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HARD COPY NEWS MEDIA DIGITALIZATION

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CHAPTER 1. ABSTRACTS

Section 1. General Introduction to Media Digitalization

This thesis work is dedicated to describing and analyzing the process of transition of Newspapers from Print Media into Digital Media focusing on the models they use for revenue generation. This process or transition has a close connection with many other factors in their development as well, like legislation, technical and technology development, changes in consumption behavior, social and cultural changes. Since they are very important for a clear understanding of the topic of this thesis, they also will be examined. This transition and the change in the distribution channel forces print publications to develop a basically different approach to the problem of revenue generation. Even the top leaders of the news world admit that it is quite possible to launch a web-based organ with well-executed content and drag a mass of readers there, but still find it a challenge to make money out of it¹. Thus, a central problem of the whole process of digitalization of hard copy news media is the development of the business model or monetization scheme that could allow newspapers to have enough funds to compensate for the falling sales of print newspapers and their ads, as well as provide the company with a decent return. Further, in this thesis I will explore how the digitalized publications are solving their revenue generation problems in practice, and what kind of model or theories for monetization they have implemented so far. In general they are as follows:

- Subscription formats
- Advertising
- These two combined

Although there some other revenue sources, like providing “digital” consulting services and coupon offerings, these models have become basic for nearly all online newspapers² and similar online publications.

Meanwhile, from the standpoint of the historian and the sociologist, this transition of newspapers from a hard copy news vehicle to a digital form of distribution can also serve as a clear illustration of the epochal shift of human society from Industrial Society to Information Society³. In other words, the industrial society in which humankind gained the capability to produce all kinds of products in large scale and uniformly manufactured quality and which impacted all spheres of people’s life – culture, politics, economy, social life and other, is yielding to a new digital reality where the mass collecting, processing, production, storage and distribution of the information becomes a key driving power of the society and as a result exerts a huge influence on every aspect of human life – culture, politics, economy, social life and other.

Section 2. Historical Outlook

But, first of all let's make a brief excursion to history of the information and the means for making or fixing it and storing and distributing it, and how it is connected with human development. It is better to look at this process by putting it on timeline – from the past to the present. The history will be very useful for painting a full picture of this milestone event.

From the very beginning of the existence of humankind approximately 2 million years ago, people were trying to develop a technique, device or solution to make it possible to share ideas and information with others. Thus, it was necessary to develop the ability to speak language, which began about 50.000 years ago. It is believed that one of the main factors for that was to establish relationship with opposite gender⁴. It gave people an opportunity to share information that was helping in better socialization, establishing closer relationships, carrying out coordinated actions and other functions. The flow of ideas accelerated the overall development of humankind, and though it was a primitive language with which one could express only a limited number of ideas, it become something that irrevocably separated humans from other living things and truly become a milestone in formation of what we know as Homo Sapiens – conscious Man.

On its way to the invention of writing, human kind made its first attempts to deliver an idea to other people via a physical medium by making cave paintings that emerged 30.000 years ago. These paintings presumably were done to help inform inhabitants of the cave about the hunting opportunities in that place, and even today they are delivering us a message and serve as one of the main sources for

studying our ancient ancestors from the Stone Age period of human history. The further development of agriculture and food supply brought growth of population and density, and as a result an increase in the complexity of social relationships. These factors gave birth to the ancient cities and religions or beliefs. All of these changes created a big flow of information. But the imperfectness of the human memory for retrieving some facts and data, and the emergence of the need for non-personal and non-oral information distribution, pushed people, and first of all merchants and clerics, to somehow fix all of the important information, and thus there appeared the first script – a Sumerian clay script or cuneiform⁵. After the development of language and the invention cave paintings, a writing system is another great milestone in information distribution that we still use. Here it is necessary to mention that, as with any other milestone invention, the invention or introduction of writing also has vice-versa effect, where the development of society leads to script development, as well as the introduction of script that developed by others, respectively leads to a society's development as well.

The nineteenth and the first half of the twentieth centuries are memorable for their great science and technology revolution. At this stage the development of information transmission was focused on increasing the speed of the delivered information, such as via radio and TV.

The last years of the 20th century and especially the early years of our new current century have been characterized by the dazzling growth and spread of information technologies (IT), digitalization and the internet. This includes a breakthrough in collecting, proceeding, storing and

further transferring the information in digital format. The incremental growth of the science and technologies allowed doing the above mentioned processes at continually increasing scale and speed. And this process is still continuing. These achievements opened a huge horizon of opportunities for carrying out the operations for text, pictures, video, audio, and software.. The continuous invention of new devices for making this process cheaper and more user-friendly has helped boost their popularity.

One of the pioneers and brightest examples of digitalization is the process of digitalizing hard copy news media, like newspapers and magazines that before the internet had been available exclusively in paper versions. Considerable amounts of Hard Copy News Media (HCNM), displayed flexibility and contemporaneity by creating their digital or internet-based versions at the very moment when the level of development of technologies opened new opportunities to provide their readers with their content in a more easily accessed and convenient manner.

All of human history has been characterized by invention or introduction of new means for carrying out operations over information – creating, storing and distribution at incrementally greater scale and efficiency. Hence, it was predictable that one of the main carriers of information – newspapers - responding to the information era's requirement for being capable to deal with great amounts of information, would try to overcome the bottle neck of handling this information torrent.

There are lots of examples of successful digitalization, like *The New York Times* or *The Economist*, that later on will be more carefully elaborated. However, it has become a real challenge for

a number of newspapers to digitalize and not all HCNM could carry out this transition smoothly, like *The Chicago Tribune*⁶ and *The Philadelphia Daily News*⁷ which faced bankruptcy. It shook out the industry not only of publishers, but also of many individual journalists who failed to adapt to the new formats available for presenting the news.

Due to the fact of the emergence of the internet in general and digital newspapers in particular some basic changes in the news industry were brought about. These included changes in the method of collecting, storing, proceeding, and distributing news and receiving feedback, alteration of consumers' reading habits, and in fact the establishment of brand new news services that made prior ones obsolete. Digitalization of newspapers is a brilliant example of disruptive innovation after which an old industry will never be the same again.

In this work, I would like to explore the process of digitalization of Hard Copy News Media (HCNM) to study the factors that influence them and find the common rules and methods that they have tried to implement. The core focus will be given to finding successful monetization methods or business models. Taking into consideration above mentioned, and the fact that there are around 346,004,403⁸ web_sites on the internet and very tense competition for the attention of the visitors, especially among news media web-sites, the goal is to come up with applicable and useful recommendations and suggestions for both HCNM that are on a threshold of digitalization and for those who have already gone digital with particular attention to revenue generation.

