

# **Business Models for Newspapers in a Digital World**

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## **Abstract**

The Western newspaper industry is going through a severe crisis caused by three factors: the rise of the Internet as a digital distribution channel and sinking circulation numbers; the rise of social media; the economic crisis and diminishing advertising spending. After providing their content for free online, newspaper publishers are looking at modes of online monetisation. The newspaper industry and its value chain are described, as well as economic properties of networks and information goods. This thesis presents a review of the literature on business models and introduces a framework to study newspaper business models. Specifically, the framework comprises the customer interface, the financial model, value creation processes and the value proposition. Applying the framework to eight major European newspapers (*20 Minuten*, *Aftenposten*, *Die Zeit*, *Le Temps*, *Mediapart*, *Süddeutsche Zeitung*, *The Guardian*, and *Verdens Gang*), this report produces findings on the choices publishers have made in all four dimensions, as researched during in-depth interviews. This report presents key choices publishers must make, such as integrating or separating editorial teams of print and online content, or introducing a paywall online. Each decision impacts the value proposition of the newspaper.

## Acknowledgements

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To make this thesis relevant, I conducted research on existing newspapers. To do so, I contacted a range of newspapers and news organisations, and I wish to thank all those who were kind enough to reply to my emails and my phone calls, be it to agree to conduct an interview with me or to recommend me to contact someone else. I found many organisations and individuals willing to help, which I greatly appreciate.

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# **1. Introduction**

Our fathers, grandfathers and great-grandfathers commonly read the newspaper on Sunday morning. Yet it appears unlikely that our generation will, like the previous one, sit on Sunday morning with a large sheet of paper and small character text reading. Why?

## **1.1. The Crisis of the Newspaper Industry**

The days of the young boy selling newspapers at street corners shouting out the news are long gone in Europe. A more recent trend is the proliferation, throughout advanced economies, of free newspapers distributed in railway stations and commuter transit areas. Yet recent developments in the news industry have seen newspapers increasingly providing news using a broader range of sources, including direct reactions from people around the world through Twitter or YouTube, for example during the Arab Spring. The websites of newspapers provide an easy access to huge archives, as well as links to articles covering the same story; they provide videos filming interviews of politicians at radio studios; they allow their readers to react and discuss together online.

What has happened to the news industry is the Internet first, as a digital distribution outlet; second, the rise of social media (so-called web 2.0); third, the economic crisis of 2007 and its aftermath which squeezed advertisers' budgets. After disrupting the music industry and providing opportunity for innovative products and services, in a process typical of capitalism coined 'creative destruction' by Joseph Schumpeter (1983), the newspapers are facing a range of challenges which call for creativity from newspaper publishers. In fact, the newspaper publishing industry has been very profitable over the second half of the 20<sup>th</sup> century, enjoying average returns of over 10% (Picard, 2003). This has led the industry to be relatively hermetic to change. The challenges faced by the industry include: monetising online content; safeguarding advertising revenues; locking in readership both online and offline in the context of sinking readership offline and increased competition for attention online.

Let us consider one specific example of how the Internet has profound effects on the newspaper industry: local newspapers, which long had a monopoly on local news and the local advertising market. With the Internet and access to a wider range of users at a lower cost, websites such as Craigslist and eBay have taken over the local advertising market, leading to the bankruptcy of numerous local newspaper in the US whose heavy reliance on



advertising (on average 80% of revenues) proved fatal when this advertising moved to digital competitors (Standage, 2011).

While each country has its own background and specificities as well as different consumer preferences as documented by market researchers (see for instance BCG, 2009, and PricewaterhouseCoopers [PwC], 2010), certain trends are recognizable. Newspaper circulation numbers have been developing in opposing directions over the past decade in emerging countries and in Western countries: the former see a rise in circulation, while the latter face a strong decline and important economic difficulties.

The surge of Internet usage has conducted newspapers to provide information and news online, typically for free. Simultaneously, advertising revenues have been diminishing as circulation sinks and the economic environment following the 2007 financial crisis reduced advertising budgets; on top of sinking rates in print, advertising rates online are a lot lower and the effectiveness easier to track. Facing economic pressure, many newspapers have to reconsider their business model. The news publishing industry is still currently looking for its own new business model. Some attempts have already been made to introduce paying online, especially in specialized press (*The Financial Times* and *The Wall Street Journal* are two successful examples) - yet it remains to be seen if non-specialized newspapers can succeed this way. On a purely advertising funded level, *Verdens Gang* has been profitable since 2003 and as such a much observed newspaper.

Beyond the challenges facing the industry caused by the Internet and digitalisation, technology also offers many opportunities for innovators in the news business. Traditional businesses and new players alike are testing innovative business models to survive. The convergence of media introduces new competitors fighting for a larger audience, including for instance television media, news aggregators and search engines. Yet the future of newspapers is an important issue, as they tend to set the issue agenda for other media and often employ a large share of a country's journalists (Standage, 2011). Newspaper journalism is a business; it is also a building block of a liberal democracy, as journalists hold power accountable. Not all journalism is investigative, accountability journalism, yet this type of journalism has long been subsidised by other journalistic activities.

## **1.2. Research Question**

The research question of this thesis hence is:

*“What are the key dimensions of a newspaper’s business model  
and how do these dimensions interact in a digital age?”*

The aim is to determine the factors a newspaper publisher can have an impact on to ensure the lasting profitability of his business. We do not address issues relevant to the magazine industry, but rather focus on newspapers. The Internet is described as a disrupting technology in this regard, leading to a convergence of media and changing largely the way news is delivered and consumed. We consider that journalists work for newspapers, and that newspapers will come to be redefined if they are to remain the major location of journalism.

The focus is limited to European newspapers. This deliberate choice is due to the fact that the trends are relatively similar in these countries in terms of Internet penetration, circulation numbers and advertising revenues. Additionally, the question of access to relevant case studies strengthens this decision. Many emerging economies on the other hand see their circulation numbers on the rise in a context of expanding literacy, amongst other factors.

While we are aware that ownership structure does have an impact on the model chosen by a newspaper, this thesis will not consider issues of ownership<sup>1</sup>, apart from briefly addressing the ownership structure in the findings section. The newspaper industry is very diverse in this regard, with family ownership or trusts (*The Guardian*, owned by Guardian Media Group, owned by the Scott Trust), public ownership of a range of newspapers as a portfolio within a news firm (*The Times* owned by News Corporation), or newspaper groups owned by a group of investors (*Le Monde* owned by the Groupe Le Monde, owned by editors, readers and a group of large investors), or editors and a foundation (*Der Spiegel*, a German magazine).

### **1.3. Relevance**

This topic is of current relevance as technological change, modifications in advertising patterns and shifting news consumption habits are hitting the newspaper industry in the Western world; the effect is reinforced by the economic consequences of the financial crisis of 2007 on advertisers budgets. While newspaper circulation is on the rise in much of the emerging world, a light reduction in circulation and substantial cuts in advertising revenues

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<sup>1</sup> According to Hamilton (2003), ownership structure impacts the positioning of a news outlet as the owners may have a range of aims including profit, public good, partisan or other aims. Public good concerns are especially relevant for local, family-owned newspapers. For more on consequences of types of ownership, see Picard and van Weezel (2008). For a practitioner’s view on how ownership change has been conducive to the shift to “infotainment”, see Baron (2003).

has impacted the bottom line of newspaper publishers in much of the Western world. This follows a period of high margins in the newspaper industry (Picard, 2003). Newspapers have been providing information for free online and are struggling to find a way to monetise their services. Additionally, in many European countries, and in the context of the convergence of news media, newspapers and magazines face competition from state-funded national television, both on a national scale and on a local scale (see for instance Sjøvaag, Moe & Stavelin, 2012). Our empirical research confirmed throughout the interviews that managers are concerned with the issues discussed in this thesis on a daily basis.

#### **1.4. Structure**

This thesis follows the classical structure of a NHH report: first, chapter 2 introduces the newspaper industry and its current challenges, covering media economics, network economics and current revenue models.

The literature review in chapter 3 presents key research on business models, highlights the difference between business models and strategies, and introduces research on newspaper business models. This literature review allows to build a framework for business models for newspapers, considering the constraints identified for the press in a world in which paper may become increasingly less relevant. This framework is introduced and discussed in chapter 4.

In chapter 5, we present the research design and the methodology for this research, mainly in-depth interviews with representatives of a selected set of European newspapers, including local and national outlets, in a range of countries. This chapter includes a detailed presentation of the cases. The credibility of the research findings is also addressed.

Chapter 6 presents the findings structured along the dimensions of the model presented in chapter 4. Chapter 7 covers the analysis of the research findings, linking back to the theory presented in the literature review in chapter 3. Chapter 8 discusses the findings and the major implications of this thesis, both for academia and for managers.

As a final note to this introduction, this thesis will use the masculine form. This is not meant as discrimination towards women, but rather to simplify the reading of this thesis.

## 2. The Newspaper Industry and its Current Challenges

This chapter presents background information on the newspaper industry and its current challenges, using management and economic concepts, as a basis on which to understand the literature review of business models in the following chapter.

Specifically, this chapter first presents an introduction to the newspaper industry, and explains why it is converging with the news industry and the media industry at large. In a second step, we review economic theories of news and information. We then discuss the changes introduced by the Internet, as well as current monetisation models.

