Deloitte.

Another dangerous journey

Publishers on the digital road: They make the mistake of throwing it against the wall and hoping it sticks

By Scott Schneider and Neil Heyside

Deloitte CRG
Deloitte Transactions and Business Analytics LLP

Many publishing companies are coming to terms with the digital era and slowing-down or ending their print editions. Every month brings a similar announcement and more publishers are girding their digital loins for the changeover. As publishers enter this black hole of digital, they need to correctly plan and implement the transition; and unfortunately many are not.

Contrary to a widespread industry hope, the economic recovery won't recover print revenues. Online audiences continue to grow as print circulation continues its decline, with 39 percent of Americans getting their news online, according to a Pew Research Study. The tipping point of when newspapers and magazines decide to go completely digital is near. Yet many media hybrids have resulted in failure; i.e. closing the print title. What have publishers learned from all the data they have gained from their digital efforts during the last three years?

The issue for newspapers and magazines is whether they are correctly preparing and implementing the transition, or actually, transitions. A company must prepare itself for the transition by answering some basic questions. What is the company's timeline to enter the digital space? How will a company's cash and profits be affected by the transition? Is the vision, strategy, financial forecast and workforce all aligned for digital? How is the company redeploying and training its workforce? Does the company have the infrastructure to support the switch to digitalization?

Too many are not asking these questions. The reality is that many publishers — certainly not all as there are some success stories — have thrown digital efforts against the wall and hoped they'd stick. For example, many publishers have recently transitioned to digital without fully exploring the unique mediums of smartphones/tablets or without planning for the new advertising methods (e.g. native advertising). These publishers fail to incorporate digital opportunities into their business plans, such as mobile device's geo-location capabilities, texting and alerts, audio and interactivity, losing out on revenue opportunities and potentially losing ground with competition.

Publishers, who are you and what do you do best? Are you a content creator? Are you all things to all people? What's relevant to your geographic market? Too many publishers haven't analyzed the data they have collected enough to know at what and where they are truly good; how much it costs to produce and how to sell the advertising to bring in the revenues to make them successful.

Can't have print and digital models

Most publishers have two business models, one print and one digital. This doesn't work. Publishers need one business model that takes into account the fluctuations between media platforms. Publishers don't grasp the size of the financial bridge between print and digital. They know digital isn't taking up the gap, but they don't know what the digital end game is. The strategic process involves analyzing the publication's market and industry; the customer base; competition and internal operations. At the same time, publishers should put together a detailed financial and operational plan, and track reality against that plan.

You can't operate a business in the dark. New media brings with it new metrics. The old model of publishers was to collect ad and subscription revenue and that was it. Today publications have many different revenue streams. They include the local search marketplace; video, mobile I-Pad and banner advertising; mobile SMS couponing and search engine optimization; a coupon site and digital seminars. For example, we project that digital revenues among local newspapers will rise from the current average of 5 percent to 32 percent by 2017. And although the trend towards metered pay walls, where readers can access a few articles but need to subscribe for more, have been described as a "line of sandbags against a rising tide", The New York Times now receives more revenue from its circulation (helped by pay walls) than it does from advertising, thanks to its 500,000 subscribers. So, there are success stories out there and many local newspapers have adopted the model.

In order to successfully create a combined business model, publishers need to build an interactive business model to track what is, actually, happening versus what management thinks is happening. Publishers think they are doing better in digital than they are, but print still accounts for most of their revenues. They'll put too much credence in banner ads, or Search Engine Optimization (SEO) mobile without knowing actual revenues.

Additionally, they've put revenue targets in place but haven't said how many sales at what margin and what conversion price will allow them to profitably hit the revenue target. That's the metric they need to put in place. The business model aligns with the financial system to track the key revenue growth targets; if something is or isn't working, management reacts, adjusting the model and staff resources accordingly.

Productivity metrics on content creation

Despite a multitude of new data from the past few years that show the way to a new content model, publishers are still hung up on using a fixed staff resource without centralized decision-making, even though modern digital publications draw much content from the community or users.

Integrate the newsroom so each person knows his role relative to content creation. Outsource other functions such as web design and copy reading. Don't call them editors and newsrooms. They are places of content creation. This might seem like playing with words but it is about changing the way people think about how they are managed and deployed.