The method of study, along with studying the theoretical materials regarding digitalization, is based on studying the cases of several newspapers that went digital, and explore the way they have done it, with particular focus on monetization. All of the cases, *The New York Times*, *The Jerusalem Post* and *The Economist*, represent three major types of generating revenue – ad based, semi-subscription based and subscription based, that later on will be elaborated more carefully.

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CHAPTER 2. DEFINITION AND BACKGROUND OF DIGITAL

MEDIA

Section 1. Definition of Digital Media

According to the Oxford English Dictionary *media* are the main means of mass communication, especially newspapers, radio, and television, regarded collectively, as well as the reporters, journalists, etc., working for such organizations and engaged in such communication¹. In a wider sense, media refers to any facility or means as well as person or group of people who intentionally collect and disseminate information. Whenever media carry out the process of collecting, storage, processing and distributing the information in a digital format, as opposed to paper, analog and others, it is regarded as *digital media*. Although, the term digital media in wider sense also includes any kinds of audio and video and above mentioned operations over them as well, in this work it is used in the sense of news media.

At this point it is also necessary to mention New Media, that chiefly incorporates digital media. New Media includes all the techniques and technologies and solutions, both hardware and software, for collecting, storage, processing and distributing any kind of data and materials in a digital form, as opposed to analogue².

Section 2. Digital Media History

Started in 1991, the *Weekend City Press Review* is the first online newspaper³. Although *News Report*, an online newspaper created by Bruce Parrello in 1974 on the PLATO System at the University of Illinois, predates the *Weekend City Press Review* it is considered an exception because it was not for the public. The pioneer of web journalism, however, is considered to be the online edition of *The News and Observer* (1994)⁴. Of course the publishing firms were not resistant to the new technologies and solutions and had been establishing their internet presence just like any other company. In the early 1990s digital media or digitalized newspapers were looking like brief and limited versions of their print newspapers. They were only a mirror for their hard copies, but most of them contained only part of the hard copy's content, excluding the ads. In other words, they were just web-sites that were generally speaking about the newspaper and brief about its articles, as if they were just another company making its presence known on internet by following a trend without any internet strategy to speak of. This was because the newspapers considered their hard copy versions as primary, and web-versions as secondary. This was due to different reasons ranging from the number of readers to the way they traditionally generated revenue. However, with wider penetration of the internet and the growing popularity of internet-based newspapers and continued growth of their importance for readers, a major change in habits and customer behavior, newspapers had to think about digitalization and internet-based versions of their organs very seriously. The further development of publishers' capabilities in digital news also made them more open to becoming more "digital". Then, it changed

from being a fashionable trend to a practical need. And in the early 2000s there happened an epochal change in not only the way of distribution of the content but in the way of thinking, when the era of so called "web-first" or "web-centric" approach to organizing their activity began.

Section 3. “Web-First” Politics

This "web-centric" approach means that reporters and editors should first think about reporting and producing text and multimedia stories for the web, and only then writing a text story for adapting them their print editions⁵. In a web-first approach, any news appears on the online newspapers pages soon after they take place. In fact, the technologies are allowing us to follow events on almost a real-time basis, just like in TV live reports. The main focus here is on reporting breaking news stories and getting those stories on the web as fast as possible, on a 24/7 news cycle. Even if the newspapers and magazines have names like *Newsweek* or *The Sunday Times*, it does not mean that they can allow themselves to publish news on internet only once a day, let alone once a week. They must be prompt and should put the news on their page as soon as possible.

Most of the specialists from the world of high-technology, the media industry and others, are predicting that all sectors of the media industry or digital media industry will eventually converge into one single medium – there will appear a brand new medium that will contain all the characteristics of TV, radio and newspapers combined⁶.

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CHAPTER 3. HARDWARE AND SOFTWARE: WEBSITES, SUBSCRIPTIONS, APPS, ONLINE PAYMENTS, RSS, AUDIO AND VIDEO, E-PAPER AND OTHERS

Section 1. Introduction to IT

Before speaking about the how Hard Copy News Media (HCNM) become internet based, it is necessary to review what kind of hardware and software solutions we have at the moment, and it is also important to keep in mind that IT is persistently developing and changing, so the solutions that we use might soon be altered to better ones. Here we are examining these solutions from the standpoint of readers and focuses on features that are used by readers and serve to satisfy their needs.

Section 2. Hardware:

Desktops – Computers that gives access to the internet and as a result allow downloading, storing, proceeding, uploading, sharing, and giving feed-back. They are not very mobile and mostly use the wired internet.

Laptops – In addition to all properties of Desktops and having almost the same capacities, these kinds of computers are also mobile, lightweight, and having batteries can work without plugging into an electric wall outlet. Laptop users use both wired and wireless internet access.

Netbooks – Along with the failed project of NetBox, the Netbook is the only device that was developed

especially for internet surfing purpose. These kinds of devices in fact are miniaturized forms of laptops – smaller and lighter, they also have more modest capacity. They were primarily designed for using wireless internet access.

Tablets – The Tablet has a shape of the screen of the Laptop and has a touch-sensitive display, but is not burdened with a heavy “main body”. These kinds of devices emerged just recently and the reason for their popularity is their very lightness and compact design that still allows one to use it almost the same way as a traditional computer.

Mobile Phones and Smartphones – This is a family of mobile phones with internet access (only wireless) and furnished with a display. The properties of phones vary depending on the manufacturer, but all model give fewer opportunities for readers than any computer does, mainly due to small size of the display and more limited technical capacities. Meanwhile it has got one indisputable advantage – miniature size.

E-Paper – E-paper is a display technology that is designed to mimic the appearance of ordinary ink on paper. Unlike conventional backlit flat panel displays, electronic paper displays reflect light like ordinary paper¹. Depending on the model the content can be downloaded using wireless (3-G, Wi-Fi) and wired technologies. The rolling type of E-Paper is expected to be the main format by 2015². The main advantage of this device is its cheap cost and durability, and its basic disadvantage is its limited usage opportunity.

Internet TV – There are more and more companies that offer programming through internet TV programs and shows, including drama, movies, news and other content that hitherto has been primarily seen on traditional TV sets. Besides that, they are also capable of being used like any other computer screen for browsing the internet and retrieve any web-site. Physically it might be a separate device that can interact with a user’s remote control and contains a modem that is furnished with a hard drive for recording and playing any media content, or it can be installed inside of a TV sets as well. It is expected that the products and services that are seen or noticed on the watched content – program, movie, show, etc., will trigger sales of them among the audience playing. This way they are becoming an impulse purchaser without disturbing themselves from watching the Internet TV and going away from the screen².

Section 3. Software:

Web-site – a window or a page that contains text, image, video, audio content and others. It can be retrieved/opened by typing a URL/Address of the web-site on the address-line. The Web-site is a main “yard” for locating all content and tools (links, buttons, bars and others) that can be compared with the paper itself for HCNM.