### 2.1. The Printed Newspaper Industry

Newspapers are a segment of the news industry. This section presents the traditional value chain of the print newspaper industry. Then, the Internet is introduced and its consequences for journalism addressed. The convergence of media online, or how the Internet redefines the boundaries of the industry, forces newspapers to compete against many more players than previously, and for a larger audience. Circulation statistics are presented, showing that trends diverge strongly between emerging economies, which experience circulation growth, and western economies, which face reduced circulation except in the free newspapers segment.

#### 2.1.1. The Traditional News Value Chain

The traditional value chain<sup>2</sup> of newspapers is described in an OECD report on the evolution of news and the Internet. Figure 1 presents visually the processes in the newspaper industry for creating the news for the reader. The steps can happen within one firm or across several firms<sup>3</sup>. In essence, the traditional role of a newspaper-publishing firm is to “intermediate between content producers (journalists), information users, and advertisers and other attention-seekers” (Committee for Information, Computer and Communications Policy, 2010, p.33). Specifically, the newspaper publishes and verifies news on the one hand, and on

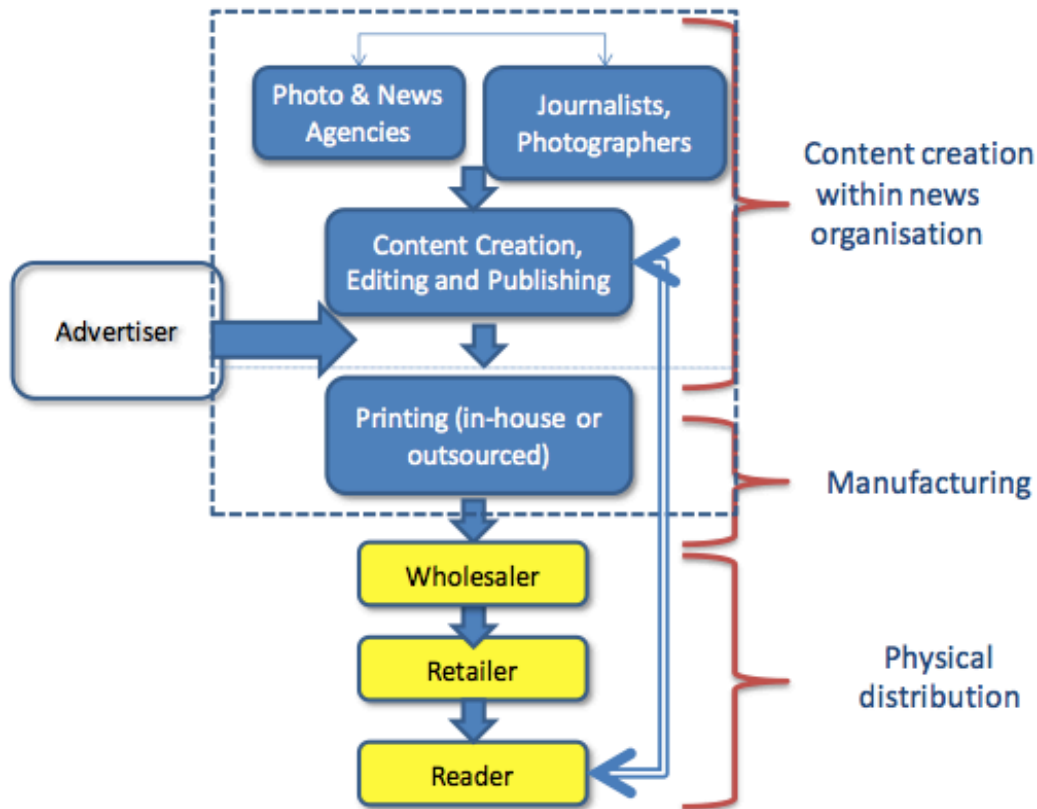
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<sup>2</sup> The value chain is a concept originally introduced by Michael Porter in his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*; he describes the value chain as including primary and secondary activities or processes within the firm that involve resources to produce the good or service. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and service. Secondary activities include procurement, human resources management, technological development, and infrastructure. The concept of supply chain, on the other hand, lists all the processes involved in producing the good or service, from the raw material to the final consumption by the end-user, although each single step does not necessarily require added value.

<sup>3</sup> In fact, the Internet leads to firms being linked into networks to jointly produce goods and services, which in turn leads to the issue of network governance (see Westerlund, 2009).

the other hand aggregates demand for information (reader) and for an audience (advertiser). This illustrates the two-sided market characteristic of the news industry.

**Figure 1: Traditional Newspaper Value Chain**



Source: Committee for Information, Computer and Communications Policy, 2010, p.33

This figure focuses on the production of information and news and includes the three major steps of content creation, manufacturing, and physical distribution. Picard (2002) adds an additional step of marketing, advertising and promotion.

### **Content Creation**

Several large news and photography agencies provide large amounts of raw information and news, as well as pictures, to newspapers<sup>4</sup>. The journalists, freelance or salaried, gather news and provide context and analysis. The creation of content is the largest fixed cost of a newspaper. Recent years have seen sharing agreements and syndication by major newspapers such as *The Financial Times*, *The New York Times* and *Le Monde*.

### **Manufacturing**

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<sup>4</sup> These include amongst others Associated Press, Reuters, and Agence France-Presse.

The newspaper is then printed from a digital file, either at a printing facility owned by the newspaper, or outsourced. The printing cost is a large post in the total costs of the production of the newspaper, though the exact number depends on the country and on the newspaper, varying between 20 and 45 % (Committee for Information, Computer and Communications Policy, 2010).

### **Distribution**

The final step of bringing the newspaper to the reader is typically provided by wholesalers and retailers. The subscription model allowed for mail delivery. According to the OECD (Committee for Information, Computer and Communications Policy, 2010), the cost of distribution to an additional reader is 30% of the cover price (OECD average, hiding large differences).

### **Advertising**

While advertisers are not essential in the actual production of news, their financial contribution in the fees they pay to feature in the newspaper are essential for the financial viability of most news organisations. The share of advertising and copy sales in the revenues of newspapers vary greatly from country to country<sup>5</sup>.

In order to ensure editorial independence, most Anglo-Saxon newspapers have had a ‘Chinese Wall’ separating their editorial from their commercial activities, i.e. the people selling the newspaper and bringing in advertising would not influence the journalists, and vice versa (Kaye & Quinn, 2010). There has however been some evidence in reporting bias due to advertising activities (Ellman & Germano, 2009).

#### **2.1.2. A Brief Look at Circulation Trends**

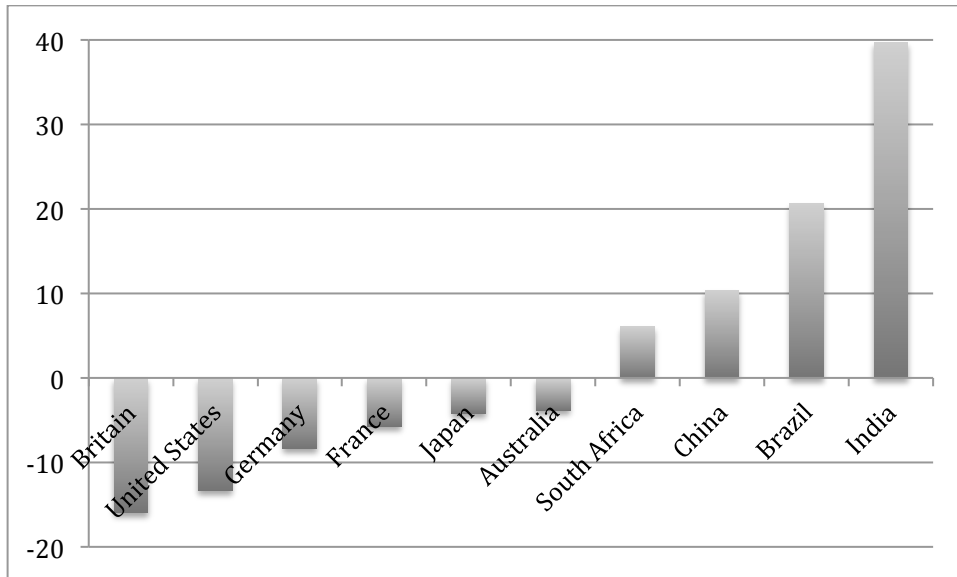
When describing a newspaper, circulation represents the number of copies of a paper distributed on average per day, which may differ from the paid circulation, which is the number of copies sold; this is due to the fact that copies may be distributed for free or at a heavy discount (Committee for Information, Computer and Communications Policy, 2010).

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<sup>5</sup> This ranges from 87% advertising funded in the US to 35% in Japan in 2008 in OECD countries (Committee for Information, Computer and Communications Policy, 2010).

It is a major element in setting advertising rates and is usually audited by a national body to protect the advertisers from publishers' claims<sup>6</sup>.

**Figure 2: Average Circulation Change (%) 2005-2009**



Source: Author, adapted from Standage (2011)

Numbers show an overall global trend upwards in newspaper circulation. However, this growth is conducted by emerging economies. If we consider only OECD countries, the trend is slightly downwards, except for the segment of free newspapers (fully advertising funded). This underlines the fact that the newspaper industry in advanced economies is largely a mature industry with little room for natural growth (Picard, Grönlund & Pönni, 2000).

