

Paid Model Online: *Why Now?*

Aspen Institute FOCAS Presentation by Gordon Crovitz

New Business Realities for Journalism

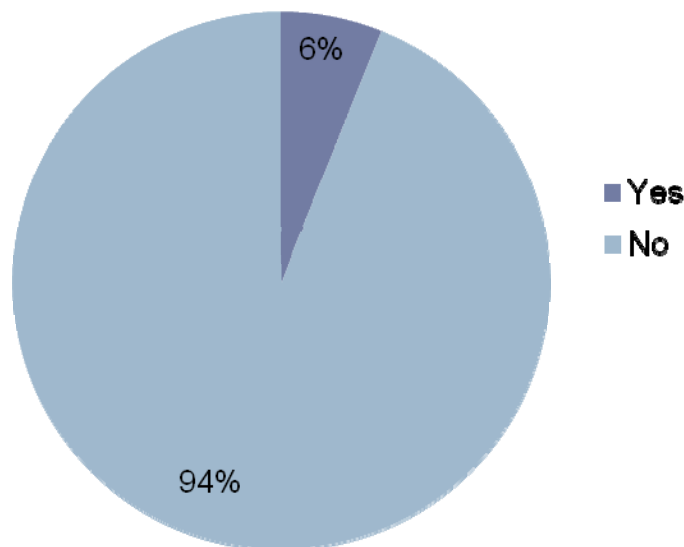
- ▶ “Information wants to be free” led to an incomplete business model for news publishers, focused almost exclusively on advertising.
- ▶ Digital technology does indeed make distribution of information cheap, fast and easy.
- ▶ But Stewart Brand’s observation continued: “It also wants to be expensive.”
- ▶ This means that the right information at the right time in the right context can be even more important to people than before; our personal and business lives rely on information.
- ▶ Traditional media such as newspapers and magazines—and online news sites and bloggers—are now rediscovering that information “wants to be expensive,” but this will require new thinking and new products.
- ▶ Paid access is just part of the solution for media, which also includes better copyright protection, more effective advertising and non-profit journalism.

Many People Will Pay for Online News—If Asked

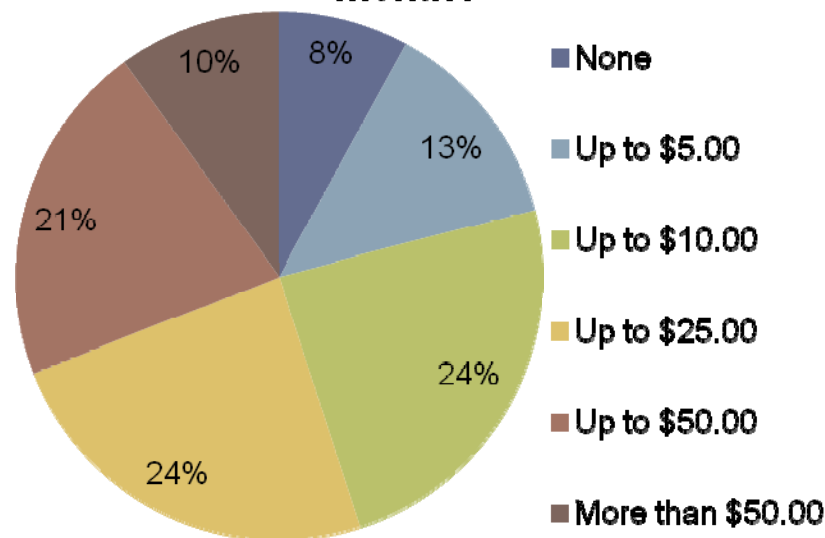
Only 6% of Americans pay to subscribe to news online...

...but if asked to pay, 92% would—on average several hundred dollars a year.

Do you currently pay to subscribe to any online content?



How much money are you willing to spend on online content per month?



On average, people would pay \$25 per month (\$300 per year) to access online news.

Source: Penn, Schoen & Berland Associates research, presented at All Things Digital Conference. May 2009.

The Paid Model Online: No Longer If, but How?

- ▶ Support for traditional news media came from a mix of advertising and circulation revenues, not reliance only on advertising.
- ▶ For years, most news publishers focused on advertising for online revenues, which was an attractive new opportunity, and as the web grew, advertising became a fast-growing source of revenues.
- ▶ But pressures on many categories of online advertising and on print publishing generally create an urgent need for high-margin online subscription revenues.
- ▶ The good news is that consumers are willing to pay to access content online that was once free, if it is delivered with great ease and convenience.
- ▶ Expect experimentation soon by publishers seeking user revenues—by newspapers, magazines, online-only news sites, bloggers, etc.

