being. Groceries, which are a huge market offline, are of minimal importance online due to the nature of the purchase. As an example, US online grocer Peapod has a database of 100,000 clients, while Amazon has over 10 million.

In the same vein, there are differing percentages of the market shifting from offline to online. Computer related merchandise is very strongly moving online, with 1/3 of software purchases online by 2002, or \$2,4 billion. This means that even if the dollar value is similar, the impact on that industry is very different. Margins are another important issue, with books and music averaging 10 - 15%, whereas toys are 40%. "This may explain why Amazon recently announced it was getting into toys," according to Vanderbilt.

Europe vs. US

The European consumer online purchases similar product categories to their US counterpart. "Everyone understands buying a ticket from Paris to London", says Vanderbilt. On the other hand, online household penetration in Europe is still low today, while it is over 40% in the US. Jupiter, however, anticipates the number of households online in Western Europe to triple over the next five years. This is an increase from the 1998 level of 14 million households (9% penetration) to 47 million (31% penetration) by 2003.

However, Vanderbilt thinks that Western Europe will probably not catch up to the U.S. in overall Internet usage for another few years. This is due to structural differences between the two markets, especially as related to connection costs. Metering of telephone usage will continue to inhibit growth. Therefore, businesses must adopt strategies that will promote consumer adoption of e-commerce.

In maturing markets, one in five consumers are buying online. As users gain experience and are more comfortable with the Net, they are also more comfortable with shopping online. This also contributes to the expected boom in electronic commerce. "Growth in online population = growth in shoppers", says Vanderbilt.

Purchasing habits and audience

Jupiter estimates that today's customer purchasing habits are driven by the following user type:

- portal-directed (20% of the audience)
- independent value driven, the biggest category today at 40%
 - users who are coming online to find better value (price or convenience)
 - users who are not loyal to a particular brand (Barnes & Noble vs. Amazon)
 - heavy use of infomediaries, e.g. comparison shopping services
- affinity loyal, the smallest category at slightly less than 20%
 - members of frequent flyer or loyalty programmes
- brand needy, who go to their offline brands because they know and trust them (20%)

The portal directed's and independent value driven segments dominate today. Jupiter does not think this will significantly change in proportion over time as the audience increases. "People will always want value, and portal sites will still carry mass audiences through the Net," says Vanderbilt. This also explains why newspaper sites which launch portals bank on harnessing some of the power to direct shoppers and

influence the market.

However, affinity has a lot of opportunity for growth, and "companies should exploit the full value of their customer by incentivising them to come back again and again".

Jupiter has some interesting views about US online buying by gender. "We think that females are an untapped market, as they make up 42,5% of online users, yet female online commerce lags", says Vanderbilt. For the moment, females are browsing more than buying, but this is expected to change. New female users number 12 to 18 million, and since spending is correlated to online tenure, female purchasing is expected to boom. The advantage of the Internet is that psychographic research is far more observable than in other types of marketing. For example, a company can see what a typical 27 year old female likes to browse through or purchase. Vanderbilt therefore recommends that companies develop products and services targeted to this market.

A boom - in dissatisfaction?

According to Vanderbilt, the big wake up call to retailers occurred with the boom in online spending during last year's Christmas holiday period. A full 44% of 'connected' households shopped online from November to December and while Jupiter had forecasted spending at \$2,8 billion, the actual figure was even higher at \$3,1 billion. Many people shopped online for the first time during this period, therefore increasing the buyer audience afterwards.

However, this is also the first time Jupiter has measured a significant drop in satisfaction rates. In July 1998, satisfaction was at 88%, but this dropped to 74% in January 1999. This shows that customers are far less forgiving as they buy more and the novelty wears off. Jupiter attributes this to the fact that the surge in demand now surpasses the infrastructure and service in place.

The top reasons customers were dissatisfied:

- **Out of stock** = 15%, even though the Internet should allow for better inventory management
- **Shipping & handling** = 14%, due to a psychological resistance to extra charges. Jupiter suggests that sites think about including extra charges in the overall price, in order to overcome this resistance.
- **Site too slow** = 13%. The perception is that this is the fault of the site, not necessarily the personal phone connection or hardware. "That's why it's important to keep your site easily navigable and the download times light," stresses Vanderbilt.

This latter point of poor site performance has a measurable change in user behaviour, with 51% saying they would never come back, 28% going to a competitor, and 12% finding a temporary alternative. "This is the first time that people say they will purchase less (5%) due to problems with the e-commerce site or order."

To enjoy long-term success, Jupiter says that strategies must be very focused. "In order to see a return on investment, e-commerce sites must maximise the return of each customer." In the high profile and competitive Internet arena, it costs a lot more to gain a customer than to retain one, so retention must be key. Therefore, it is vital to guarantee and maintain the right service levels, spend more on retention than acquisition, and always focus on growing value to the customer.

*Nicole Vanderbilt
Vice President and Senior Analyst
Jupiter Communications
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NEW YORK TIMES

A Snapshot

Unique Registered Users: 8.3 million
Male: 67%
Average Household Income: \$80,700
Live in USA: 90%
Live outside NY area: 83%
2.7 million unique visitors (July '99)
93 million page views (July '99)
Users spent an average of 27.4 minutes per month on the site (July '99)
Average pages viewed per month: 18.7
Days accessing the site each month: 6.1
Comparison – print paper has 1000 editorial staff, online has 45
The only major site to be 100% registration required
(cookie user ID and password)

On Editorial

Bernard Gwertsman, the editor of nytimes.com is a veteran of the print edition, having served as both chief diplomatic correspondent and foreign editor. He is very proud of the Times' aggressive 24-hour news positioning, which has made the online edition one of the world's biggest news sites. "The site includes breaking reports from the print journalists, not just the wire services like many other news sites," he says. He cites a topical example that day, which was the lead story on the street demonstrations in Iran: "This will be posted online before the print edition."