Apps – Small size applications that are developed to represent the content of a news medium in a certain fashion. The design is user-friendly – easy for orienting and customizing. These apps are

basically distributed for free and used on tablet PCs and smartphones.

Newsletter – Regularly distributed full news or concise news content and links sent by e-mail to subscribed readers.

Subscription – A subscription might be required due to two main reasons:

1. To control the access of readers to the content by requiring either only registration or registration and subscription payment.
2. To create the convenience for the subscribed readers and keep them in-touch by regularly sending them the latest news and updates by e-mail.

RSS – Stands for “Really Simple Syndication” and in its sense is a convenient tool to keep in touch with the latest news without visiting a news-site. Whenever the reader make an RSS (link), he or she will see a short news lines at a fixed place on the browser or web-page, regardless of which web-site the reader is on, the RSS link can be established by pushing the RSS button () on the news site.

Audio and Video – Recently most news Apps and news sites started offering video content either via video window on the web-page or posting a link to retrieve it. The majority of digital news media prefer to physically hold heavy video materials chiefly on the YouTube.com free video sharing service in partnership with it. There are several digital news media that provide radio broadcasting as well.

Archive – Most big and specific-field news sites also store their old materials and make them accessible. These can be either original digital publications or digitized hard copy publications.

Search – All news sites, for the convenience of readers, furnish their web-pages via site-wide, and in most cases internet-wide, search.

Wireless Internet Access – The wireless internet access allows one to join the internet without a direct and wired connection. It considerably raises the mobility of internet user and expands the geography of internet access. There are several kinds of technologies that allow wireless internet access for users of different devices, like Wi-Fi, WiMAX, 3-G, 4-G and others. Although wireless internet technologies have made much progress, they still have less capacity and are more expensive than wired internet access.

Pay wall – A special online sign in system that developed for controlling the access to the news content only those readers that registered and accomplished payment of their subscription fees.

Section 4. The Role of IT for WBNM

The staggering growth of information technologies and sharp fall of the cost of the “renovation” and “maintenance” expenses have greatly simplified and made cheaper having a decent web-site, so that the digitalization is not a question of money anymore. It is also necessary to mention that cheap and simple IT considerably lowered the entrance barrier and cost for newcomers to the online news media industry, and in fact the establishment of news media has never been as cheap as it is now. Now, when everybody has the same technical opportunities, it is all about how creative and

smart one will be to design and furnish their online newspaper for making it really appealing and user-friendly.

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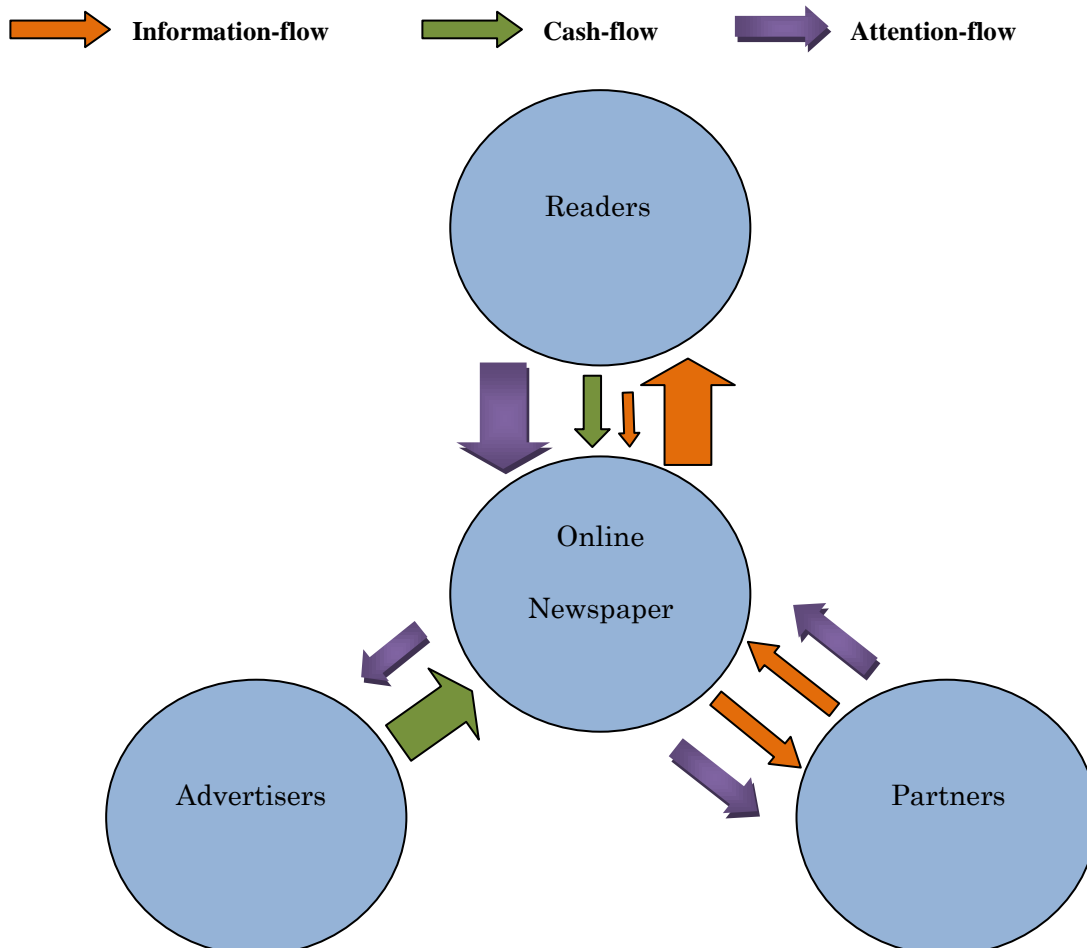
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CHAPTER 4. VALUE CREATING: FRESHER, CHEAPER, FASTER, MORE CONTENT CAPACITY AND OTHER VALUES

Section 1. General Idea of Value Creation

The elaboration of the subject matter – developing an efficient monetization model – requires us to explore all the opportunities that online newspapers can offer to its customers – readers, advertisers and partners. In other words, it is necessary to find out what value Web-based News Media (WBNM) has that could be marketed. All the components of the value chain play important roles in paving the success of an online media resource.

Picture 1. : Online Newspapers Cash-flow, Information-flow and Attention-flow model



The key source of finance or sales has come from selling banner ads to advertisers. In general, the banner sales of the Online Newspapers comprise about 29% of all ad sales on the Internet¹. However, in 2011 traditional advertising declined for the sixth consecutive year².

Before speaking about the problems that faces WBNM and mainly the problem of revenue generation and offering a viable business model to tackle them, it is necessary to look at what Internet-based Media is capable of offering to all of its customers – readers, advertisers and partners - and find out what is valued by them.