## 2.2. Newspapers and Economics

Having discussed the newspaper industry, we now turn to a review of major economic concepts that are relevant in considering newspaper publishers. Indeed, the economics of journalism are not evident; while most firms operate in a business where they provide goods or services against payment, newspapers earn their revenues largely indirectly. We first present economic concepts describing information goods. Then, we review how and why information becomes news. As news is consumed, we describe the consumer view.

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<sup>6</sup> Another common measure for advertising purposes is the readership. This number is found by conducting large-scale surveys and measures the number of people who actually read the newspaper (Committee for Information, Computer and Communications Policy, 2010). While it appears that newspaper publishers increasingly prefer considering readership numbers as they decline less than circulation numbers, due to the survey aspect of this scale, we will focus on circulation numbers.

An economic approach to the product news will allow us to better understand the product and the environment newspaper publishers are operating in as well as their incentives<sup>7</sup>. It is worth noting that these concepts are linked to news provision and not only to the printed newspaper as a medium.

### **2.2.1. Economics of Information**

Economists commonly describe information goods<sup>8</sup> as specific inasmuch as they are public goods; experience goods; there are multiple product dimensions, leading information goods to be highly differentiated. This section briefly reviews these economic concepts and explains how this is relevant for firms operating in the news business.

#### **Public Goods**

In economics, information is classified as a public good, which has as two main characteristics: non-excludability<sup>9</sup> and non-rivalry in consumption<sup>10</sup> (Hamilton, 2003). It is difficult to monetise a public good<sup>11</sup>. Copyright is an issue that arises in the context of information on the Internet and is linked to its public good characteristics<sup>12</sup>.

#### **Experience Goods**

Information is an experience good (Shapiro & Varian, 1999), which means that one needs to experience the good to determine its value to oneself<sup>13</sup>. To overcome the barrier of information as an experience good, two main strategies are used, namely browsing and branding; information cascades may also play a role. Browsing includes the headlines at stands or on the website, or the film preview for a movie shown in the cinemas; branding is the name of the paper and its reputation, as well as the use of star journalists<sup>14</sup>. Information

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<sup>7</sup> As Hamilton (2003) puts it, “[news] content is clearly a product. Its creation and distribution depends on the market value attached to the attention and tastes of different individuals, the technologies affecting the cost of information generation and transmission, and the values pursued by journalists and media owners” (p.7-8).

<sup>8</sup> For an extensive presentation of the interaction of information and economics, see Birchler and Büttler (2007).

<sup>9</sup> I.e. you cannot exclude someone from consumption (once information is out, it is hard or impossible to limit).

<sup>10</sup> I.e. one person’s consumption of information does not reduce another’s consumption of a same information.

<sup>11</sup> National defence is the classical example: Everyone enjoys national defence, but no one will want to pay for it unless forced to, hence taxation by the state.

<sup>12</sup> I.e. the issue of non-excludability, for example copying an e-book is a lot less costly than photocopying a paper book (Daripa & Kapur, 2001); this is partly solved by technology (encryption, etc.) and by legislation. The challenge of copyright is linked to the issue of redefinition of the industry, as news aggregators such as Google News are gaining a share of advertising revenues from providing access to a wide range of news.

<sup>13</sup> “A news story about a particular event is an experience good, since to judge its quality you need to consume it by reading or watching the story” (Hamilton, 2003, p.8).

<sup>14</sup> “The varieties of interests, uncertainties about product content, and costs of constructing descriptions of events all combine in the marketplace to generate ‘brands’ in news. Brands economize on uncertainty and search costs by presenting consumers with a readily understood approach to the news” (Hamilton, 2003, p.13).



cascades on the Internet, which appear when one user is followed by other users, are a consequence of the experience goods characteristic of information goods<sup>15</sup>.

### **News as a Highly Differentiated Product**

Information goods vary in several dimensions, such as “length, accuracy, style of presentation, and focus” (Hamilton, 2003, p.9) – highlighting how truly highly differentiated information products are.

#### **2.2.2. Cost Structure of News Producers**

Information production is characterised by a specific cost structure: high fixed costs and low marginal costs – tending to zero, in fact, in a digital age (Brousseau & Penard, 2007)<sup>16</sup>. The exact cost structure in a pre-Internet period depends on the firm and the market.

Historically, the cost structure has several consequences; for instance it is a good explanation for the number of competing newspapers in a given market<sup>17</sup>. Also, objectivity in press journalism can be explained by economics; the transition in the late 19<sup>th</sup> century American press to objectivity allowed to attract both Republicans and Democrats in the readership.

Technology impacts the costs of media production – “technologies, such as the telegraph or Internet, that make buying stories easier can also lead to more homogeneous coverage” (Hamilton, 2003, p.26). The large fixed costs of creating the story hence incentivise firms to own several outlets such as print, broadcasting and Internet (Hamilton, 2003), which in turn incentivises convergence (Lind, 2004). This also leads to an incentive for continued coverage of a topic versus introducing a new story (Hamilton, 2003).

While the Internet leads to lower distribution and entry costs, the proliferation of news sources online leads to intense competition for the readers attention, thereby reintroducing

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<sup>15</sup> “Because it is at times difficult to assess the quality of an information product without consuming it, readers or viewers will use the consumption of others as information about the desirability of a given good. This phenomenon can give rise to information cascades, in which the actions of a small initial group of consumers can multiply or cascade through a market as later consumers base their decisions on the actions of earlier readers or viewers” (Hamilton, 2003, p.20).

<sup>16</sup> The cost structure impacts pricing. Indeed, one direct implication is that cost-based pricing, whereby a firm determines the price of its product based on adding up all costs and a profit mark-up, does not make sense with near zero marginal costs (Daripa & Kapur, 2001); rather, such a firm must determine its price based on consumer value, namely value-based pricing – this in turn suggests price discrimination (Shapiro & Varian, 1999).

<sup>17</sup> Indeed, “economies of scale in newspaper distribution help explain why most cities have only one local daily newspaper” (Hamilton, 2003, p.27).

fixed costs with the need to advertise the brand positioning of a new online outlet and offering an advantage to large and established media (Hamilton, 2008).

### **2.2.3. Two-Sided Markets**

Newspapers operate in two-sided markets. This means that they service two groups, readers and advertisers (Eisenmann, Parker & Van Alstyne, 2006; Ellman & Germano, 2009). In this view, a newspaper is essentially a platform for readers to gather news, and for advertisers to gain access to an audience. What makes firms acting in a two-sided market more complex is that, instead of having a clear cost side and a clear revenue side, both sides are source of costs and revenues. A newspaper earns money from both readers (the price of the newspaper) and advertisers (the price of advertisement display). Network effects happen here – the more readers, the more advertisers will pay<sup>18</sup>. Two sided-markets usually experience strong competition and, in the long run, only have a few major players (Eisenmann et al., 2006).

Eisenmann et al. (2006) identify three key challenges for businesses acting in two-sided markets: (1) pricing; (2) winner-take-all dynamics and (3) threat of envelopment (i.e. entry from a closely related industry<sup>19</sup>). Pricing a two-sided market often means leading one side to subsidise the other – in the case of newspapers, readers being subsidised by advertisers. This is interlinked to ‘same side’ network effects whereby, as with social networks, an increase in user number attracts more users (Eisenmann et al., 2006). Winner-take-all dynamics refers to the tendency of two-sided markets to end up as monopolies or oligopolies. The threat of envelopment exists in the newspaper industry, due to media convergence and other platforms providing the newspaper’s content through their platform and gaining a share of the advertising revenue.

### **2.2.4. News Consumption**

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<sup>18</sup> There is demand interdependence on the two markets serviced by newspapers, and any change induces a complex interaction of adaptation (Chaudhri, 1998). If one considers each newspaper product to be sufficiently differentiated, then each newspaper can theoretically extract a monopolist price from its offering. Chaudhri (1998) shows that a monopolist under a set of assumptions opts to lower the prices to increase circulation and in turn increase total advertising revenue; the author backs this with an analysis of the Australian newspaper industry.

<sup>19</sup> This is exactly what happened to the newspaper industry in a digital era with the redefinition of the relevant industry to include news providers originally using another medium.

Why do we consume news? What is the economic rationale for a reader to pick up a newspaper and read it? It is important for a newspaper publisher to understand the need of consumers satisfied by news consumption in order to tailor the value proposition<sup>20</sup>.

According to Hamilton (2003), information consumption is linked to a marginal cost and benefit calculation, taking into account the monetary price (subscription, cover price) and opportunity costs (time, etc.). The benefits can be one of four: consumption (information regarding price, quality, etc.); production (information useful for work); entertainment (information consumed for itself)<sup>21</sup>; or voting (information helping acting as a citizen).

### **2.3. Newspapers and the Internet**

The Internet impacts the way journalists do their work; it redefines the boundaries of the industry and provides an overflow of information for the reader. Additionally, network effects appear of increasing relevance. We now turn to these issues.

#### **2.3.1. The Digital News Value Chain**

Digital technologies have impacted the whole value chain. According to Pavlik (2000), “technological change affects: (1) the way journalists do their job; (2) the nature of news content; (3) the structure and organization of the newsroom and the news industry; and (4) the nature of the relationships between and among news organizations, journalists and their many publics, including audiences, competitors, news sources, sponsors and those who seek to regulate or control the press” (p.229).