The print edition goes on the web around midnight, when it is shut down. Before this, the site is updated throughout the day by both staff reports and news wires. Surprisingly, the online edition does not have its own staff of reporters, using instead the vast resources of the print edition.

The New York Times is the definitive high-quality American daily, and is also a rarity in that it serves all audiences, whether local, regional or national. Consequently, its

website content is massive. According to Gwertsman, the good thing is that there are no space constraints on the web. On the other hand, people spend less time reading on a screen than the print product. Which begs the question: is it really useful? Yes, he says, "because people expect the full background to the story: archives, maps, multimedia applications, audio etc., especially from the Times".

The online paper has thus developed a number of lively areas, such as its Books section which goes far beyond the Sunday book section in the paper. The current Hemingway retrospective features ALL reviews, articles written both by and about him in the Times. This can be used as a potential marketing tool for partners such as Barnes & Noble, with links to their site and automatic book purchasing.

Gwertsman admits that he was at first very wary of the B&N partnership and others like it, but he is now of the opinion that as long as they are clearly labelled as advertising, there is no conflict of interest. However, when questioned as to how lucrative the partnership is for the company, he admitted that the reality is that relatively few books are sold through those pages, at least that can be measured.

Speaking like someone who's been around long enough to know, Gwertsman laments that, until the 1970's, papers owned breaking news. With the end of afternoon papers, this power was soon abdicated to television news. "Now however, the Internet is changing all this again, and is an opportunity to level the field." One of the most interesting things about the Internet for him is the speed with which it is moving and changing people's lives. He still has a photo of the Wright Brothers on his wall, who pioneered flight not that long ago. However, he admits that Internet technology is in its primitive stages, and "it still is too much work to go online for people to be bothered with most of the time - it's still much easier to turn on your TV".

And what about profits? "Our profit objective is to break even by end of year, with the goal being eventually to have actual profit." Big growth will occur when the user-ship gets higher: "When we reach one million users per day, we will reach the readership of the print edition."

On marketing

The New York Times is the only paper to require registration for access beyond the home page, although it is free. The data entered is email address, age, gender, income, and zip code. They can then use this registration information for customising advertising and content, thus facilitating e-commerce and advertising sales.

As proof of the resistance to paid content, when the nytimes.com stopped selling access to international users last year, it soared from 3,500 foreign registrants to over 1 million within a year. The online paper also sells subscriptions to the print edition and the crossword puzzle.

In response to a question regarding cannibalisation of the print product, Susan Hunt, Marketing Director, says that "there is very low cannibalisation in fact". The paper has had very few cancellations, obviously due to the fact that reading online is not a pleasant passtime. This low cannibalisation is not just a gut reaction but has also been confirmed by research. The accuracy of registrants' info has also been measured in several surveys, and has been found to be 85% accurate. "There is no real personal info required so it shouldn't be a problem for people to fill in".

Other papers have different models, but Hunt personally doesn't believe in the subscription model (such as the Wall Street Journal) because it kills the advertising model. "Times advertisers are buying usage. Although registration also restricts growth, it targets advertising and results in a higher CPM" she says.

They do not rent out their database (although she admits they've never really been asked) but they do use it to target advertising. For example, someone entering a household income of over \$500,000 will be viewing high-end products and services on their web pages.

The churn rate is high, i.e. people who visit looking for a specific thing and don't regularly return. The paper's strongest base is occasional visitors. The top sections viewed by a US audience are the home page, the AP wire, national and international news, business, and technology. The top section for international users is the archives.

The company charges \$2.50 for its archives of up to one year; this is a cause for customer complaints, who are resistant to paying what they consider a high price. Otherwise, the NYT also has an agreement with Lexis/Nexis who sell their archives of 1+ years.

The sites main revenue streams are:

- **Advertising (90%)**
CPM of \$40 + increment per target, or percentage of goods sold (e.g. the Barnes & Noble partnership). Advertising is sold as a team, with calls by both the web and print sales staff together. The Times' advertiser segmentation mirrors the type of businesses that are online - computers, auto, financial services, travel, media.
- **Archives**
- **Crossword**
(surprisingly quite popular with 60,000 subscriptions at 10\$ per year)

Technology is a major 'challenge' because there are more than 40,000 emails handled by customer support every week. "For example, if our credit card capability is down, and even if it's not the site's fault, we still get blamed for it," says Hunt, who insists upon the importance of tech: "We could not provide e-commerce facilities if

that was not up to scratch. We would lose business, customers and credibility."

On city guides

The NYT also launched a city site one year ago as a value-added service to its advertisers and readers, called New York Today. Catherine Levene, Sales Director, says that they've grown to about four to five million page views per month.

The content of the site is taken from the paper's non-news sections, such as arts & entertainment, classifieds etc. Its strategy at the moment is to focus on community groups, seen as a type of viral marketing. The revenue model includes CPM banners and percentage of sales from advertisers through its transaction-oriented Marketplace. It also builds micro sites for local retailers and restaurants: "Launching a website is a big expense for small retailers, who would rather have this outsourced," says Levene, "then they find a necessity to advertise on our site". She admits though that this activity is decreasing and is seen as non-core revenue.

Community, the buzzword of the moment in Internet circles, is a very important part of the future development of the site. "At present, this space is given mainly to non-profit groups due to technical limitations, so we have not marketed it completely but it will be key."