Along with the newspaper subscription charge, ads on the pages of Hard Copy News Media (HCNM) were the main revenue source for them. Therefore, it is critical to show the value for advertisers in order to attract their ads and fee income as a result.

The Value for Advertisers:

First of all it is necessary to tell about advertisers and their expectations, what they demand from ads in online newspapers. There are lots of similarities between the expectations of advertisers from print newspapers and online newspapers – they both have the in general same geography of spread and readers' audience. However there are rather more differences than similarities. For one thing, the size of the ads on the online newspaper banner is considerably smaller than banners in the print newspapers, and as a result their perceptibility for readers is less. Another difference is that online newspapers can much more accurately describe their readers – age, gender, profession,

education, location, interests and others. Moreover, online newspapers can optimize the income and effectiveness for advertiser by putting their ads only on the pages or thematic column that are likely to be visited by their target group. Another way online newspapers do it is to put ads on any page if the visitors fit the requirements of target group already established. This is a win-win strategy, because online newspapers can use the same page with the same content and offer the same ad location to different advertisers. Online newspapers also can employ this customized approach on newsletters as well by adding proper ads to them. The more precise promotion leads to another important thing for advertisers – a considerable improvement in the effect of the advertisement. The online advertisement allows advertisers to better understand their customers by monitoring how the product recognition, understanding of the value of the product, sales and especially useful feedback from customers is correlated with the their carefully targeted online advertisements. Furthermore, they can make corrections on their product proposition along the way.

Section 2. The Value for Readers

Nevertheless, I strongly believe that Newspapers' main customer is the reader. And it is true for both online and print newspapers. The priority must be given to the readers, so the strategy should be to tailor the ads to their readers, and not vice versa. The content still can be created especially for promotion of some advertiser or advertisers, but strategically readers must come first. As publishers

satisfy their readers demand for designated types of content, they are likely to gain more revenue from their advertisers and possibly from readers as well.

One of the greatest things that the internet gave to people is the free or extremely cheap access to nearly any kind of content. And the price of the online newspaper is either quite cheap or free of charge. The emergence of the countless number of news sites and abundance of free news on the internet has made people quite price-sensitive about subscription payments. The overwhelming majority of readers visit their favorite online newspapers for free³. Another value of the online newspaper is the opportunity to jump into another web-site at any time, for example, to click some link and read text or watch video or something else. When one is on the internet, he or she can also communicate with other people, open several windows of preferred web-sites, or even do their job. There are no limits for that. And this jumping feature is quite useful for newspaper as well for many reasons: from forwarding visitors to partner sites to linking them to the advertisers' sites. In other words, a reader in fact is offered not only the content of a particular online newspaper, but also all the content of all partners and other relevant links for deeper reading. Another popular way of using it is making a link to a favorite article on one's personal web-page or account on a social network. Besides that readers also have access to whole archives of news and publications. One of the greatest advantages of modern communication technologies is that they are truly connecting parties, not just helping one part to distribute the content to another like TV or Radio, but equally empowering both

parties to interact with the each. And actually it took time until the online newspaper started taking advantage of this opportunity. In many Online Newspapers readers can not only read the news but also leave their own comments and read the comments of other people and possibly get engaged in discussions. On the several kinds of topics that are very important for one issue there may sparkle a truly active comment and discussion series, so that the opinions and information created on the comments might be more valuable for the reader than article itself. Another great value and advantage of online newspapers over printed ones is that, besides providing text and picture content, they also can host video and audio reports as well. Video and audio reports soon are likely to overtake the popularity of text content, and further converge online newspapers into “all inclusive” news media. All online newspapers are constantly updated news media, so that, possibly, they are the freshest news resource we have today.

Section 3. The Value for Partners

The most important thing for the online newspapers is to grab attention⁴. Thus it is critical as the medium values attention over content. Thus, online newspapers are trying to solve this task by affordable means. So, there is another very important party that tends to play the role of both “supplier” and “consumer” – it is another online news media with which it is possible to establish partnership relationships for sharing content and links. Modern communication technologies made it extremely

simple to instantly share huge volumes of information throughout the world, so that there is no need to employ a full news room for all the areas covered in the online newspaper. It is cheaper to outsource all these services and either pay for it or provide them with an equally important volume of news content and analysis. In other words provide with same value for the partners. Currently content or link share partnership is dominating in these partnership deals. Though there are some examples of the sale of each single item or content to other parties, but it accounts for only a small amount of revenue that is negligible for publishers. The marketplace provides one good example of mutually beneficial shared-content partnership – that between *The Wall Street Journal* and *Financial Times* that is likely to set a pattern for more of these kinds of partnerships. Another important value to the partnership is co-promotion of the two and more online newspapers. Chiefly it happens by putting the banners of partner or putting a brief and captive title of partner's content that obviously also tells about whose content is it. This kind of partnership is done for growing the recognition and popularity of the online newspaper.

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CHAPTER 5. CREATING BRAND NEW MEDIA VS. JUST

DIGITALIZED PAPER

Section 1. Creating Brand News Media

The digitalization of traditional print newspapers transfers them and the readers into quite a new space – Cyber Space. It changes not only the distribution method but more importantly the way the reader and newspaper interact with each other; in other words, it changes the interface. From the reader's standpoint there is supposed to be no differences between online and hard copy versions of the newspapers. However, the digitalized versions of newspapers might be very different from their print versions.

Before going digital, the publisher decides what will be the positioning of the digital newspaper: will it cover the same set of subjects or will it be dedicated to writing about other issues. Whenever the publisher decides to keep the style of publication unchanged – I call it Direct Digitalization or Just Digitalization. Meanwhile, there are lots of newspapers that decided to revise their positioning and established online newspaper rather different in content and style from their print publications, and I call that creating a Brand New Online Newspaper. The border between Brand New Online Newspaper and Just Digitalized is sometimes very vague and it is difficult to draw a line between the two. Sometimes the name of the newspaper might stay the same but the style and the content and, most importantly, its readers might be different, which makes it a Brand New Online

Newspaper rather just digitalized.

Section 2. Just Digitalized Paper

During the 1990s when the internet became so popular, the digitalized online newspapers were chiefly just digitalized versions of their hard copy issues. Plenty of publishers had been considering digitalization as a threat to their revenue and were quite reluctant to put full versions of their newspapers on the internet. They were afraid that if it was available on the internet then barely anyone would pay for the paper version. From the standpoint of the newspaper's readers, Direct Digitalization is a very convenient way of digitalization, because it lets them observe a familiar newspaper on screen and they do not feel any confusion – the content and style is the same. However, from the standpoint of the publishers, as was mentioned before, there remains one big challenge – monetization. Although, it was easy to figure out that web-space also can serve for one's ads, it was and it is still quite difficult to earn decent money out of it. In fact, introducing Direct Digitalization while keeping the Hard Copy version of the newspaper has become synonymous with being over-conservative and innovation-challenged. These kinds of newspapers are not good at establishing effective content- or link- sharing partnerships with other publications. Thus, they have less value for advertisers and as a result they mostly run out of money. Those that could stay on the market are niche publications that are very close to their readers and have got their uniqueness that allows them to keep

their readers. But they still mostly represent themselves as print media rather than internet media.