The Internet is a technology that influences how journalists work: used for research purposes, but also to get a feel of the opinion in a certain area through blogs and Twitter, or more recently to receive live footage during the Arab Spring. Additionally, while news used

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<sup>20</sup> In fact, consumption of news conducts the production of news in a certain manner. In his book *All the News That's Fit to Sell* (2003), Hamilton makes a parallel between the five questions a journalist's story typically has to answer, namely “who, what, where, when, and why” (p.7) and the five questions asked from a market perspective on understanding which information becomes news: “1. Who cares about a particular piece of information? 2. What are they willing to pay to find it, or what are others willing to pay to reach them? 3. Where can media outlets or advertisers reach these people? 4. When is it profitable to provide the information? 5. Why is this profitable?” (p.7). Hence, while a newspaper publisher will not control each article and piece of news published for these criteria, this economic explanation for news selection may be a valuable orientation to keep in mind. Hence, information made to news is selected based on the potential number of consumers (given the high fixed costs, plus a profit motive of news producers) and based on consumer tastes (Hamilton, 2003): “newsworthiness will be a function of numbers of consumers and their value in the marketplace” (p.19).

<sup>21</sup> For a practitioner's view on information as entertainment, see Baron (2003).

to be produced on the editorial deadlines for the evening news show broadcast, or the editorial deadline for the print of the newspaper, news is a continuous flow on the Internet.

In his literature review of academic research on journalism and the Internet, Steensen (2010) finds three main assets of the Internet for journalism: hypertext; interactivity; multimedia. The notion of hypertext includes assets such as the archival power, the lack of space limitation to include context; links to other relevant stories. Interactivity covers a range of practices related to journalism: contact between journalists and the readers mediated through the Internet; user content production; it also allows live feedback on possible mistakes and live correction (Tapscott, 1996); Chan-Olmsted (2011) adds personalisation to interactivity. Multimedia covers essentially the convergence of media and the use of several media in communicating a piece of news.

### **2.3.2. The Convergence of Media**

While the media and news landscape used to be segmented into sound (radio), image (television) and text (newspaper), it is increasingly integrated online (Sjøvaag, Moe & Stavelin, 2012). The information technology, which is the basis for digitalisation, and which is now developed to provide information goods is characterised by high levels of interoperability as well as increasing rates of adoption (Shapiro & Varian, 1999). Newspapers provide videos, broadcasters provide text, radio channels provide videos and podcasts; “whereas news market competition in the analogue system was based on the publication platform, the digitalized news market is characterized by a negation of platform”, which “creates a new, less perspicuous competitive environment, not least made clear as advertising revenue and subscription numbers dropped following the 2008/2009 financial crisis” (Sjøvaag et al., 2012, p.90). The definition of the industry can be viewed as even larger, and be defined as including the content producers, the IT system producers (hardware and software) and the telecommunication firms (Tapscott, 1996). The industry definition is important as it clarifies which firms are competitors; official industry taxonomies take time to redefine industries in their classification (Lind, 2004). In fact, a business model innovation can lead to redefining the industry (Johnson, Christensen & Kagermann, 2008).

An example of how the redefinition of the industry changes the competition of a newspaper is the case of public broadcasting television as a new competitor for local newspapers. Indeed, when considering media convergence online, one frequent debate is the competition

for newspapers of state funded broadcasters. The argument for state intervention in broadcasting is that of a market failure, namely the under-provision of niche interests and the provision of overall low quality programmes for mass markets tastes. Additionally, the externality of informing the citizen in a democracy is a further argument for state funding of public broadcasting (Armstrong & Weeds, 2005). This approach is based on a paternalistic view of the state, whereby the government knows better than the people what the people ought to watch, a view less acceptable today than when public broadcasting was first set up (Armstrong & Weeds, 2005). Digital technology changes this rationale, since entry costs are much lower (no more issue with spectrum scarcity, for instance, as in the case of broadcasting) and the global reach allows to target niche audiences. The presence of a large, publicly funded actor may in fact distort competition, thus leading to a lower overall market efficiency in providing for the audience (Armstrong & Weeds, 2005). In a digital era, it may even become more difficult for the public broadcaster to reach the target audience and provide the higher quality content since the audience has a larger choice available.

A case of a state-funded broadcaster competing on news with local newspapers is Norway. Sjøvaag, Moe and Stavelin (2012) published a study of the Norwegian Broadcasting Corporation (NRK), in which the authors analyse the online news content and how it directly competes with private news providers both nationally and locally. Public broadcasting corporations are at an advantage versus newspapers for instance in online news provision because, due to their public service function, they are expected to provide news for free which is the standard format for news online; and they have the funds to invest substantially in the technology involved in online news provision (Sjøvaag et al, 2012)<sup>22</sup>.

### **2.3.3. Network Economics**

Network economics is the study of the effect of the number of users on total utility. Typically, an additional user adds value to the utility of the network for all users. Consider a social network: the more users, the more likely one is to find one's friends and acquaintances online, and the more useful the website will be. Network effects imply increasing returns to scale (Eisenmann et al., 2006). Furthermore, if one considers local newspapers, there is

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<sup>22</sup> While the case of national broadcasters as a new competitor for newspapers, both on a national and on a local scale, is interesting as an illustration of how the industry barriers have been blurred, we shall not further elaborate on it here.

added value with local news and the opportunity to react and have a debate on the bottom of the page, after the article (Robinson & Deshano, 2011)<sup>23</sup>.

In their attempt to classify networked services, Thorbjørnsen, Pedersen and Nysveen (2007) find that drivers of networked services are either intrinsic, user network or complement network attributes. These three types of attributes are driven by different perceived consumer value. Intrinsic value drivers are largely independent of network effects, and focus on ease of use, usefulness, etc. User network value drivers covers factors such as the perceived number of users, more than purely factors relating to the service's attributes; the effect of network size on the value of the service as perceived by the consumer is not necessarily linearly linked to the number of users. Complement network value drivers relate to the consumer valuation of a product with a variety of complementary services or products, which also implies network effects (Thorbjørnsen et al., 2007).

In his research about radios and ethnicity in the US, Waldfogel (2003) finds that preference externalities are important within groups, while they are smaller and non-monotonic across groups; this describes the externalities within a network of heterogeneous preference with high fixed costs, as is the case with a radio network or a newspaper.

The network property of the online two-sided market is highlighted by Parker and Van Alstyne (2005); they find that in order to grow a two-sided market, firms typically will discount one market of the two they serve, optimising the pricing to increase the total size of the two markets. Their article researches how a firm can profitably sell products for a price of zero: "increased demand in a complementary premium-goods market more than covers the cost of investment in the free-goods market" (p.1503). This approach "takes advantage of information's near zero marginal cost property as it allows a firm to subsidize an arbitrarily large market at a modest fixed cost" (p.1503).

As the product of a shift from industry to services, and in particular digital services, the concept of value chain has been increasingly questioned. Instead, academics propose to take a network value chain approach (e.g. Methlie & Haugland, 2012); in this context, "resources and capabilities are drawn from a network of relatively autonomous firms which operate together in a framework of common principles and service level agreements in creating customer value and network value by means of a specific service offering" (Methlie &

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<sup>23</sup> Kaye and Quinn (2009) argue that the main problem with basing an Internet strategy on the network effect is that the network needs scale before it is useful to the users – the solution being to provide value to all users from the start; this is often called the "chicken and egg" paradox (Thorbjørnsen et al., 2007).

Haugland, 2012, p.13). Such networks call for governance to manage these networks<sup>24</sup>, which can be organised either by the market, or relational or hierarchical, each mechanism with its own controlling system, respectively price, trust, and authority (Methlie & Haugland, 2012).

#### **2.3.4. Internet Consumption**

Does the Internet change the way we consume news? In the original considerations about news and the Internet, many scholars argued that a disintermediation would take place and that news consumers would directly gather news via the Internet without the mediation of a news organisation. Brousseau and Penard (2007) argue that the Internet did in fact not conduct to massive disintermediation for three reasons. First, matching and transactions remain costly. Second, interoperability, while often given, still requires resources and time. Third, platforms emerge to provide coordination in both production and marketing of information goods (Brousseau & Penard, 2007).

The current world is one of information overload, and one of the news industry's functions is that of a filter<sup>25</sup>. The amount of data available through the Internet leads to the field of research in the economics of attention, as multiple providers compete for the consumer's scarce attention (Lanham, 2006; Davenport & Beck, 2001). Also, in terms of selling advertising, the attention on a website is more focused, and allows a finer segmentation than the paper copy. The Internet allows to process in real time the best-suited advertisement for a specific reader. This approach is beneficial for both the advertiser who gains access to the target segment, and the user who will only read ads that may be of relevance to him. Yet information overload in turn reinforces the importance of a strong brand.

Expectations from readers regarding the immediacy of news provision have an effect on the provision of news. "The cascading of information can lead to demands for quick story coverage. Not all outlets will react in the same way to these pressures, since the spatial model predicts that it will still be profitable for some outlets to develop brand names for high public affairs content combined with extensive analysis" (Hamilton, 2003, p.28). Internet enhances the speed of information transmission. This, in turn, reduces the time journalists have to provide the news and analysis, making herding more likely (Hamilton, 2003).