Levene acknowledges that there is a constant change in models and a need to perpetually adapt to the theme of the moment: "Things that were started off for a price are now given for free". The NYT is in "the business of providing a quality environment", and would prefer to outsource other lines of non-core business in order to focus on 'stickiness' (i.e. repeat and loyal visitors) and high CPM. However, Levene admits to a lot of trial and error: personalisation is a "big thing" on the web, although the latest craze - calendars - has not proven to be as big as the hype.

On sales

Regarding the classified segment, the NYT is a founding partner of Classified Ventures and CareerPath. "You can look at the classified market many different ways, from just posting print ads, offering advertisers the opportunity to post online, or really giving a value added service" says Christine Cook, Managing Director of Electronic Media. Almost everyone who buys print classifieds also buys online, the obvious advantage of the latter being links to other sites, direct email response, and multimedia applications.

There is no visible cannibalisation in the classified market yet. "There is a very strong growth in classifieds in general, especially in view of the buoyant economy and recruitment market, so print is holding strong, at least for the moment", says Cook.

Regarding display advertising, the Times at first used interactive agencies to sell their space, with leads provided by print sales. As this grew in volume, they started selling in-house and realigned by category. Cook has found that online ad budgets have grown independently of print, and the paper often prospects customers with both print and online sales people.

Cook admitted that a lot of retailers are pressuring for a cost per click model, which the NYT is obviously reluctant to offer because they cannot be held responsible for ad creative. Their response is therefore to focus on their 'quality environment', by aggregating audience information and then targeting audiences for advertisers, hence removing wastage. The site offers a variety of targeting categories, including geographic area, income and gender. In addition, through its proprietary version of Real Media's Open AdStream, it has very precise figures on user habits such as time of day, click-through etc, also helping it to refine its ad sales proposal.

"We are willing to lower CPM only if we get a percentage of sales," says Cook. "However I do think that our inventory is more valuable than that and I'm not convinced of percentage of sale results." The site would therefore prefer to keep away from revenue-based models and concentrate on CPM, having found that the former are not only less profitable but also far more time-consuming. "We'll consider the size of the buy, and if there is no CPM, then maybe we don't want to depend on someone else doing their job correctly", she says.

"The Times' overall strategy is putting the right ad in front of the right person at the right time in a high quality environment."

Cook also spoke about the auxiliary services they offer to their advertisers such as the Online Advertising Kit and Smart Advertising (available for download on their website), part of the long educational process still necessary to convince clients of the value of online advertising.

NEW JERSEY ONLINE

A Snapshot

20 million page views per month, compared to around 6.5 million last year

The third largest site in New York

The online affiliate of the Star Ledger (420,000 circulation), Times of Trenton (50,000), Jersey Journal (610,000), all owned by Advance Publications

Gender : Male 60 %, Female 40 %

Ages 25 - 44 account for 50% of audience

88% access the site at home, vs.; 41% at work

New Jersey is the most densely populated state and, up to now, has not had a state-wide medium

It is also the state with the highest Internet usage, after Alaska

New Jersey Online is located in Jersey City, about a half-hour drive from New York City. The web site is independently run of the print newspapers, and has about 30 staff (10 editorial, 10 ad sales, 5 marketing, 5 design) The site is lucky to be located in the same building as parent company's Advance technical staff, allowing for cost-saving synergies.

Peter Levitan, publisher of the site, says the smartest thing they did was to name themselves nj.com, and not the individual newspaper brands. "This allows us to create content that's not as flat, more creative ... we wouldn't be quite with it if we kept the brand. Advance decided to really set us up as a separate company."

The online edition is not just about news content or extending the paper brand. "We can present ourselves as an Internet brand ... Not just a value-added piece of the paper but a completely separate structure." This turned out to be a very smart decision, in view of the site's popularity. It is a definitely known brand in the state, which is not the case of each paper brand. Also, NJO is far more state-wide than the local papers, so its name and content have to reflect that.

Another local difference is that "95% of the New Jersey-based audience is parochial. Most revenue comes from local merchants, not the Amazon.coms but the local shops", which is the core strategy of NJO.

MarketPlace

The revenue of the site is heavily focused around its MarketPlace section, which includes the following:

Shoppers Guides

These are paid database directories, much like the yellow pages, but with richer content, a search function and links to online stores.

NJO savings centre

A couponing section. This was created after 86% of an audience surveyed said if they could save money, they would log on daily or weekly. The site operates this via partnerships with coupon companies.

E-stores

Online catalogues, which "we promote like crazy to users in order to drive them to the site".

All print classifieds from the three papers appear on NJO. It also offers two types of display ad sizes - banners and tiles, as well as exclusive sponsorship deals. Tiles in the auto section are very popular, followed by the Business and Health sections. In order to get around potential advertiser competition, the site has a rule of not accepting advertisers from the same industry as the content. For example, an insurance company sponsors Auto and not a specific dealer which would drive away other dealers.

On editorial

The site automates news from the print papers to go online, and uses its editorial staff only for the online edition. This has actually led to reciprocal coverage with the print papers, especially regarding local sports, which the web site covers at considerable depth. "For a long time, the print papers were considered the real traditional media and we were the upstart," says Sara Glines, editor in chief.

Seventy to 80% of the site is news-content related, with editors encouraging users to generate content, whether through letters or personal reviews. These are then posted and counted as news content. In a similar vein are the "outrageously popular" forums, especially the forum for another hometown boy, Bruce Springsteen. The site monitors these forums but is otherwise relatively hands-off, and says it is not held liable for statements made by users - for the moment.

On community

NJO is widely known for its innovative and popular community section, which garnered it a NAA new media Edgie award for best community site. "We're doing more than putting content online and getting revenue, we're positioning ourselves as part of the community", says Levitan. "Somewhere out there, there is a community of Sinatra fans or garden lovers. I want them to feel that they can come to our site to connect with others in the same community."