Due to the fact of shift of news reading or watching habits of consumers from print publications to web publications and the increasing number of free and fresh news content available on the internet, newspapers have started to pay more attention to their online publications. And in fact they started considering their internet versions as primary because a majority of their readers moved online. It has pushed flexible publishers to start taking more advantage of the existing hardware and software solutions available on the market in order to make their service and web-site more user-friendly and convenient. In fact they are going directly to convergence with other media, like TV and radio. The good thing is that they can manage to cut the cost and make an effective partnership network that grows their value for readers, and therefore for advertisers as well. So as a result, today the market for mass-consumption online newspapers comprises chiefly those news media that have a different team or editors and policy for internet and print publications. Although there are many of those who have integrated the print and internet versions' newsrooms and it is incremental, it necessary to say that the internet version is majorly considered as premier¹. The difference between a Brand New Online Newspaper and a Just Digitalized one is sometimes difficult to discern. The name of the newspaper might stay the same but the style and the content and - most importantly – the readership might be different, and it will be Brand New Online Newspaper rather than Just Digitalized. Thus, the conducted analyze of the content of *USA Today*, *the Los Angeles Times*, and *the New York*

Times found that print front pages and web home pages had similar lead stories initially, but the frequent updates online meant the top stories were usually different for the web editions within twelve hours².

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CHAPTER 6. MONETIZATION AND PRICING: MAIN MODELS

Section 1. General Idea and Models

Before going to our cases and making the recommendations let us first look at what kind of theoretical frameworks for monetization and pricing of online newspapers we have.

Since the news content is a part of overall content on the internet and the charging and distribution of them is fairly similar everywhere and it is closely relevant to this topic, let me start by looking at how protected or licensed content is sold and distributed on the internet.

First of all it is necessary make some clarifications regarding the topic. One company or web-resource that possesses marketable content on their web-site might use several types of monetization models at the same time with both its suppliers, e.g. writers, and partners, e.g. advertisers. It seems that the more flexible the company is in applying one or a combination of models as better. The models themselves also might be very similar to each other in the way they accomplish revenue generation. The analysis can be done from the standpoint of content generators, host or web-resources, subscribers, third-party process organizing and mediator companies, etc. The content itself can be in audio, video or text content forms, and also software and other solutions, and it can be marketed not only from web-sites but also through other communication means like an App Store and Apps for smartphones and tablets, as well as for traditional desktops and laptops.

Following are the models that are most commonly used for marketing content on the

internet.

Affiliate program – this kind of monetization is valid among those who have an affiliate program partnership. This partnership presumes sharing of the revenue, earned by putting an ad or link to the sponsored web-site, between the content creators, e.g. writers, and a web-site or resource where it is displayed. Specific terms of the affiliate program may differ from company to company. It might depend on the overall number of forwarded visitors to the advertiser’s web-site, or they can be more exacting by stipulating how many of them should result in real sales. The company can either organize its affiliate program independently or use the service of a specialized company that promotes affiliate programs. Probably the most popular example of a company that uses this model independently is YouTube with its partnership program.

Banner ads – This type of revenue generation provides an advertiser with an image banner ad in exchange for specified payment. This is possibly the most popular way that content-generating web-sites earn revenue.

Contextual advertising – In this kind of monetization, the ads are displayed on the viewer’s monitor depending on what kind content is shown and what relevant ad might be interesting for the viewer. The leaders in contextual ad programs are Google AdSense and Yahoo! Publisher Network.

Click-based – This is a business model where the resource or the content creator is paid directly for the number of clicks from their web-site or content page to the ad- or link-specific web-site. On this

model the site owner is paid per click regardless was the forwarded visitor a target group representative for advertiser and was that somehow useful for it.

Action-based – It is also named result-based and here the web-resource or content generator is paid depending on the results of the clicking or forwarding of a visitor to their web-site. It can be either real sales or registration. These kinds of partnership programs are more attractive for advertisers and less for banner ad hosts, because the advertiser is paying only for those of visitors that made them money or considered as leads, and respectively the ad hosts will receive less revenue, due to fact that not all forwarded visitors will be paid by advertiser.

Exposer-based – Here the advertiser is paying the banner ad host site based on the number of people who have been exposed to the banner, regardless of whether it resulted in a click-through to the advertiser or not. One thousand exposures are usually accepted as the basic counting unit.

Sales – In this model the sale of an advertised product or service is done right on the advertised web-site. The payment can be either a fixed amount or a percentage of accomplished sales.

Interstitial ad – These kinds of ads are shown before a clicked page is loaded and can be retrieved¹.

In-text contextual advertising – Here specific words or names are underlined or somehow highlighted inside the content, and when the reader puts the cursor over it either s/he can go to the advertiser's web-site by clicking on it or a pop-up can be clicked which will lead to the advertised web-site.

Paid blog posts – Paid blog posts are done by creating specific content – audio, video, text blogs etc., and putting it on the web-resource. These blogs are supposed to help convince the reader in a subtle way to take the desired action, e.g. purchase some product. However, this practice has been criticized because the objective is to deceive readers into believing that the blog is the author's independent and impartial opinion.

Freemium – This is also called a premium content model. With this model the web-resources make their content partially accessible for visitors, so that visitors can get a taste of what awaits them further if to continue reading or watching the content, and to do so they will have to pay for it.

RSS and Newsletters – Many web-sites have an RSS (Really Simple Syndication) feeds service and newsletters send service. These RSS feeds and newsletters can have paid banner ads, links, etc.

Traffic sale – Some of the web-sites that have high traffic in visitors might forward a specified percentage of inbound visitors to sponsored web-sites for designated payment.

Content concession – Here the main idea is to sell the content generated by the company to other parties. The content itself can be either developed for sale initially or be marketed later on as an extra possibility for revenue generation. Whether the content buyer discloses the origin of the content or represents it as its own creation is defined by the content concession agreement.

The loss leader model² – This model has a company lose money on sales of some products and services to the customer in order to stimulate him or her to further purchase a profitable product. In this

model the expenses related to generating content for the web-site and overall web-site operating expenses are expected to be covered by other means. An example are the reports that marketing and consulting companies make available free of charge to convince readers of the professionalism and high quality of their services.

Differentiation model – In this case, a company not in the content business makes marketable content to generate extra revenue. (KAG-wording here was not clear – is my version correct?)

Pay wall model – Also called the subscription model, here web-sites demand their customers pay to see the full content of the web-site or only for a part of it, e.g. a specific article or report. So the subscription can be either for per specific time or per “consumed” unit of content.