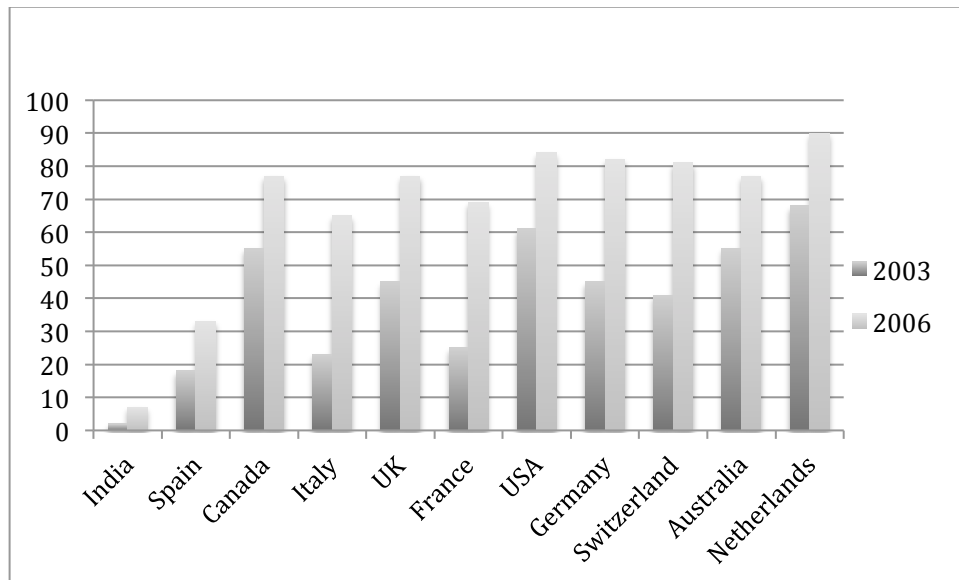
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<sup>24</sup> For more on the link between network governance and business model performance, see Westerlund (2009).

<sup>25</sup> For example, when the organisation WikiLeaks leaked thousands of documents on the Afghan conflict between 2004 and 2009, they chose three reputable newspapers and magazines to screen the information and present it in its context, namely the New York Times, the Guardian and Der Spiegel.

In their research about the reasons for users to participate in online news and which they call citizen journalists, focussing on Madison, Wisconsin, Robinson and Deshano (2011) find that extensive participation in online news by users helps develop their feeling of belonging to the local community.

**Figure 3: Wired Internet Household Penetration (%)**



Source: Author, adapted from PricewaterhouseCoopers [PwC] (2009).

Figure 3 presents the penetration rate of wired Internet household connexion in major Western countries. While smartphones currently have lower levels of penetration, they are gaining in penetration also. This is relevant as it shows how important these technologies are becoming in terms of a medium to reach an audience.

Several empirical research projects were conducted on the willingness to pay for online news. The most extensive research was conducted by large consulting firms (see for example BCG, 2009 and PricewaterhouseCoopers [PwC], 2009), or aggregated from different pollsters and opinion research institutions by an industry organisation such as WAN (World Association of Newspapers). PwC (2009) finds that willingness to pay to news online is 62% of willingness to pay for the same high quality news content on paper, with a virtually non-existent willingness to pay to access the same news content on a mobile device (however, for a same quality, the user will always take the cheapest version, which often is free online). The firm also finds that willingness to pay to access high quality general news online is lower for users 50 and above than for younger generations (compared to the willingness to pay for a traditional paper of the given group age). Additionally, the report finds that users of news regarding finance and sports are comparatively high (97% and 77% respectively).



Based on a survey of 5'000 customers in 9 countries, BCG (2009) finds that willingness to pay for online news is approximately 5USD per month, provided that the news is unique, timely and conveniently accessible (choice of devices). Again, this does not hold if the same news is available for free. A note of caution: these two reports are based on research conducted nearly three years ago, and the current situation may be different – yet the key message that there is a willingness to pay for news provided online remains relevant.

Additionally, the Internet offers the opportunity for minority groups and interest groups to build sufficient aggregated audiences to allow a news provider to exist in their niche segment (Hamilton, 2003).

Beyond the Internet, although it is included in it for the purpose of this research, mobility is another mega-trend that is changing the industry. Smartphones and tablets allow users to read news and research products continuously on the go. This calls for mobile apps<sup>26</sup> provided by newspapers.

## **2.4. Current Revenue Models**

We now turn to current revenue sources introduced by newspapers. A wide range of options has been explored. For the purpose of clarity, we classify them into three categories. Newspaper publishers generate revenue through: (1) the provision of news offline; (2) the provision of news online; and (3) through the provision of other goods and services. Additionally, newspaper publishers can use some economic strategies to enhance sales revenues or preserve customer relationships.

### **2.4.1. Revenue from the Provision of News Offline**

Typically, the largest share of revenues of newspapers, both free and paying, comes from advertisers (Kaye & Quinn, 2010). These include both corporate advertisers and private advertisers. The latter typically fill in the classified pages, with newspapers providing the link for real-estate and car markets on a local and regional level. With the Internet, the largest share of this market has moved to websites such as Craigslist or Monster (Kaye & Quinn, 2010). This has been a real problem for local newspapers in the US that previously enjoyed a monopolist position in the local classified market (Kaye & Quinn, 2010).

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<sup>26</sup> An app is a program running on a platform for a smartphone or a tablet. They are typically sold or provided for free on an online platform set up by the platform provider, such as Apple and its App Store or Google and its Google Play amongst others.

### **2.4.2. Revenue from the Provision of News Online**

Newspaper publishers around the world are worried that people may not be willing to pay for news online. Newspapers have been setting up websites providing most of their content for free for over a decade, after unsuccessfully testing the subscription model in the 1990s (Chyi, 2005). In fact, newspapers have been applying the print strategy online: aim at reaching the largest audience possible with the assumption that the larger the audience, the more the publisher can charge for advertising. However, advertising rates are a lot lower online, and the success is substantially easier to measure (click-through for instance) (Quinn & Kaye, 2010)<sup>27</sup>. Online monetisation models that were tested over the years include: subscription; advertising; transactional; bundled (Chyi, 2005; Mings & White, 2000).

#### **From Free to Fee**

Economists argue that a change from a free news offer to a paying model will lead to substitution, unless all alternatives increase their price simultaneously (Chyi, 2005). Chyi (2005) finds that customers do not perceive a difference between paying online news and free online news, explaining a lack of willingness to pay for access to news online.

Readers value getting services and products for free; indeed, on top of the absence of monetary cost, the free service is perceived as without a trade-off and comes with reduced psychological costs (Ariely & Shampan'er, 2004). Trade-off aversion explains the choice for the free good as it lacks a trade-off (Ariely & Shampan'er, 2004). This in turn sets an incentive to try a free product (Pauwels & Weiss, 2008).

In a 2008 article, Pauwels and Weiss consider the effect for online content providers of passing from an all free to a partly paying system. They highlight the scarcity of available data on successful conversion from free to fee, and the incentive to remain free in the face of competition.

In setting a pricing policy, an online content provider must be aware of the effect the pricing has on both: (1) paying consumers (in terms of subscription revenue) and (2) non-paying consumers (in terms of readership for advertising revenues) (Pauwels & Weiss, 2008). Since most moves from free to fee imply a remainder of free content, the decision is double: the pricing decision, and the restriction-level decision, the latter describing how much of the content is restricted, from all content to a highly selective portion of the content (Pauwels &

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<sup>27</sup> As a side-note, newspaper publishers are not the only content providers dealing with this issue. Facebook has large user numbers, yet it struggles to ensure sufficient revenues to fund its activities (Kaye & Quinn, 2010).

Weiss, 2008). A successful move from free to fee must lead fee revenues to be larger in the long run than the loss in advertising revenue due to less free users (Pauwels & Weiss, 2008).

## **Readers**

Research typically describes three pricing models for online news content: usage-based pricing; micro payments; subscription (Pauwels & Weiss, 2008). All pricing policy on the Internet requires a discussion of the payment systems, including a system for micro-payment, such as article by article. Systems considered include micro-payment, buying credit and being billed by credit card or a system like PayPal for instance<sup>28</sup>.

The model of ‘freemium’ consists of a free offering with a premium, paying offering of added services valued by consumers (Teece, 2010); this is used for instance by Skype. It allows to reach a critical size to use network effects, while ensuring some monetisation.

The paywall model can be watertight, such as at *The Times*, for which one needs a subscription in order to read any article online; this model is also called the premium model, whereby the content is premium journalism and hence requires payment. Another model is the metered paywall, allowing to read a given numbers of articles per month for free and then requiring a subscription. The articles are not classified as premium or free, rather the consumer can choose freely his free articles. This model, used by *The New York Times* and *The Financial Times* for instance, allows to charge frequent users while keeping the occasional readers that attract advertising revenue. The paywall may be made available for free to subscribers of the print edition, allowing to progressively change readers’ perception of the value proposition of a newspaper, from a print product to a multi-platform news provider.

Additionally, newspapers have been charging for the content of their print edition available in digital form as an app for iPads or the the Kindle reader.

## **Advertising**

Newspapers use a variety of models in pricing advertising online. Two main standards are the CPM (Cost Per Mille), which charges a fixed price for a fixed number of displays; and the fixed price for a certain space on the website for a certain period. Other existing models include pay-per-click, where a fee is due anytime a user clicks on the displayed advertising,

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<sup>28</sup> We however do not discuss this in detail here, as we do not consider the payment system to be a crucial topic.

or commission based when the product or service is bought and the lead came from the advertising on the newspaper's website. Newspapers have been experimenting with more complex models, or combinations, as well as offering certain deals on cross-media campaigns (online, mobile and print).