Indeed, the community sites listed range from Mrs Smith's third grade class to people living with cancer. NJO has a total of about 4,000 community sites, which generate over 200,000 page views per month. How does it work? Applicants have to register for a site based on their specific topic, which gets approved by NJO staff before going online. They then get their own URL within the general site, can upload their own photos or logos, update with password protection, receive email links etc.

The objective of the community section is not to make money, because the entire experience is free for users. "Goal number one is to get people to build a site, and goal number two is to get them to network via our site", says Levitan. Due to user resistance, they cannot sell display advertising on these sites, except for either house ads or a general sponsorship of the entire section.

Registration is only required if a user wishes to enter a contest, build a community site, chat or search. NJO believes that the New York Times philosophy of required registration retards growth.

"We could be profitable if we wanted to, but we prefer to invest all revenue back into the site" for the moment, says Levitan.

On business development

The most popular pages on the site are Forums, Classifieds, Sports, News, Community, and Streaming Radio. A fascinating web innovation is Zoom Cams, a type of digital camera which is placed in a public place and can be viewed 24hrs/day. NJO says these get a lot of media attention, cost virtually nothing to operate, and are extremely popular. They currently have two in operation, one down at the beach and another in a local diner. "You can often see people who have arranged an appointment time with a relative in say, Australia, popping up in front of the camera with a personal message scrolled on a piece of cardboard," says Glines.

Levitan is also bullish on his other pet projects, auctions and coupons. He predicts that one or two national auction brands will emerge, but contends that it will never be feasible for someone in New Jersey looking to buy a piano to get it shipped from LA.

"There is therefore lots of local opportunity."

On the subject of coupons, NJO will offer a coupon system similar to online couponer valpak.com within six months. Basically, users search for either a product or shop in their local area, and can then print a redeemable coupon before going out to shop. In order to get local merchants 'hooked' onto the concept, the NJO has been putting these up for free for the moment, but will shortly start charging a set fee on an annual contract for 1,000 advertisers with a volume of 4,000 coupons. These advertisers will also have control over their coupon inventory, via password protected updates. Levitan says that coupons are a very efficient use of marketing funds, and can even be considered as content.

Levitan also spoke about the cultural differences between Europe and the US, as reflected in purchasing habits. Having lived for a time in both Germany and the UK, he was surprised to see that retailers' hours are so restricted: "Consumers drive themselves crazy trying to find time to shop for essentials", and he says if you could open outside those hours "you'd be rich". His philosophy is "either change or go out of business", and he concludes "if we could all sleep ten years and come back, this would be a very different place".

Peter Levitan – Publisher

Sara Glines – Editor in Chief

A Snapshot

- Averages 70 million page views per month
- Approximately 2 million unique visitors per month (Media Metrix)
(Before the Clinton scandal, this figure was 800,000 per day)
- Consistently ranked among the top national news sites (Media Metrix)
- Highest local market penetration of any local Web site
- Tens of thousands of pages deep
- Home page and news digest updated regularly throughout the day
- Produced by approximately 50 full-time editorial staffers
- No registration required for access
- Advertiser-supported site

Washingtonpost.com is a service of Washington Post Newsweek Interactive (WPNI), The Washington Post Company's new-media and electronic-publishing subsidiary. WPNI's estimated revenue for 1999 is \$17 million. The Washington Post Company reported 1998 operating revenue of over \$2.1 billion.

Washingtonpost.com is another web site that does not share office space with its print paper; it has chosen instead to be located in the high tech suburbs outside Washington DC. It has a total staff of about 60, half of them in news and the other divided between arts and entertainment, photo, technical, design and production.

On editorial

Editor in chief Jody Brannon admits to being pleasantly surprised that most of their online audience stayed with the site after the boom times of the Lewinsky scandal. The Washington Post was one of the lead papers during that story and broke a number of high-profile exclusives, driving up their traffic figures. However, she says that 99,9% of the news content comes from the newspaper, although "we try to figure out ways to webify information every day". For example, the paper often uses archives to provide a background 'timeline' of the news. Interestingly, the web edition has turned out to be more of a circulation driver than a stopper for the print paper.

For a newspaper of that size and influence, they surprisingly have only one web reporter, who always travels with a laptop and cell phone, digital and standard and 360° camera, and a tape recorder. They do post updates by their print writers, who file by midday for the web update. In order to do this, Brannon says they had to overcome a number of union problems and labour conflicts. Brannon is now aiming at getting updates from the International Herald Tribune staff, which is part-owned by the same company.

The site does not hesitate at purchasing content from outside if it is cost-effective and if it promotes additional revenue. The new health section is a good example, with a bigger sponsorship presence and a half commerce / half content slant. Like many other websites, washintonpost.com will be enlarging its screen size, which will give increased space for sponsor promotions and more complete advertiser information. Moving the style section up to a more prominent position will also be good for additional sponsor and ad revenue. "We also have the capacity to adapt our content and advertising according to the time of day, like giving restaurant suggestions for those logging on at midday."

"The main issues that we have to overcome," says Brannon, "are basically the same as other sites: staffing and the need to continually educate and train people, improving the design and navigation, as well as increasing interactivity and download times." In order to make the experience more interactive, she cites the numerous online chats they conduct with well-known figures as well as reader movie reviews for the recent release of Star Wars.

On classifieds

"The definition of what you do has to change," says Tim Ruder, Director of Online Classifieds, who recalled a staff lunch organised by Don Graham, the Publisher of the Washington Post. When asked why the Post company was investing so heavily in online without any immediate hope of return, Graham replied, "classifieds, classifieds, classifieds".

Classifieds are therefore seen as the first revenue segment to be eroded by online, and the Post wants to stay ahead of the game. The company is one of the founders of Classified Ventures, an aggregator of classified content nation-wide.