Two Clarifications of the Paid Online Model

▶ **First Clarification: “It’s an Either/Or Proposition”**

- ▶ Earlier debate focused on “walled gardens.”
- ▶ Technology now allows publishers to retain large audiences and page views, while adding paying subscribers.
- ▶ The hybrid or “freemium” model is promising.
- ▶ Big issue: Can publishers attract user revenues from their 10% most engaged online users? If so, these revenues can be material.

▶ **Second Clarification: “It’s Only About Online Revenue”**

- ▶ For print publishers, a partially paid model online strengthens both print and online.
- ▶ Better ability to raise print prices, while reducing marketing expense through print-online “bundled” offers.
- ▶ Long-term goal: Delivering information profitably, however readers most value it (online, mobile, e-reader or technologies yet to be discovered).

What Consumers Value

- ▶ Consumers have easy and free access to commoditized content, so publishers need to focus on what they can offer that is unique and valuable.
- ▶ Consumers are willing to pay for content once considered free—if it is delivered in a very convenient, helpful way (e.g., iTunes, Kindle).
- ▶ As the transition to paid access occurs, consumers would benefit from having a convenient account for accessing online news from different publishers.
- ▶ Consumers would also value being able to discover relevant content through the sites they access and would value deeper, richer personalized content about the topics they care about most, which would accelerate acceptance of the paid model.

Publishers Will Experiment with Options for Paid Access

- ▶ Charge based on selected number of articles read through third-party sites such as Google over predetermined time (e.g., after ten articles per month).
- ▶ Charge based on selected types of articles on the site's home page, focusing on the most differentiated content not available elsewhere.
- ▶ Charge based on physical location of the online user or, for print publishers, whether the user is also a print reader.
- ▶ Charge for selected collections of news by topic and for selected archives.
- ▶ Charge for "club" features such as a separate area for posting comments, e-mailing paid content to friends and multiple subscription accesses.
- ▶ Charge across publishers for “all you can read” packages on topics.

What Publishers Want, in Order to Experiment

- ▶ **A Common Platform:** Publishers need the technical ability to enable consumers to buy annual or monthly subscriptions, day passes or single articles from multiple publishers using the same account and password. They want to retain the subscriber relationship with transactions on their own sites, not through a competing destination or aggregation site.
- ▶ **Participation In All-You-Can-Read Options:** Consumers value convenience, so publishers want to be able to work together to offer packages of access across web sites (such as by news by general topic, specific subject, sports team, etc.).
- ▶ **Reports on What's Working and What's Not:** Publishers are interested in sharing data on which strategies and tactics are delivering value to readers and achieving the best results in building circulation revenue while maintaining the traffic necessary to support advertising revenue.
- ▶ **Restoring a Balance of Power:** Not even the largest publishers alone have managed to establish reasonable terms with distributors such as with electronic readers, suppressing the growth of the market.

How Big is the Potential Opportunity for Publishers?

- ▶ The hybrid, “freemium” model of both free and paid access means publishers will seek to convert their 10% most engaged online users to become paying subscribers.
- ▶ Marketing through publisher sites, plus viral marketing through social media.
- ▶ For print publishers, value includes benefits to the overall franchise through added pricing power in print and reduced print circulation marketing costs.
- ▶ Newspaper with a print circulation of 1,000,000 and monthly online unique visitors of 20 million: \$34 million in Year One, \$86 million in Year Two.
- ▶ Newspaper with a print circulation of 330,000 and monthly online unique visitors of 3 million: \$6 million in Year One, \$12 million in Year Two.
- ▶ Newspaper with a print circulation of 130,000 and monthly online unique visitors of 1 million: \$2 million in Year One, \$4 million in Year Two.
- ▶ Magazine with a print circulation of 900,000 and monthly online visitors of 6 million: \$6.5 million in Year One, \$23 million in Year Two.
- ▶ Web site with monthly online unique visitors per month of 7.5 million: \$4 million in Year One; \$23 million in Year Two.

Summary: A New Era in Online Publishing

- ▶ Journalism Online is building a technology platform to enable publishers of all kinds to generate online revenues from their most engaged, committed users and to give consumers great ease and convenience.
- ▶ Newspaper, magazine and online-only publishers need to generate revenues beyond advertising by seeking fees from online readers.
- ▶ Publishers generate more than \$25 billion in global print revenue from readers, so there is an opportunity for payments—if consumers perceive value.
- ▶ Determining what approaches work best will require experimentation and flexible commerce technologies for many different kinds of offers.
- ▶ Opportunity goes beyond the web, to all platforms (e-readers, mobile, etc.).
- ▶ In this transition to paid access, publishers will add new tools to help them understand what readers value most.
- ▶ Result after this transition: A restored vitality to journalism.