#### **2.4.3. Revenue from the Provision of Other Goods and Services**

In a strategy that brand management academics would call brand extensions, newspaper publishers can leverage the brand of their newspaper to reap benefits by providing other goods and services not necessarily directly related to news. Such strategies are discussed in the case studies in a later chapter.

#### **2.4.4. Strategies**

In their book *Funding Journalism in the Digital Age*, Kaye and Quinn (2010) propose a range of classical microeconomic instruments to monetise online content. Specifically, they discuss: price discrimination; versioning; bundling; network externalities; and lock-in and switching costs.

##### **Bundling**

Bundling consists of packaging several products for one price, aiming at earning more than one would by selling the two products separately. Shapiro and Varian (1999) have showed how bundling information goods can allow to gain a higher willingness to pay. When considering a printed newspaper, bundling already exists, inasmuch as it typically includes business news, local news, political news, sports news, and cultural news. Most likely, the reader does not value all the sections equally, and might systematically skip the sports or the business section. Considering online bundling, beyond the classical articles bundling in buying a packet of articles, Kaye and Quinn (2009) propose the creation of a central clearing house allowing to subscribe, for instance, online to the business section of ten newspapers at one price. At the same time, some academics argue for unbundling: while the printing technology made the bundling of articles sensible from a cost perspective, that is not the case in the Internet era (Daripa & Kapur, 2001); this was identified early on by academic journals. Stahl, Schäfer and Maass (2004) find that an information content that is bundled and offered both online and offline will lead to cannibalisation effects, which does not happen if the online bundling is different to the offline bundling (for instance, bundled

around a topic online); Stahl et al. (2004) also find that revenues from rebundled articles outperform the revenues of single articles.

### **Price Discrimination**

Price discrimination means to sell a same product for a different price to different people based on their willingness to pay. Usually, one does not disclose the maximum price one is willing to pay, making it difficult for a firm to charge different prices to all customers. Typically, a firm hence aims at setting a price that will maximise its total profits. In order to discriminate on price, the firm has to segment the customers, for instance based on age or geographic region. Common price discriminations in the context of newspapers include lower prices for subscriptions for students or low price test subscription for new readers. Key to the success of price discrimination is that the categories really are separated and that no secondary market appears (Kaye & Quinn, 2010). The success of *The Wall Street Journal* and *The Financial Times* in getting readers to pay to access articles is often argued to be a product of the type of articles they produce – business related, and the fee is typically covered by the reader's firm.

Versioning is the strategy of offering different products, allowing the customer to self select the segment he or she wishes, which is especially useful when the firm cannot determine the willingness to pay based on some observable feature (Daripa & Kapur, 2001); it is a sub-category of price discrimination. Typically, viewing a movie is versioned: does one prefer to see it in the cinema, or wait until it comes out in DVD, or even wait further until it is shown on television? Each implies a different viewing experience and price tag. In the case of news, versioning is done essentially by using time delays; for instance, by charging a fee for live news, which is then available for free later in the day. Hence, there may be a potential for a similar approach for more local or national papers to have a paywall for business articles, especially for the live news feed, hence differentiating on price depending on how the timeliness is valued (Kaye & Quinn, 2010).

### **Lock-in**

Lock-in are systems by which a firm sets high switching costs for customers (Kaye & Quinn, 2009). The news industry online is characterised by low switching costs: while the reader would need to buy two paper newspapers to switch, or cancel a subscription, all it takes online is to type the address of the other newspaper. Airline loyalty programmes are a form of lock-in to deal with low switching costs. Technological lock-ins exist, for instance the

Mac versus Microsoft systems. *The Washington Post* has a loyalty programme for readers, the PostPoints programme<sup>29</sup>. Other lock-ins include the razor and the blades, and printers and ink refills.

## **2.5. A Summary of the Newspaper Industry and its Current Challenges**

Chapter 2 has presented the newspaper industry, its value chain and basic information regarding circulation trends and changes in its environment. We have presented key economic concepts relevant to the product of newspapers, as well as microeconomic instruments that can be used by publishers online and in print. We also reviewed current online monetisation models. Chapter 3 will introduce the literature review with a focus on business models research.

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<sup>29</sup> See the program's website: <http://postpoints.washingtonpost.com/>

### 3. Literature Review

This chapter presents a review of the academic literature on business models. The concept is first defined. Literature on business models is essentially divided in taxonomies (types of business models) and typologies describing the dimensions of a business model. We discuss both, and present literature on newspaper business models as well as online business models. This chapter is the basis for the following chapter's framework of business models in the newspaper industry.

The term business model has been used extensively since the 1990s and has been seriously considered by academia only over the last decade (Methlie & Haugland, 2012)<sup>30</sup>; no single definition of the concept of business model is established in the literature at this stage. We now review this concept as treated in the literature, and discuss the specificities of business models operating in a network environment, before considering the distinction between business models and strategy and wrapping up with considerations on newspaper business models. It is worth noting that only few studies actually measure the performance of business models (see Amit & Zott, 2001<sup>31</sup>; Malone, Weill, Lai, D'Urso, Herman, Apel & Woerner, 2006). Most academic literature on business models provides either a taxonomy of business models<sup>32</sup>, or defines the components of a business model (Malone & al., 2006).

#### 3.1. Defining the Concept

Many definitions of business models have been given in different papers, and several scholars have provided literature reviews on this concept, although no single definition has

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<sup>30</sup> To see why economic theory does not consider business models, see Teece, (2010); "the absence of consideration of business models in economic theory probably stems from the ubiquity of theoretical constructs that have markets solving the problems that - in the real world - business models are created to solve" (p.175); in real-life, business models are needed due to technological innovation leading to new markets, consumer choice, transaction costs, competition, and heterogeneity amongst consumers and producers – whereas economic theory assumes the market take on this function.

<sup>31</sup> Amit and Zott (2001) look into the fit of business model (either novelty or efficiency focussed) and the product-market strategy (differentiation or low cost, and entry timing). They find empirically that novelty focussed business models fit all product-market strategies, while the efficiency-centred business model only fits the low-cost strategy. However, Zott and Amit (2008) do not find a positive interaction between cost leadership and an efficiency-centred business model.

<sup>32</sup> Malone et al. (2006) provide an empirical research into the performance of business models; they find that some business models outperform others on some dimensions, but not on all dimensions of financial performance. They first provide a taxonomy of business models and secondly measure the performance of all business models by classifying all US publicly traded firms between 1998 and 2002. They organise business models along two dimensions: first, what asset rights are sold (Creators, Distributors, Landlords, Brokers) and second, what type of assets are involved (Financial, Physical, Intangible, Human). They thus find 16 types of business models, all business model categories being mutually exclusive and collectively exhaustive.

yet become the standard<sup>33</sup>. According to Morris et al. (2005), one explanation for the many definitions of the concept of business model is that they refer to different management levels with a different focus, such as operational and strategic levels.

A business model is “a pattern of decisions regarding how a business creates and delivers value to customers, and how it captures and shares revenues with the aim of obtaining viable market performance” (Methlie & Haugland, 2012); it is “the method of doing business by which a company can sustain itself” (Rappa, 2003). Put otherwise, with a focus on value creation, “the essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit” (Teece, 2010). A business model is not a sheer organisational structure, and it is not a financial structure either, but rather a conceptual approach to the firm (Teece, 2010). A business model determines which elements and steps in the value chain the firm wants to perform (Teece, 2010).

As opposed to Zott and Amit (2008) who argue that business model choices boil down to either cost leadership or differentiation, Teece (2010) argues that business model performance is highly dependent on the context within which the firm is operating. Again in other words, “a business model reflects management’s hypothesis about what customers want, how they want it and what they will pay, and how an enterprise can organize to best meet customer needs, and get paid well for doing so” (Teece, 2010, p.191).

The business model is an empirically useful construction and can predict performance (Amit & Zott, 2001; Malone et al., 2006). Amit and Zott (2001) exclude the financial model and the market strategy from their definition of a business model, focussing solely on the firm’s transactions with its stakeholders. Brousseau and Penard (2007) define a business model as “a pattern of organizing exchanges and allocating various costs and revenue streams so that the production and exchange of goods or services becomes viable, in the sense of being self-sustainable on the basis of the income it generates”(p.82); they thus view the financial issue as core to the whole process.

## **3.2. Business Model Taxonomies**

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<sup>33</sup> Major articles providing a literature review on business models specifically include Osterwalder, Pigneur and Tucci (2005), Morris, Schindehutte and Allen (2005), Zott, Amit and Massa (2011), as well as Methlie and Haugland (2012).



A major article by Malone et al. (2006) presents a taxonomy of business models and groups all business models into one of 16 categories depending on what asset rights are the object of the transaction (namely creators, distributors, landlords or brokers) and what type of asset is involved (financial, physical, intangible or human). In a taxonomy of business models on the Internet, Rappa (2003) describes nine types of business models, arguing that one firm can implement several simultaneously. These types are: brokerage; advertising; infomediary; merchant; direct manufacturer; affiliate; community; subscription; utility. Several other taxonomies were proposed, yet we focus on the literature of the dimensions of business models for the purpose of this research.