"We are transferring power to the consumer but we are also empowering our advertisers," says Ruder. He cites the car section as an example, where they are building a browser interface to give more business information to the dealer, rather than just faxing out information like the other services. Their real estate classifieds are also now all on the web site, but they had to enrich the content far beyond what was ever required in the print paper. "We're offering our advertisers new decision support tools

to help them run their businesses better."

In view of the importance of classified traffic, some national real estate agent sites are now asking newspapers to pay for their advertising content. Ruder says this hasn't really impacted the Post because it focuses on more local classifieds, but he says, "I would have no qualms paying if it reduced the costs of gathering the information."

The site has eight dedicated Internet-only classified sales people, with another 22 in print classifieds also selling online packages. Currently, classifieds automatically go online from print, but Ruder says this will probably change to a fee basis, rolling out from either apartments or recruitment.

On commerce

The site also has a rich MarketPlace section, thus developing products that hadn't existed before in print. "The paper wasn't getting the small local merchants," says Carl Wartzack, Manager of Business Ecommerce Services. "With the type of micro billing that we do on the site, we were able to get into that market."

Their Yellow Pages section features 226,000 businesses, with 2,000 of them having bought the web site template. The section was launched by inputting all information and contact details for the local merchants, and then upselling them to higher services and enhanced sites. Merchants can then pay for quarterly updates or run banner promotions across the site.

The site also has a revenue share on actual sales, although this is very low at present. The Books section for example, provides links to booksellers and the Post receives a four to 12% commission on sales, but only when they go directly from the Post's site. "You're not going to build a business on a percentage of a percentage," says Wartzack, "but what you will build is loyalty, and then you can try and take it from there."

For the moment however, all agree that sponsorships and banner advertising bring in more revenue, conceding that you would need to driver very serious volume in order to make money from "a slice of a slice".

The company has been reticent in offering ad rates based on click-through, even though these have proven to be 10% higher in the MarketPlace section. They charge mainly on a fixed price or CPM basis, and prefer to focus on getting more information from their viewers (much like the New York Times), in order to target effectively and maintain a reasonable CPM.

The Post has partnered with a variety of other web companies, such as CitySearch

for the city guide, AOL for a theatre venture and Inktomi for comparison shopping across MarketPlace. In terms of potential Internet competition, " we're more afraid of the two guys in their garage launching a start-up rather than other established media companies" says Ruder.

On promotions

Erin O'Shea, Communications Director, has a relatively high marketing and promotions budget of \$5 million and a staff of seven. They have also been lucky in being part of a large media group, which includes Newsweek and the International Herald Tribune, with whom they conduct barter cross-promotion across their print and online editions. They also have a unique tool for building presence within the local community: a very visible "Internet car" with loud branding which circulates around the city and has proven to increase brand recall and exposure.

Jody Brannon - Managing Editor Online

Tim Ruder – Director Online Classifieds

Carl Wartzack – Manager Business Ecommerce Services

Erin O'Shea Starzynski - Communications Director

USA TODAY

A Snapshot

- Over 100 million daily hits
- One million daily users
- Eight million daily page views
- Male : 64%
- Female : 36%
- Median age : 40
- On the web every day : 44%
- Online 2+ years : 55%
- Go online for news/info : 94%
- Online shopping in the last 6 months : 83%
- Online purchase in the last 6 months : 55%

USA Today launched a digital news version in December 94, with a mission to "deliver personalised news for the digital age". The first goal was to enhance the brand whilst the second - not far behind - was to make money, and indeed it is the first newspaper site in the US to break even. Access to the site was initially on a subscriber basis, although they soon found that the vast majority of people were reluctant to pay for information, a trend that has continued and become even more entrenched.

In April 95, USAToday.com was launched on the web, and nine months later, it had reached an audience of 100,000 online users, at which point it turned to the ad revenue model and abandoned the paid subscription model.

Today, USAtoday.com is the largest online newspaper in the US, with over 100 million daily hits, one million daily users, and eight million daily page views. Its edition contains over 200,000 pages of news content, and it has an enviable staff of 135, 60% of whom are editorial with the rest divided into advertising sales, business development, marketing and technology.

Marketing the news

The online paper prides itself on its wide usership, and compares itself more to the broadcast sites like MSNBC, CNN or ABC, rather than the traditional print papers. The newspaper has traditionally placed emphasis on its strong news brand and user-friendly packaging. Indeed, it was the first major paper in the US to launch itself as a marketing product. The use of colour, shorter articles and more sports news were pioneered by USA Today. The colourful, broadcast medium style of the print product works in their favour and translates well into the web product, with its emphasis on breaking news, ease of use, navigation, and multimedia applications.

The website has the highest use on Nationline (national news), sports, money, news, weather, technology, baseball, opinion and entertainment sections. "Our readers are not looking for the full feast, they're just looking for a bite (as opposed to the typical New York Times reader)", says Larry Sanders, Vice President and General Manager. As proof, he cites a full 70% reader drop-off between the summary of an article and the full story.

Reflecting the general healthy American economy, both circulation and advertising revenue are on the increase at the website. The company quotes total revenue for Jan-June 1999 more than doubled over last year's period. A rarity: year-to-date results have yielded a profit, the only newspaper visited on this tour to proudly claim that achievement.

Tellingly however, ad sales for the period were 82% ahead, while ad revenue was only 53% ahead, showing a drop in CPM due to the increased inventory of ad space on the web.

Beyond the banner

The company is aware of this, and has focused its ad strategy on 'beyond the banner' sales. Electronic commerce and exclusive sponsorship deals are its main weapons in the battle for revenue. In the second quarter of 1999, e-commerce deals in fact exceeded ad revenue, and almost quadrupled from the same period in 1998. It also plans to start selling 'column D' on the far right of large computer screens, which will give valuable real estate to potential sponsors.