Metered model – In this model consumers are enabled to have access to content up to definite volume and charged when they consume beyond specified level of content.

From all of the above we can select the three most common models for currently utilized by online newspapers: advertising, subscription format and a combination of these two.

Section 2. Advertising Model

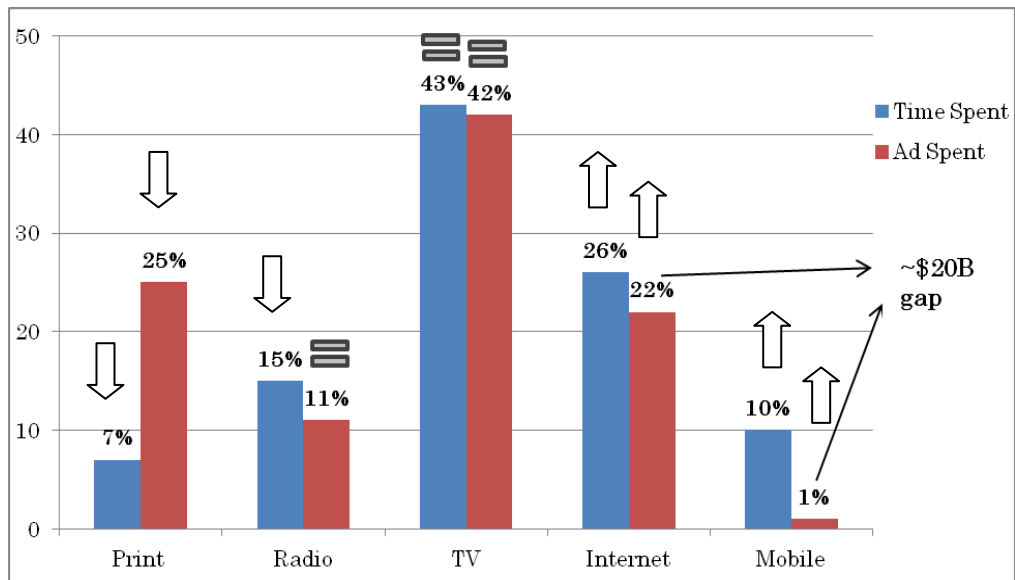
The advertising model for online newspapers may comprise several of above mentioned models of advertising, like banner ad sale or RSS and newsletter ads. These kinds of models have been the main source of revenue for most online newspapers, since only a few have managed to

successfully establish a pay wall model. Newspapers that have large number of visitors to their web-site and cover general and common topics should apply advertising model. As shown in Graph 1, there is still a huge potential for more ads on the internet for both broadband and the mobile internet.

Section 3. Subscription Format

The pay wall or subscription format model requires readers to pay a subscription fee to have access to the news content. This model is becoming more and more popular among newspapers and likely to become common for online newspapers in upcoming years⁴. I would recommend it to the newspapers that have very loyal readers and cover specific topics in a very professional manner.

Graph 1. % of time spent in media vs. % of advertising spending, USA 2011³



Section 4. Combined Model

The third model is the combination of subscription format and advertising models. Here newspapers are generating revenue by both charging the readers for access to their content and putting banner ads, links and other promotional ads for payment. This model can be effective if the newspaper covers general topics but has a smaller number of readers loyal enough to pay for a subscription.

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CHAPTER 7. CASES: “*THE NEW YORK TIMES*”, “*THE JERUSALEM POST*” AND “*THE ECONOMIST*”

Section 1. Case: The New York Times

Having outlined the main models of monetization currently used by online newspapers, let me now examine three cases of print publications that went through digitalization and established their online versions. Each of these cases illustrates an example of the application of one of above mentioned models of monetization.

The New York Times – is one of the most famous and oldest American newspapers. Its history dates from its establishment on September 18, 1851 by two partners Henry Jarvis Raymond and George Jones in New York City. Originally the name of the newspaper was *New-York Daily Times*. Soon after that the New York Times (NYT) become a core founder of Associated Press in 1856 with H.J.Raymond as a director. The NYT become one of the exclusive papers that were favored by US Government for being first to know the decisions of the US government over sparkled US Civil War. Though during the following decades NYT published lots of critical articles, it still became known for its special bonds with establishment. In 1870-1871, due to the large number of German speaking residents of New York, NYT started publishing German supplements as well. In 1898, in order to boost its sales NYT took the risk and cut its price from 3 cents to 1 cent, and in this way tripled its circulation from 26.000 to 76.000 and ad sales also jumped. In 1942 it introduced its crossword puzzles, and in 1946 it started the Fashions of the Times magazine, both of which have become

strongly identified with NYT. In 1949 NYT started publishing monthly weather forecasts. At the very end of 1974 NYT's digital era began when the first computers were introduced at the company. NYT itself called it "television screen attached to an electric typewriter keyboard". The Sunday paper weighs in at 12 pounds, with 1,612 pages, a record¹. On June 9, 1994 NYT started its first e-mail newsletter distributions using the services of America Online. On January 19, 1996 NYT established its first presence on the internet by opening "www.NYTimes.com" web site, and from that date on any person around the globe who had access to internet could read the NYT right on the very night when the cast of the paper is approved for print version publication. On October 16, 1997 the first full color picture appeared on NYT. In 2002 NYT started enriching their web-sites with lots of additional feature columns aimed at making it more popular on a national scale. On September 19, 2005 NYT started offering its "*Times Select*", a special paid service for access to extra materials like archive or op-ed articles. NYT become more and more digital and customized. On September 7, 2006 NYT introduced its mobile version with opening "mobile.nytimes.com". On January 7, 2008 The New York Times and CNBC announce a digital content sharing agreement in the areas of business and technology, including finance, economics, money management and personal finance². Later NYT also formed a strategic relationship with LinkedIn, to give a better experience on Business and Technology pages of NYT. On July 10, 2008 it opened its iPhone App that also can be used offline. On September 23, 2008 NYT announced its TimesPeople social network for NYT (Times) readers, but soon discontinued this

project. On September 26, 2008 NYT made its first news feed by putting the streaming video of presidential debates of 2008. On December 9, 2008 NYT introduced TimesWidgets, a tool for installing NYT updates on one's web page. In May 2009 NYT introduced TimesWire, a solution for seeing the news on a timeline. At the end of 2009 NYT launched *Times Skimmer*, an application for making the reading experience similar to a real paper. Today, NYT has become truly a multi-platform newspaper, that can serve its readers wherever, whenever and however they wish.