### **3.3. Dimensions of a Business Model**

In their review of prior literature reviews, Methlie and Haugland (2012) find that most authors include in some way three dimensions: the value proposition, the value creation (i.e. the underlying economic logic) and revenues and costs. When considering ten articles published between 2001 and 2011 on business models, they identify four categories of factors in a business model: (1) factors concerning a firm's offerings to the market, often referred to as value proposition; (2) factors concerning who the offering is meant for and how it can compete in the market; (3) factors concerning how the firm organizes its value creation; and (4) factors concerning value appropriation, i.e. a revenue model (Methlie & Haugland, 2012). In their framework, Methlie and Haugland (2012) present these four factors as four dimensions, stressing the fact that decisions about one factor will influence others, i.e. their interdependence.

Morris et al. (2005) similarly argue for consistency of the different dimensions of a business model, i.e. highlighting their interdependence. In their literature review, they develop an extensive framework including six categories of factors involved in a business model on three levels (foundation level; proprietary level; rules). The six categories are: factors relating to the offering; market factors; internal capability factors; competitive strategy factors; economic factors; growth/exit factors<sup>34</sup>.

Osterwalder (2004) proposes a business model ontology with nine building blocks in four areas a business has to address: the product (value proposition); the customer interface (target customer, distribution channel, relationship); the infrastructure management (value

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<sup>34</sup> In their article, Morris et al. (2005) apply their framework to Southwest Airlines.

configuration, capability, partnership); and financial aspects (cost structure, revenue model)<sup>35</sup>. In their Harvard Business Review article, Johnson, Christensen and Kagermann (2008) identify four interlinked dimensions that jointly create value: the customer value proposition, the profit formula, key resources, and key processes.

### **3.4. E-Business Models**

Most of business models literature started linked to the dotcom bubble and the surge of the information economy, with a strong focus on the study of online business models (Malone et al., 2006; Hedman & Kalling, 2003). Modern information and communication technologies, including the Internet, have changed the way many businesses operate. Teece (2010) highlights how the Internet leads to redefining both the business value proposition but also the approach to capturing value, the relevance of which became only too clear after the dotcom bubble.

The paper by Brousseau and Penard (2007) is particularly relevant to this thesis since it attempts to produce a framework to analyse business models with a focus on digital platforms, i.e. using digital technologies to provide amongst others information goods. Their definition of platforms is broad, as it includes software companies producing combined software components as well as information portals. To do so, they draw on several fields of economics, namely: the economics of matching; the economics of assembling; the economics of knowledge management. They argue that new business models require new ways of organizing demand and supply, pricing strategies in the context of network externalities, the specificities of information goods and digital technology's ability to discriminate.

Brousseau and Penard (2007) present three major tasks that any digital platform may perform: provide a match of supply and demand, assemble composite goods or managing information knowledge. Digital activities are the product of assembling a set of functionalities or modules, the consumption of which produces value. The user may or may not be involved in the assembling process. There are three types of functions in digital markets, and any actor can perform several functions: production; assembling; consumption.

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<sup>35</sup> This framework is also present in Osterwalder, Pigneur and Tucci (2005), which is one of the articles surveyed by Methlie and Haugland (2012).

Regarding the approach to the position in the value chain, there are two broad approaches: to build scale versus gaining a share in the value chain; Teece (2010) argues that while the essence was to gain scale during the industrial era, the focus is now in capturing value.

Osterwalder, Parent and Pigneur (2004) argue that technological change in information and communication technology (ICT) has changed the number of configurations a business can take, particularly in terms of more complex partnerships, joint value proposition offerings, or the building of multi-channel and multi-owned distribution networks. This implies more stakeholders and requires better communication.

### **3.5. Business Models versus Strategy**

As noted by Teece (2010), a successful business model does not in itself lead to a competitive advantage. In fact, successful business models tend to be imitated and to become the norm. It is the combination of a business model with competitive strategy that allows competitive advantage. Zott and Amit (2008) find that business model and product market strategy are complements rather than substitutes.

One recurrent issue in the literature is the question whether market strategy is in itself a part of a business model (Methlie & Haugland, 2012). Zott and Amit (2008) find the two to be complements, whereas in a previous article (Amit & Zott, 2001), they argue for a clear separation and focus on a transaction-based approach and exclude revenue models and market strategies. Hedman and Kalling (2003) integrate competitors and customers in the business model.

Teece (2010) finds that the business concept underlies the market strategy. “Put differently, a business model articulates the underlying business or ‘industrial logic’ of a firm’s go-to-market strategy.” (Teece, 2010, p.188). For the purpose of their analysis, Methlie and Haugland (2012) incorporate business models and market strategy, as they are closely linked in any decision-making; they also find that most of the literature’s frameworks contain elements of market strategy.

Furthermore, the external environment is a major contingent factor in business model design (Ho, Fang & Hsieh, 2011); this in turn is described as the external fit test by Morris et al. (2005).

### **3.6. Business Model of Newspapers**

Teece (2010) describes the newspapers business model as follows: “as traditional information providers, newspapers have employed a revenue model for decades in which the paper is sold quite inexpensively (usually at a nominal level, insufficient to cover costs), while publishers looked to advertising revenue to cover remaining costs plus provide a profit. In recent years, this business model has been undermined by websites like eBay and Craigslist that have siphoned off advertising revenues from job and real estate listings and classified ads: many newspapers have gone out of business.” (p. 178). This description focuses on the financials, but it also highlights how the value proposition needs to change to ensure sound financials.

Newspapers are special businesses inasmuch as their key value proposition for one of their clients (readers) is the provision of news. News and information goods are special economic goods, as discussed previously. Of relevance for the further discussion are the properties of news goods as experience goods and as a public good. While a piece of information may be one given fact, the way the information is presented as news, the point of view, the context, makes news a highly differentiated product, reinforcing in turn the importance of a brand, as does the experience good characteristics.

In a paper attempting to measure the importance of business model dimensions on performance, Fetscherin and Knolmayer (2004) define five building blocks for content delivery businesses: the product; the consumer; the revenue; the price; and the delivery.

To mention one taxonomy, Malone et al. (2006) find that publishers are a subcategory of intellectual landlords, which license intangible assets. However, newspaper publishers also gain revenue from “selling” the attention of readers to advertisers, another subcategory, the attractor. Thus, Malone et al. show the two-sided dimension of news producers, as well as a focus on news as an information good rather than as the medium (news-paper).

Additionally, the cost structure in news production is particular due to the disproportionately high fixed costs compared to the flexible costs. This is the case in most firms operating online (Brousseau & Penard, 2007).

The Internet changes the financials inasmuch as it affects the costs; reducing the fixed costs, also through advances in technology such as cloud computing, which further reduce these costs, making them variable (Teece, 2010). However, the case may not be so clear-cut. While the Internet is typically viewed to increase competition due to the low entry costs (it is relatively cheap to set up a website) and the Internet reduces the consumers search costs and

switching costs, some authors argue that in fact the long-term case that the Internet strongly reduces costs is not clear-cut; rather that the costs of establishing a reputable brand online incur substantial investments, and the investments in hardware and servers are important, which suggests a long-term high industry concentration (Daripa & Kapur, 2001).

The Internet strengthens competition for newspapers inasmuch as it facilitates entry of start-ups, and increases existing competition from foreign newspapers as well as other media providers, including state-subsidised broadcasting firms (Van der Wurff, 2005). This competition is particularly painful for local newspapers for which classified and job advertisements were a major revenue source (Van der Wurff, 2005) and affects their business model.

Methlie and Haugland (2012) identify a trend to horizontal integration as newspapers, Internet firms and broadcasters expand both content-wise and geographically to become online content platforms with multiple channels. This trend as well as increasing vertical integration does not confirm the expected disintermediation due to the Internet (Brousseau & Penard, 2007).

During the dotcom bubble, content providers got used to providing content for free, funded essentially by investors and advertising. Investor funding stopped with the burst of the bubble; advertising funding was reduced by the multiplication of channels (Pauwels & Weiss, 2008).

### **3.7. Summary of Theoretical Findings**

This chapter has presented a review of relevant literature, focussing on literature on the dimensions of business models. While major and recent literature reviews such as the one by Methlie and Haugland (2012) stress that most of the literature discusses three major blocks, namely the value proposition, the value creation and the financial model, we consider the standard model by Osterwalder (2004) which includes four major pillars (and nine building blocks). Considering the specificities of the newspaper industry and the impact of digitalisation, we will use Methlie and Haugland's (2012) approach to analysing the interaction of the building blocks, while using Osterwalder's slightly modified pillars of a business model. Brousseau and Penard's (2007) approach to the functions of Internet-based platforms will be of use in considering the product offering of a newspaper and how this interacts with other building blocks.