E-commerce sponsorship deals are seldom less than one million dollars, involve a long-term negotiation and transaction contract. The company earns between five and 25% commission and has formed 35 alliances. "A single exclusive deal is far more lucrative than many individual advertisers. We get their content and they get our traffic," says Jim Schulte, Vice-President and Editor. Revenue is divided between 60-80% ad space, and 20-40% commission basis.

Interestingly, the print paper does not carry classifieds, due to its national coverage. The electronic version is therefore free to use either aggregated sites from other newspapers or the major national sites such as monster.com, and doesn't have to worry about defending classified revenue. Overall, they are not very optimistic about the classifieds business for newspapers: "You can do all the aggregators that you want, but monster.com is where people are going" says Sanders. However, there may be a more positive outlook in smaller, local markets which are not well served by the national sites.

Editorial vs. business decisions

The company is not ashamed to proclaim that blurring the editorial line is a key to its success. Its exclusive partnerships with companies such as barnesandnoble.com and financial services can cross the line of what more traditional newspapers define as editorial integrity. "We are in the business of selling solutions to our advertisers and working with them to help them reach their goals", says Sanders.

In a view to increase its circulation, USA Today has also entered distribution agreements with Hewlett-Packard, iVillage, women.com, Palm pilot, and others. The HP agreement involves automatically sending out free news summaries to HP customers with specially configured printers; the customer registers first, thus giving this valuable information to the newspaper which can then use it for targeted advertising. "News has become a commodity today, nobody expects to pay for it, but you have to figure out how you can make money from it".

Similar deals involve personalised investment emails and Daily Briefing, a general news push-technology email. It also uses its Marketplace Weekly email, which features e-commerce promotions from partner merchants, to augment its database and penetrate further into the home market.

The site is against the registration model, saying it limits usage. Sanders says there are "200 other sites out there are offering the same thing for free and with no registration...information has become a commodity." Other ways it tries to obtain information on its users is through push technology features mentioned above, surveys and sweepstakes, as well as its community sections which encourage "stickiness". Sander's advice to smaller papers is to "focus on your region...we're too national, you know your readers and their needs, you're best equipped to serve them."

Future challenges

And the challenges for the near future? First is increased circulation, with the goal of rivalling Yahoo-type daily traffic, which at present represents monthly traffic for USA Today. Marketing and brand positioning are also key: "We have to educate our

audience that we're not just a newspaper online", says Sanders. "We want to be viewed as the breaking news site, always current, always updated." Schulte adds, "whoever would have thought that a newspaper would have to compete with a search engine? And yet it does."

Adding broadband is another objective, "because words are only part of the story". A telling example is the breakdown of the two million page views for the Littleton massacre:

- photo album 952,000
- interactive graphic 293,000
- video and audio 69,000
- message board 10,000
- word elements 652,000, however only 123,000 went to full stories

The company intends to partner with other broadband companies in order to reduce their costs in this domain.

Technology is also vital, with constant innovation required in order to be a step ahead. Another thorny issue is recruitment and retention, which both Sanders and Schulte emphasised as being one of their biggest money and brain drains. Most of their good quality staff leave the newspaper industry to join Internet start-ups with promises of stock options and far higher salaries than the newspaper could possibly pay them. They say being "nice" to people and striving for a friendly work environment are a couple of the ways they try to retain staff without impacting the bottom line.

Larry Sanders – Vice President and General Manager
Jim Schulte – Vice President and Editor

CHICAGO TRIBUNE

A Snapshot

Usage - page views	May 1999	2,074,615
	June 1999	1,847,862
	July 1999	2,348,704
Male	64 %	
Female	36%	
Ages	18 - 34	34%
	35 - 44	26%
	45 - 54	27%
Circulation of paper 675K daily, 1 million on Sunday		
700 journalists		

The broadband newsroom

The Tribune Company is a media conglomerate that owns 17 television stations, four radio stations, four newspapers, CLTV, the Chicago Cubs baseball team, 25% of the Warner Brothers television network and a small but lucrative piece of America Online. And no union.

The Chicago Tribune, the nation's seventh largest paper, is lucky to be owned by a company with interests in newspaper, TV, cable, radio, Internet. This rare power pre-dates federal regulation restricting ownership. In today's market, "Darwin rules", and the company is reaping the rewards of its diversity.

Howard Tyner, Editor of the paper, says "We are trying to build the broadband newsroom. We want to create the newsroom of the future, where everyone is thinking beyond simply the paper." The company's presentation focused on the editorial advantages of such a broad base, which then translate into a very attractive, rich web site for both users and advertisers.

A tour of the paper showcased the state of the art TV studio in the middle of the paper newsroom, where regular news shows are taped, framed by the unmistakable Chicago Tribune big brass logo in the background and Tyner's glassed-in office. Branding around the paper newsroom is key. The super high-tech control system for the cameras can also be controlled by other locations, such as an affiliate station in another city.

There are many examples of cross-promotion between the different media, from cooking shows to weather programmes to news scoops. "However, the newspaper must remain strong, it can't be pulled by all sides," says Tyner. With this in mind, the traffic department has three people just managing the reporters' time schedules. For example, a reporter arriving in the morning knows where he will be placed for the day, whether it starts off with updating the web site or taping a radio interview. This time "budget" is on an intranet - everyone coming in can see who's doing what, so an editor for television can ask for the print journalist to try and get a video feed.