By 2007 NYT already had a strong internet presence and popularity that definitely could be turned into a real revenue stream by putting up a pay wall. But, since NYT's high popularity was much driven by the fact that "*NYTimes.com*" is a free web-site and unavoidable decrease in the number of visitors in case of applying subscription format fee would also result in smaller ad revenues. So, the dilemma was looked at this way: "subscription fee + less ad revenue" vs. "no subscription fee + more ad revenue". Vivian L. Schiller, senior vice president and general manager of the site, NYTimes.com, described it this way: "But our projections for growth on that paid subscriber base were low, compared to the growth of online advertising"³. Thus, NYT rejected a subscription fee format and decided to give preference to larger revenue promising advertising schemes.

The example of NYT's monetization model fits the model of advertising revenue generation. In my mind it was quite a prudent decision for a newspaper that is positioning itself as "newspaper for everyone" and that covers almost all range of topics that might raise the interest of publicity, to stay

free and in this way keep its outstanding popularity.

Section 2. Case: The Jerusalem Post

Jerusalem Post – Is Israel’s leading English-language newspaper. It was founded in 1932 by an American-born journalist Gershon Agron. It was published in a daily format, except for Saturdays. The original name was “The Palestine Post” until in 1950, two years after declaring foundation of State of Israel in 1948, it changed its title to its present name “The Jerusalem Post”. Through the next decades the newspaper focused on political topics related to international affairs and primarily to Arab-Israel relationships. It is mainly competing with *Haaretz*, a popular Israeli Hebrew-language newspaper, that recently started publishing an English edition as well. In January, 2008 Jerusalem Post (JP) announced its plan for cooperation with *The Wall Street Journal*, including marketing and publication of *The Wall Street Journal Europe* in Israel. Nowadays its circulation is estimated around 30.000, both in Israel and USA. The newspaper began its presence on the internet by opening “*www.jpost.com*” web-site in 1996. JP makes a lot of effort to become more “digital”, thus it actively hosts more and more video materials, enriches its web-site with new widgets for more comfort of readers, issues Apps for smartphones and tablets users, and tries to create its community by making its presence felt in social networks like Facebook and Twitter, and also has its channel on YouTube. Since JP’s audience of readers is small, its ad revenue is also low. Therefore, JP has tried to use every

opportunity to make money and this way it carefully started to build a pay wall. But the paid content is only for the readers that are willing to read either full text of special articles or to have access to other extra premium materials. Besides that, the web site is much loaded with different types of advertisements like hotels or car rental services. Thus, it is an example of the third model of monetization – the combined model, where the newspaper makes money from both subscription and ad payments.

Section 3. Case: The Economist

The Economist – is the well-known British magazine that covers a wide range of primarily global issues related to economy, politics, culture and others. It was founded in 1843 by a Scottish businessman James Wilson. The Economist has managed to earn a reputation of professionalism and competence. Until WWII and commencing US section in 1942, it was mainly read in Great Britain, but after that there appeared a large number of new readers in North America that outnumbered its domestic British readership. Today it has about 1.5 million print subscribers and about 30 million visitors to its web-site per year, and the number of subscriber is growing year on year⁴. It marked its internet presence by opening “www.economist.com” web-site in 1994. The Economist is a publication that enjoys strong subscriber loyalty from a readership that has high incomes and already is accustomed to pay for their news content. Thus, The Economist’s web site initially was used to give

brief synopses of the print edition's content, but not a "high quality reading experience" in order to avoid cannibalization. However, due to improved content introduction on the web-site starting in 2009, The Economist also started charging for the web-version of its magazine because of the improved "reading experience". Later in 2011 the number of online-only subscribers reached 100.000 and ad revenue grew 12%. It also has another 300.000 print subscribers that also have full access to its online version⁵. This kind of monetization model is the subscription format. Based on the above, in the case of the Economist it was relatively easy to charge for its content, mainly because the content that they provide is considered to be very important by all their readers who are decision makers, and mainly people with higher than average incomes and thus lower price elasticity.

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CHAPTER 8. MARKETING ANALYSIS: PEST, 4P'S, 5FORCES

Section 1. PEST Analysis

Before writing about my conclusions and recommendations I would like to offer a marketing overview for the industry in general and the product in particular. It will consist of 3 main parts – PEST analysis, 4P analysis and Porter's 5 forces analysis.

PEST analysis – the PEST abbreviation stands for “politics, economics, social and technology” analysis and aims to research the general situation in a specific geographical place or market.

Political environment – The basis for the regulation of the news media industry in US is the First Amendment of the Constitution that bans the US Government from establishing control over the press¹. Thus, there is a quite loose regulation over the news media industry in US and it is well-known for that. Although the US has great freedom of speech reputation, Reporters Without Borders (RWB), a France-based international NGO specialized on protecting journalists from repression and promoting freedom of speech, ranked US as 47 on the Press Freedom Index 2011/2012², but that definitely does not mean much. The government institution for licensing and regulation of media industry is the Federal Communications Commission (FCC). Currently FCC is running a liberalization policy that aimed to lifting restrictions for cross-media ownership and media company's market scale limits. There have recently been drafted and widely discussed a several Acts aimed for preventing intellectual property rights' infringements and countering internet piracy, like SOPA, PIPA and CISPA,

that in case of adoption are expected to have a considerable influence on the market game rules.

Economic environment – US is the largest economy in the world with GDP equal to \$15 billion and 313,8 million population and GDP per capita \$48,000 respectively³. Thus, it is the largest news media market as well. Although the US is facing a long lasting stagnation caused by the 2008 Financial Crisis and also 9% unemployment, as well as a higher than average inflation mixed with a hard-to-cover budget deficit, the situation is still manageable and there is no reason to expect any deep crisis that could much affect the news media industry.

Social environment – US society is very diverse in all senses – religion, race, ethnicity, language, religion – about a half of Americans are Protestants, a quarter Catholics, and the rest are representing other religions or no religion. By race distribution – 80% white, 12% Afro-American 12.8%, Asian 4.5%. It is the result of the politics of attracting the immigrants with different backgrounds from different corners of the world. But more importantly, US have society is also very diverse by education and income rate, the main driving powers or stimulus of readers to read⁴.

Technological environment – it has an extremely fast changing technological environment. The IT industry is still experiencing a lot of changes and it happens both in hardware and software fields. The main direction of the changes is connected with continuous growth of the speed of internet connection, both wired and wireless, and development of both hardware and software solutions for their better accommodation. In future years it is expected that the different kinds of news media, TV,

radio and newspapers, will end up converging into one brand new type of news media that is also called digital convergence.

Section 2. 4P's Analysis

4P Analysis – 4P is the marketing model for specifying the qualities of a company's offerings, mostly to help to find differences from competitors' products and competitive advantages of the product. The abbreviation stands for: product, price, promotion and place. We need it to clarify the characteristics of the news media service and the way it is marketed.

