

Executive summary

2006 was for many of the world's newspapers a turning point. Web revenues continued to increase, while print revenues and circulation suffered gradual declines in much of the developed world. More significantly, many companies are reporting substantial increases in the profitability of their online operations, which still account for a small proportion of total revenue. Online revenue is clearly on its way to becoming a strong contributor to the bottom line.

The annual World Association of Newspapers digital revenue benchmarking survey found that few Internet operations make more than 10 percent of a newspaper company's revenue, and outside the US and Scandinavia, the amount is usually nearer 5 percent or less. WAN teamed with U.S.-based Borrell Associates on this year's survey, which is much expanded beyond WAN's classified revenue survey conducted each year between 2004 and 2006.

2006 was a turning point for other reasons as well. Several survey participants told us that this was the year in which they finalized their

going-forward strategies. Most of these strategies revolved around a separate and autonomous digital division, but with better and more constructive relationships with the print business. However, and this is perhaps the most important point to emerge from the survey, newspapers are now responding to the biggest threat of all. While online threatens print, the Internet pure-plays like Google and Yahoo! threaten local newspaper online advertising to an alarming degree.

According to recent research by Borrell Associates, Internet pure play revenue-making grew from a 15.3 percent share of the local online market in 2004, to 37.9 percent in 2006 in the United States and Canada. Over that period, newspapers saw their share fall from 44.1 percent to 35.8 percent. This was easily overlooked because in cash terms, most newspapers were enjoying more than 100 percent revenue growth from online, but as that growth was frequently at the expense of print, there was clearly a problem.

Fortunately, the industry is responding. Several participants reported that while they continue

to develop online opportunities to support their print brands, they are also creating online platforms that chase advertising revenues that have nothing to do with the newspapers. Often these have newspapers collaborating with each other. Aspects of this are detailed by Martha Stone later in this report, in an article of national classified advertising networks. Others are more local, or built around specific classified verticals such as real estate, cars and recruitment. The important point, though, is that increasingly online activities owned by newspapers are breaking out of the earlier constraints of being associated with newspapers, and are inventing and reinventing themselves as something closer to the pure-play.

One casualty of this phenomenon might be a sense of uncertainty over market share. In a print environment this is easily calculated. With online, it becomes harder because it begs the obvious but not easily-answered question – who is my competitor? In analysing the survey data, it became clear that the numbers literally didn't add up! Some participants said that there was a high level of guesswork in the calculation, while others explained that so much depended on how the market is defined. In many cases, the guesswork may be suspect. However, we can say with a fairly high level of certainty that the UK online recruitment classifieds market in 2006 was probably in the range of £150 million to £180 million based on quite high correlation between several of the responses from the largest online operations.

On the numbers, some important data:

- In the US, online revenue now accounts for an average of 5.5 percent of newspaper ad revenue and is on track to hit 10 percent by 2008/2009.
- In Canada, the average is about 3 percent for metro dailies, but only half that for community papers.
- In the UK, the most successful online operations – owned for the most part by mid-circulation “quality” national groups - are reporting that 10 percent to 12 percent of their ad revenue is now coming from online, while regional papers (even those part of large companies) and lower-circulation nationals are mostly tracking around 5 percent.
- In other countries the patterns are less clear, except for one trend that seems universal, that

the highest ratio of online to print advertising is found by higher circulation papers with the least competition.

- There are some major success stories out there – Trinity Mirror more than doubled its online revenues, and the operating profit margin hit 32 percent; Fairfax in Australia now gets 9 percent of its revenue from online, and online EBITDA was 60 percent in fiscal 2006, accounting for 13.7 percent of group profits

- On average, classifieds account for more than 75 percent of online ad revenues in the U.S. and Canada, but the patterns are different in countries such as the UK that have a large number of national newspapers (higher proportion of national) and also for groups that own mostly community papers (mostly classifieds)

- Recruitment remains the dominant online classifieds vertical

These are not isolated results. Newspaper operating profits have mostly been falling since 2007 and in the U.S., for example, are hovering around 23 percent. But mature online operations are generating 40 percent and higher, suggesting that once critical mass of business has been achieved, online ad revenues translate to profit at a much higher rate than print ad revenues. Of course, the over-arching questions are the extent to which those online revenues are replacing lost print revenues, and how this will play out over the next few years. The survey did not establish any clear answers to these questions, but a review of financial statements filed by some of the largest newspaper groups suggests that they probably don't. If that holds true, then investment in expanding online and capitalizing on that much higher rate of revenue to profit will be key to the industry's future.

The survey asked several questions designed to determine the significance of:

- Paid search (all over the map, from “negligible” to over 30 percent)
- Gross revenue from upsells (also all over the map, from very low to extremely high in the case of smaller community/regional papers whose online strategy was basically built on print/online bundling)
- Mobile/PDA revenue (generally, not much though some respondents identified this as a key growth area)

There were also questions to elicit some horizon watching predictions. Probably the most important was “What do you think will be the most significant developments for online advertising in the next 12 to 24 months?” Some interesting observations and perhaps a general trend were:

- More demand for multimedia ad platforms
- More locally focused advertising solutions
- More competition
- Rapid product development
- Fragmentation of the industry
- Faster move to multi-channel, namely mobile, video, print and online packaging, and other offerings
- Google’s move into display and classified markets

Another key question was “What do you see as the impact on print of the growth in digital media and online advertising?” and replies included:

- Significant impact on key verticals
- Long-term pressure on print, especially classifieds
- Symbiosis between all platforms, with the larger printed product driving traffic to online and mobile properties...demonstrable spikes in our digital media whenever we use the considerable might of the paper
- Classified recruitment ads will continue to drop from print...must develop a very good recruitment website to sell both print and online bundles to sustain revenue
- Need to put more resources in product development, marketing and selling print but combined with online solutions
- Selling and marketing must be based on total reach and not only print reach as it still is in many cases.