Editorial focus

Reporters get paid extra only if they exceed regular work time, otherwise their online work is just considered an electronic version of their paper work. "The only way it will work is if people want to do it, and don't feel forced into it. Then you can reward those who show initiative," according to Owen Youngman, Director of Interactive Media. "This is just like the good old days when the paper had many different editions, except that now the news just goes online before print." However, the paper's management says it is not striving for a reporter with a saucer on his head - "that's ridiculous" says Tyner. They have been pleased to find that many people of all ages are eager to develop new skills, although they won't necessarily get rid of a good reporter simply because he's not very good at broadcast.

The company is not restricted to its own subsidiaries, and its openness in forging partnerships with other stations not owned by the Tribune Co. in different markets is proof of its "bigger picture" mentality. In this vein, it has established partnerships with other television stations in order to ensure its coverage is top notch.

The company's strength means that it is regularly scooping the network affiliate station, who just read the newspaper in the morning to assign stories. On the other hand, the Tribune television station not only gets everything in real time but it sees the stories from the day before, when the paper is shut down for printing. Basically, "we want people to think - you want content? then go to the Tribune" says Youngman. "We're equipped to handle the Internet and whatever comes next."

The company has gone through some trial and error. They tried to develop home use for community news at night, but they found that people just weren't interested in logging on to read that sort of content in the evenings. Likewise, the multimedia aspect had to be agreed upon by all subsidiaries involved because, even though they are owned by the same company, all partners have to see the benefits and usefulness for themselves first.

The company structure is indeed unique and on the cutting edge. However, "we're not trying to compete with CNN," says Youngman, "we just want to be CNN for Chicago." Local news is therefore key: a recent outdoor art exhibition of cow statues interspersed throughout the city turned out to be a "huge thing" on the website

which generated a lot of reader activity.

Tyner agrees: "We've been thinking broadband since Day 1... I prefer to work for a company that's ready to lose a bunch of money rather than just work on the paper business only".

The right business decisions

The company recently set up a separate subsidiary, concentrating on its interactive investments. Some analysts say they may spin it off as a separate company on the stock market to take advantage of the recent boom in online stock trading. It certainly has made some very astute decisions, starting with its initial purchase of AOL stock when the company was founded, and resulting in explosive growth since then.

In terms of other revenue, classifieds are a key revenue generator, and are managed jointly by the print and online staff. The paper launched a very popular high tech recruitment section in February 1995, and it has enjoyed enormous growth due to the healthy US economy and low employment rate. Not content with this, they are looking to get into all other pieces of the recruitment market, including job fairs and other services to passive seekers.

The Tribune thinks that ultimately the biggest database will win, so it bundles its ads with the other national aggregators. About 43% of classifieds on the site are online only, while the rest are bundled with print. There is no visible shift from the print paper for the moment, although the company thinks this will inevitably come over time.

Real estate advertisers apparently resisted initially, but have since come around to the website. Even if they are not a big profit maker for the online edition, the company considers them necessary in order to keep the print business going.

Online revenue is principally divided into the following segments:

- **classified** (additional fee from print, sales to agencies)
- **display** i.e. major national accounts based on CPM, or local accounts based on mainly flat rates. "Ultimately, local advertisers will stick with us more than the national ones" says Youngman, "so we're focussing on providing better value to them."
- **sponsorship**, mainly image advertising
- **transaction**
- **archives** (from previous day sold for \$1.95), including a \$17 million project aimed at genealogy research

- **merchandising with branding** e.g. Chicago Cubs
- **business-to-business** e.g. setting up intranets, catalogues, menus
- **distribution payments** e.g. AOL
- **consulting revenue**
- **consumer subscription projects** for specific sections

Youngman, who proudly claims to have personally been online as early as 1983, is still bullish on the newspaper product. "I remember when television was launched, everyone said it would do away with papers," he says. The big difference he says today is the time factor: "When we launched the Food section in the paper, we had 14 months; on the Internet, we have 14 days!"

Owen Youngman - Tribune Director of Interactive Media
Howard Tyner - Paper Editor, Vice-President
Tom Garritano - Tribune Regional Programming

CONNECTIONS CONFERENCE & EXPO

“Print & Online – The Power of the Package”, was the theme of this year’s Connections conference, the annual online publishing conference of the NAA. This report covers the Money segments of the conference.

NAA – The US newspaper market and e-commerce

Director of New Media Business Development for the NAA, Melinda Gipson exhorted newspaper executives to wake up and smell the proverbial coffee in her presentation, “Where do you want to SHOP today – An e-commerce call to action”.

The Internet changes the balance of power in retailing. “Value-added packages have power, because the web serves as the distribution medium direct to the consumer, bypassing print and online newspapers as carriers. She reiterated Jupiter’s point that most web buyers are value conscious consumers. This was illustrated in NAA figures showing that valuable pre-print ad expenditure was decreasing, in favour of the Internet. “How long before the word ‘newspaper’ disappears from the term ‘newspaper insert’”? A worrisome trend, especially for all-important Sunday editions which come replete with ad inserts.

“The good news is that most shoppers on the Net still visit multiple sites looking for a deal,” says Gipson. “You could be one of them.”

She summarises the call to action in four steps:

Step 1 – Brand building _____

Online retailing still involves brand building. Build yours and theirs. The newspapers that can demonstrate the strongest relational ties to targeted audience segments stand to profit the most. It will require resources to drive traffic to your online mall.

Step 2 – Customer Service _____

Develop actions and programmes to increase your advertisers’ loyalty. Position yourself as their business partner.

Step 3 – Create Shopping Guides _____

Gipson cites *usatoday.com*’s Best Buys as an example of an affiliate-driven guide. Robust city guides are lynchpins in attracting good partners. Develop sponsorships.

Step 4 – Build Stores

Commerce-enable your merchants via software or service deals that you can offer in bulk.