Product – traditionally the product was performing the service of news and analytical content distribution. Meanwhile, different newspapers may have their specific fields of coverage or specialization, as well as specific politics or opinions that are mostly called “editorial opinion” or “newspaper's style”. However, the best practices of news service and journalism is considered to be that of a conductor between an event and readers without any distortion of the sense of content. This approach been much diluted recently by making the news media industry more “entertaining” which is also reflected in the goal statements of most of the news media. The following was on the New York Times' mission statement: “Enhance society by creating, collecting and distributing high quality news, information and entertainment”⁵.

Price – traditionally the price of newspaper or subscription cost was just like any other mass

consumption product's price that is quite small to allow large scale sales. Though the price itself is low, these kinds of products have high price elasticity and the example of how NYT's price lowering tripled the sales is very illustrative⁶. This factor actually handicaps lots of web-based newspapers from establishing a pay wall system for its online content because the importance of this kind of product is not considered as something essential.

Promotion – depending on the specific newspaper, its promotion can be different. The outdoor advertisement on high-traffic spots and successful partnership with kiosks or other distributor are accepted as the best tools for promotion⁷. However, those newspapers that already have enough popularity and visibility mostly focus on maintaining their brand image by providing readers with high quality content and reading experience. Thus, periodicals like *The Economist* or *The New York Times*, which already have almost 100% awareness among their target consumers and a good brand image, do not need to apply special efforts for their promotion, but mainly focus on keeping the high quality of their content. Those newspapers, including *The Jerusalem Post*, have an active PR policy which pays ample attention to being more communicative and interactive with their readers by establishing their presence on social networks like Facebook and Twitter. Meanwhile, the promotion issue is much different for the internet-based newspapers. Here, along with using advertising on other web-sites and creating their accounts on the social networks, they mostly try to co-promote each other by establishing a network for supporting each other by making links to or putting banners.

Place – the place of the web based news media (WBNM) is the internet and here the idea of “place” is becoming virtual. When it is about hard copy news media (HCNM) it is clear that the place is either a kiosk or one’s postbox, but here it is quite different. Meanwhile the internet itself is not a uniform place. It has a lot expressions or forms – it can be broadband or mobile, web-site or social platforms, newsletters, RSS, radio, video, on-line/off-line and others. In case of online newspapers it is basically a broadband web-site with a newsletter service. In order to read this content the reader must have internet access.

Section 3. 5Forces Analysis

In order to make our marketing analysis complete, it is also necessary to do the industry analysis or industry attractiveness analysis, for which we will use Michael Porter’s Five Forces analysis. It will touch 5 topics: threat of new entrants, threat of substitute products, customers’ bargaining power, suppliers’ bargaining power, and competition intensity in the industry.

The threat of new entrants is very high. It is very high due to extremely low entrance barriers where one mainly needs only to open a web-site and compile the free access content, though with reference to source and following other rules. A bright example is how the ex-editor of *The Jerusalem Post*, David Horovitz, opened his new online newspaper *The Times of Israel* that in fact become a competitor for *The Jerusalem Post*.

The threat from substitute products is also very high. Recently the blogs and other individual and “non-specialized” sources have become popular for first-hand information, e.g. *www.reddit.com*.

Besides that, other news media like TV also have competitive power.

Customers’ bargaining power is also very high. On the internet there is an abundance of news sources and one always can find many options for satisfying one’s demand for news. In fact, it lies as one of main reasons why so many online newspapers are not able to set up a pay wall. It is really difficult to be unique and special on the internet.

Supplier bargaining power is moderate. There are a lot of news sources that are open for free sharing and partnering. Nowadays, fresh and timely information is not scarce.

Competition intensity is also very high or even severe. There are numerous online newspapers and other sources. And is only getting more intense.

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CHAPTER 9. CONCLUSIONS AND RECOMMENDATIONS

Section 1. Conclusions

Here, before offering recommendations, I would like to state my conclusions.

As all cases of newspapers that face the challenge of digitalization show us, both successfully digitalized and not, the newspaper industry is no longer primarily about reporting the news professionally and publishing analytical articles. This is not the decisive success factor anymore. Today it is more and more about marketing. The role and influence of finding a niche and properly developing the newspaper's marketing strategy has become increasingly important. The editors are not only in charge of generating high quality content, but also ought to care about their newspapers' marketing challenges. This is a very big shift from traditional news industry's vision where marketing was secondary.

Another conclusion that I draw is that the content itself which is supposed to be the same for both online and hard copy readers, is not the same. There are many reasons for the differences, from "more easy to experiment" to "on the screen it looks better than on paper". But the truth is that the internet is an alternative reality with its own rules and laws that anyone must follow and admit that things, in our case news content, cannot be absolutely the same with its "real world peer" or as in our case paper copies. In other words, the "truth" of the physical world not necessarily is "truth" of the virtual world and vice versa, because virtual world opened way bigger opportunities for free

journalism due to the loose control that is because it is technically difficult to do so.

And my third conclusion is that the shift of newspapers from paper to internet format has made them financially unstable organizations. Online newspapers revenue is always fluctuating. It is very different from HCNM's revenue which, until the digital era, was relatively predictable and stable. The main reason for this instability is that the online newspaper market or news source, in a broad sense, is still not established and permanent. Thus, it is necessary to accept a high risk situation as the normal state of the business.

Section 2. Recommendations

As for recommendations, these will be mainly for digitalized newspapers that already have their online versions. And it will not be only about monetization but other competitiveness strengthening factors as well.

My first recommendation is to be willing to experiment with monetization and to be as creative as possible. There are plenty of ways for that and the number of options only growing and newspaper must be skilled, creative and flexible enough to create or detect these new opportunities. I would here also say that they should also try to differentiate their revenue sources, without getting too dependent on any single one of them. It is the wisest thing to do in an unstable and fast changing environment.

About marketing and positioning I would recommend newspapers to pay more attention to whom they are serving and exactly what kind of content they prefer. In other words, to be more clear about both their market position and target segment. This will further play key role in decision-making about monetization strategy.

Following the prior recommendation and in addition to it I would like to recommend setting up a pay wall if the newspaper is a niche player with authentic content and there is high loyalty by their readership. Meanwhile, those newspapers that cover general topics and have lower loyalty from their readers should focus on the advertising model.

Why were some newspapers prepared for digitalization and others not and went bankrupt? The survivors were expecting or were aware of the next change in the marketplace and were ready for it. Thus, I strongly recommend that HCNM take into consideration future industry changes during their marketing plan development and be ready for those changes. Currently, it is expected that there will be convergence of all the main media channels – TV, radio and newspapers into one brand new media that will possess all the characteristics of traditional media facilities and more.

And the last recommendation is to be more Web 2.0 style. It means to become more interactive with their readers and empower them to take part in shaping the content of their favorite newspaper. Here newspapers should be very active on the social networks and other platforms by opening their accounts and making their pages and supporting their fans' communities. It also

underpins a high appreciation of the readers' comments and encourages them to continue that. It is
main trend of whole internet and it is applicable to all web-based businesses in general.