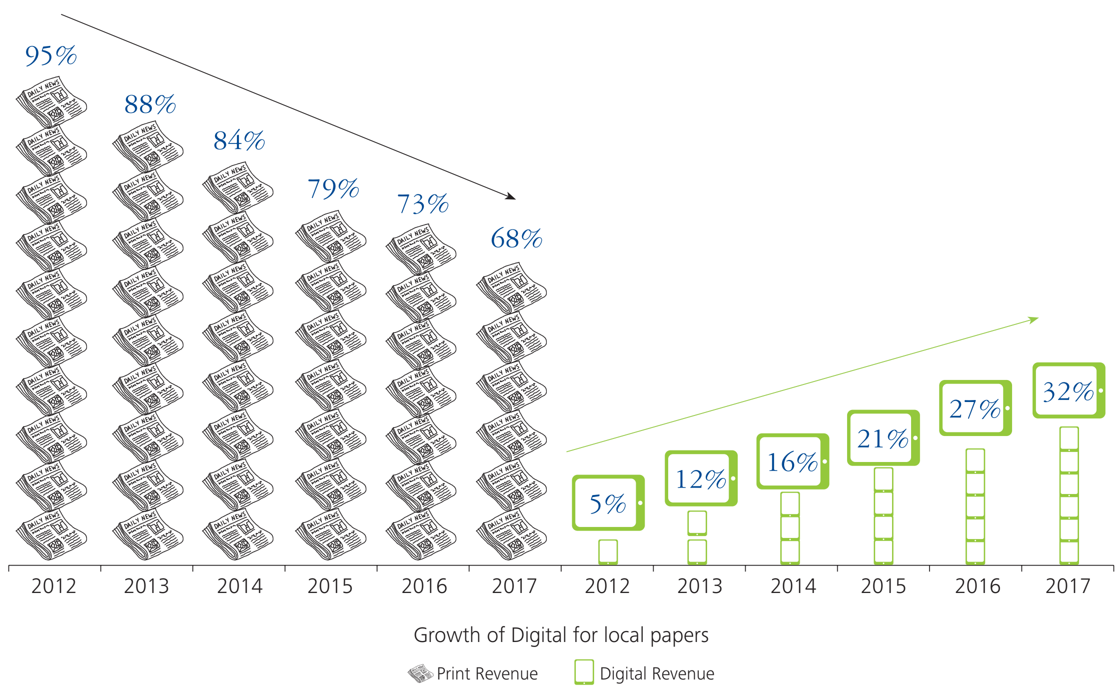
In order to successfully transition from print to digital, publishers should develop productivity metrics for content creation. How else do they understand ways to reduce costs, redeploy the cost base or re-invest in new channels?

Technology, in the form of cloud or browser-based software programs, can be used to measure where your resources and time are being spent; how much time has an employee been on the system; how much time spent on social media, print and the web site. This is not as much about looking over someone's shoulder as it is about measuring productivity, allowing people to manage themselves. The new, flatter content creation process has much less management and overhead.

Analyze other costs

A massive 70 percent of cost in publishing companies comes from printing, distribution and administration. Publishers can potentially reduce their fixed costs drastically by outsourcing their printing and distribution processes.

Sales teams also need to be recruited with the abilities to adapt to the new model. For example, at a regional newspaper group we implemented a sales management structure that integrated ad sales and fulfillment, reporting to the vice president of advertising who is responsible for all regions. Each location had four or five salespeople and a similar number of tele-staff. People are still selling print but



This graphic, based on private statistics from our experiences with local newspaper chains, is a projection of where we believe typical publisher revenues will be during the next five years. As the shift from print advertising revenue declines, it will not be replaced by digital revenues, although they represent a greater percentage of overall revenues.

cross-trained to sell digital as well and all are working on cloud-based customer relations systems that track sales and conversion rates and feed back to central management.

Revenue streams

Despite pay models to monetize online content, the reluctance of consumers to pay for online content requires publishers to form collaborative programs such as the Digital Newsstand initiative, to successfully monetize non-niche news.

Publishers may want to consider multiple monetization models to meet the diverse needs of consumers. Subscription, micro-transaction and licensing models can be used for specialized content, targeting high-income consumers with high brand loyalty. Bundled offerings, subsidy and leasing models may be more appropriate for content accessed by a wider, more price-sensitive consumer base.

Enhance local and personalized content offerings
Advertisers are targeting consumers in specific areas to improve ad efficiency. Borrell Associates projects the U.S. local digital ad market to grow to $19.9 billion in 2012 from $12.6 billion in 2008. "If the digital growth spurt continues through 2013, online media will hold the largest share of local advertising, toppling newspapers for the first time in history," Borrell CEO Gordon Borrell wrote in the Benchmarking Local Online Media: 2011 Revenue Survey. Publishers can leverage their strong local presence to provide specialized content to such local advertisers through local portals, niche content sites, and hyper-local web sites. Content creation on local Web sites is cost-effective for publishers, as most of the content is user-generated. And although controversial, other publishers are off-shoring even local news as a way to cope with costs. Companies can expand revenue options by using their online presence to provide e-commerce and marketing solutions. Publishers can drive online retail sales by leveraging existing web site traffic. This may help tap new ad inventory for targeted advertising. Publishers can make use of web site data generated to sell services such as database marketing and consumer insights to help advertisers better target their ads and improve ROI.

In conclusion, a new publishing business model is required, not a reworked version of the existing model. The publishing industry faces escalating competition from other forms of media, particularly web-based outlets. Consumers favor the real-time reporting capabilities of online news outlets, including social networking platforms such as Twitter. As a result, advertisers are spending less money on print and more on building an online presence, where they can create customizable campaigns and reach more consumers.

To slow the exodus of advertisers, publishers must incorporate online subscriptions and bundles into readership statistics that advertisers use to judge a newspaper's demographic. Also, publishers must work to establish themselves on mobile platforms to make newspapers and magazines more accessible to readers. While publishers will attempt to become more accessible, they will not retain the same amount of advertising revenue as the number of online news sources grows. Many of them may be smaller, flatter organizations that have far more flexibility across media platforms. The publishers who will be successful will be those who change the way they think and build business models for the future; not a rehashed version of their current model.

Contact us:
For more information, please email us at **DeloitteCRG@deloitte.com** or visit us at **www.deloitte.com/us/crg**