In an economy with increasing retail consolidation and e-tailing, Gipson says that newspapers are in a good position to help their local retailers by educating them about this imminent threat, and assisting them in responding with local e-commerce solutions. Personalisation, merchandising, couponing and tracking are services that should be offered by all newspaper e-commerce sites.

“If you can’t beat’em, join’em” seems the approach to take. Gipson recommends that newspapers put their pre-prints online before the competition does in order to retain that market. She also warns to get ready for the advertising vs. content integrity discussion, which will become increasingly blurred.

Classifieds and Auctions

The Classifieds segment was moderated by Kevin McCourt, Director of Real Estate and Classified Advertising for the NAA. Invited speakers were Tracy Joseph, Product Development Manager for the Orange County Register in California; Tim Rudder, Director of online Marketplace at washingtonpost.com, which includes the award-winning Career Post employment service; and Gracy Johnston, New Media Director of the Rutland Herald and Times Argus website.

Johnston, whose clothing was enhanced by stuffed beanie babies given out to courageous participants, spoke broadly about her online enthusiasm. Like many publishers, hers was sceptical about “this Internet stuff” a few years ago, and a task force was created to deal with the issue. The task force formulated a vision statement, which led to the creation of vermonttoday.com and its staff of one for the first year and a half. Very quickly, the site partnered with Ininet to manage the technical side and started putting all of its print classifieds online. Unique visitors have grown from about 100 per week (mainly Johnston herself, she quips) to over 4,000 per month today. The site doesn’t charge a premium for online classifieds at the moment, but Johnston is confident she will be “winning that battle” soon, noting that not charging for something can actually diminish its perceived value.

At washingtonpost.com, the very first item online was the recruitment classifieds, because they were convinced that classifieds were made for the web. “It’s a question of empowering both the consumer and the merchant... and building decision support tools,” says Rudder. He notes that online classifieds are actually developing into something very different from the traditional newspaper definition of short, abbreviated items. This no longer represents the richness and interactivity of classified

advertising that you can get on the web today. On the automotive side for example, his site works with car dealers to manage incoming sales leads both from washingtonpost.com and its competitors. "We're coming to realise that classifieds is no longer what this business is about. It really is about recruitment, about selling cars and homes, and it's much much broader than just advertising."

This experience is similar at the ocregister.com, where the site actually provides training and computer monitors to real estate agents and car dealers to update their own inventory. "We didn't want to take this responsibility from them", says Joseph. The site was launched three years ago with five staff. It first focussed on putting all of its classifieds online, then looked at each vertical category and finally concentrated on making the whole experience as interactive as possible. "We now have over 13,000 listings online that are completely searchable", says Joseph, " and 15 staff on the business side, 12 in the online newsroom."

To illustrate his point about the changing market, Rudder spoke about monster.com's new launch of Talent Auction, designed for free agents who sell their services to the highest bidder. "Whether it works or not is irrelevant," he says, "what's interesting is how different this is from traditional recruitment advertising." He contends that the most valuable asset in a high-employment market like the US is building a resume database. This means developing relationships with people long before they are on the job market, reaching into the high school level, organising job fairs, internships etc. (The Washington Post recently bought out Kaplan Services, an educational and job fair company.)

Micro-billings were the key revenue source for most of these sites. Up-selling from basic - and often free - services is essential in instilling the full value and potential of online classifieds to advertisers. "You go from one peanut... to owning the entire peanut factory", according to Johnston.

Advertising Sales Strategies

Advertising is the main bread and butter of the online world at the moment, which made for a lively discussion during the ad segment, moderated by Charles Smith, Chief Marketing Officer of Real Media.

Donna Rice Sales Director of boston.com whose site is the online subsidiary of the Boston Globe, gave a number of examples of packaged ad buys between the print and online product. Last year, they put together a package campaign for American Airlines, a previously non-existent advertiser on the web site. An online contest for free tickets was advertised in the paper, leading to over 4,500 entries in the first week and a total of over 10,000 by the end of the campaign. The site then gave these email entries to American Airlines, thus helping them build a valuable database of

clients. Another travel company increased their ad spend in the print product as a result of a package campaign. Dunkin Donuts, also don't normally advertise in the Globe but through an online campaign, the company gained them as a client: "If you're not able to get them in print, at least you can get them online."

Rice summarised key elements of a good online advertising strategy: always keep in mind the best return on investment for your client; use multiple online elements and ad models; integrate with other media; and always be prepared to customise packages. Rice says only about 20% of their online campaigns are straight off the rate card, and that's for the smaller local retail segment.

"Consistency counts," says Peter Conti, General Manager of richmond.com. "You have to be in for the long haul." He argues for a merger of brand and relationship marketing, and says that just building a site and putting it on a search engine just isn't enough anymore. "The paradox of the web is that now you can sell to everyone, but nobody can find you", so you have to find ways to get known. Email is a 'killer app', because it builds a partnership between the user and the site. Conti is against click-through rates and urges newspapers not to accept that client pressure. However, he says the more you want users' information, the more you have to give up, and cites the example of a free t-shirt giveaway in return for personal information.

Staffing issues were a big concern for the newspaper executives present. Richmond.com for example pays its online ad reps higher than the print because they usually have to deal with a learning curve for the first six months, they provide much more help and advice to their clients, and they are also required to be both technically savvy and have sales experience. "We're looking for an entrepreneurial spirit, so we have to be prepared to reward someone along those lines."

Conti also advises ad sales people not to bring their laptop for a demonstration, or at least not on the first appointment. "What happens is you turn the computer on, and everyone looks at the screen. Nobody's looking at you."

Regarding the use of rich media, both sites agreed that the most important concern should always be the user experience. "We do a lot of testing for rich media ads, and only when we're sure that they won't slow down the site do we put them on," says Rice.