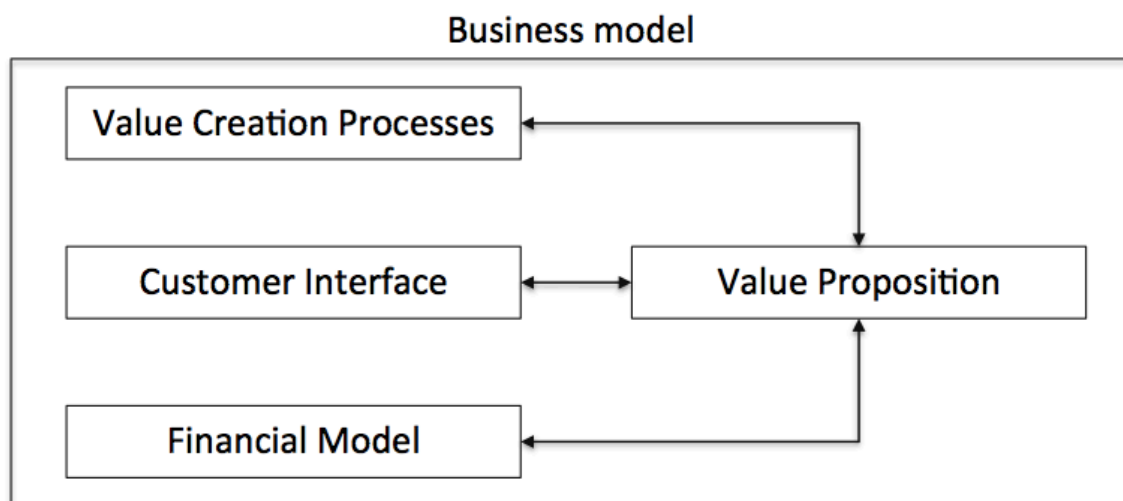
## 4. Model

The previous chapter presented a review of literature relevant to the research question, in particular on business models. We now turn to summarising the theoretical findings to create a framework for business models for newspapers. In a second step, the building blocks of the framework will be presented. Finally, the relationship between the building blocks is discussed.

### 4.1. A Framework for Business Models of Newspapers

We introduce a framework for considering newspapers' business models, including the impact of the Internet. The aim hereby is to highlight the interrelated dimensions newspaper publishers must consider when reviewing their firm's business model. In other words, this framework presents newspaper publishers with a series of choices regarding their business model and to show how these choices are inter-related.

*Figure 4: Framework for Business Models of Newspapers*



Source: Author

This framework presents the four building blocks of a business model, namely Value Proposition, Value Creation Processes, Customer Interface, and Financial Model. These can be reformulated similarly to Methlie and Haugland (2012) as questions: What value does the newspaper offer its customers? How does the firm create value for its customers? How does the firm find and interact with the reader, advertiser and consumer (in short: its customers)? How does the firm ensure its profitability with its costs and revenues? The financial model underlies the whole process, and as in Osterwalder (2004) it is transversal and influenced by all other pillars. The dependent variable is the value proposition. This model will be tested

empirically to understand the interplay of the three other business model dimensions on the value proposition, given the market characteristics that act as constraints. These four dimensions are interdependent, and the business model design implies to make decisions in all blocks, which have effects on each other; for instance, a pricing decision impacts all dimensions directly or indirectly. Methlie and Haugland (2012) also stress that, concerning the financial model, costs depend on the resources used in the value creation, and revenues are impacted by the pricing policy.

This framework was developed on the premises of the literature review of business models. Specifically, the key building blocks were selected to reflect the four pillars of Osterwalder's (2004) model, without going into the depth he offers with his nine building blocks. Rather, the four building blocks in our model allow to summarize the nine building blocks of Osterwalder and make it more convenient to work with empirically.

While Methlie and Haugland (2012) show that most of the business models' literature presents three blocks (value proposition, value creation, financial model), given the characteristics of the Internet and the economic properties of news goods, we feel it is important to make the distinction between the value creation processes and the customer interface, where Methlie and Haugland (2012) consider value creation. However, just as Methlie and Haugland (2012), we do not separate strictly business models and business strategy, as they fundamentally answer similar questions, and as the literature on building blocks typically integrates elements of strategy in the building blocks. In analysing the building blocks, we use the approach of Brousseau and Penard (2007) to the function of an online platform, in particular in the product offering.

While Amit and Zott (2001) deliberately exclude the financial model, we consider, with much of the literature, that the financial model belongs in the framework as it underlies the whole business activities – indeed, as the newspaper industry is facing a profitability challenge, it is crucial to consider the financial model in the business model.

We want to stress here two elements, specific to the newspaper industry, that affect all four dimensions of a business model of a newspaper: the Internet and special properties of news as a special economic good. They are not investigated independently in this research, as they are the core of the issue being discussed – the challenges of newspapers in a digital era.

The four dimensions of the business model are interrelated and interdependent, as in previous models by Methlie and Haugland (2012) and Morris et al. (2005). For instance, the

value proposition influences the financial model, as the value creation processes impact the value proposition. We now turn to a description of the single dimensions in this business model framework. Essentially, the customer interface, the financial model and the value creation processes impact the value proposition.

## **4.2. Value Proposition**

Value proposition is the dependent variable in this model. The value proposition covers the range of products and services produced by the firm and which are of value to the consumer. In the case of a newspaper, the three types of consumers include readers, advertisers and consumers. The value proposition therefor is triple, since the newspapers have three categories of customers: (1) readers; (2) advertisers; (3) consumers<sup>36</sup>. Hence, the value proposition of a newspaper is not limited to the provision of news in paper form, or in fact to the provision of news in general. Indeed, we have seen that new models include a newspaper publisher serving as a merchant online amongst other services. The newspaper also provides the attention of an audience to advertisers. Additionally, the news provided to a reader must satisfy one of the four potential needs: consumption; production; entertainment; voting (Hamilton, 2003).

The value proposition includes the exact product or service, the platform through which it is provided, and its pricing. Brousseau and Penard (2007) describe the value proposition as a match between user and producer, highlighting issues such as bundling. Methlie and Pedersen (2007) in their article about mobile data services describe two broad value propositions, either scope or uniqueness. In their literature review, Methlie and Haugland (2012) find that the value proposition ought to include considerations about “uniqueness, customization, newness, complementarities, horizontal services/bundles/ packages (scope), task support, quality/price position, and life cycle phase” (p.11).

## **4.3. Value Creation Processes**

The value creation processes include elements such as the value chain structure, the firm’s structure, the transaction structure, and governance. In the case of a newspaper, beyond the issues of ownership, the three basic functions include that of matching, assembling and

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<sup>36</sup> Readers are the customers that read the news provided; advertisers are customers that pay to sue advertising space; consumers are customers that buy a product or service not directly related to the two previous categories, for instance paying for a dating service, for merchandising or for wine sold through the newspaper’s website.



knowledge management, as described by Brousseau & Penard (2007). Value creation processes in a digital era include in particular the issues of the extent to which journalists interact with readers in news creation, or the extent to which inputs will be accepted from readers. Also, some content producers choose to syndicate their content<sup>37</sup>. The joint operation of major newspapers and news magazines in treating the WikiLeaks files is an example of cooperation in the value creation process<sup>38</sup>. Other forms of partnerships with online service providers such as dating sites or financial services also are sources of value creation considered in this research. One important choice newspapers make regarding their value creation processes is to unify the editorial teams for print and online, or on the contrary to maintain two separate editorial teams. Additionally, the process of selling advertising space to advertisers can be cross-media<sup>39</sup>, or separate.

#### **4.4. Customer Interface**

The customer interface covers the choice of target customer, the channel through which the customer is reached and the relationship maintained. Methlie and Haugland (2012) name this the market strategy, essentially linking the value proposition to its competitive position on the market. In the case of newspapers, the channels are essentially online or offline, as well as mobile. The novelty about online in the news industry is that it re-establishes a two-way communication, instead of the one-way communication that has long been dominant in mass media. Additionally, we consider the brand of the newspaper to be essential in the interface with the consumers, including readers, advertisers and customers. Some newspapers have been leveraging their brand image to extend into several related or non-related businesses. The low switching costs due to the Internet make customer binding all the more important. Newspaper publishers consider print and non-print activities related to news, non-print including mobile access to the website and apps. Different platforms may result in different target groups. Regarding the attraction of readers online, the importance of referral websites such as search engine Google or social network Facebook may be substantial.

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<sup>37</sup> Print syndication is the distribution of reprinting rights for an article for instance. An example of *The New York Times* whose articles are often reprinted in foreign media.

<sup>38</sup> In July 2010, WikiLeaks leaked documents about the war in Afghanistan in partnership with *The Guardian*, *The New York Times* and *Der Spiegel*. In November that year, it leaked further documents (American diplomatic cables) in partnership with the same plus *El País* and *Le Monde*.

<sup>39</sup> The cross-media sale of advertising refers to the practice whereby a newspaper will have one team selling advertising space in the print newspaper as well as on the website and on mobile apps, or have separate sales teams and limited cross-selling.

## 4.5. Financial Model

The financial model underlies the whole business model structure. It includes the cost structure and the revenue model. The difference between revenue and costs eventually represents the profits or losses the newspaper publisher makes on its newspaper operation.

As it is acting in a two-sided market, a newspaper needs to satisfy both the readers and the advertisers in a balanced way to ensure revenues. The choice of value proposition will have a strong impact on the balance of revenue between readers and advertisers – for instance a free newspaper handed out on the streets in the evening will focus more on gaining a large readership to command a larger fee from advertisers than a financial newspaper, which will charge a high subscription fee. In direct news provision as print or online, the typical sources of revenue are advertising and circulation. The pricing strategy is then a part of the value proposition.

The second mode a newspaper can generate revenue is as a merchant<sup>40</sup>. The merchant sells goods and services, for instance books it publishes, or the expertise of its journalists, or by providing other services such as a dating site or cruises. From a brand management approach, this is understood as a brand extension, essentially gaining revenue from the brand with the risk of diluting brand equity (Keller, 2008).

The digital transition has challenged the traditional revenue model and newspapers differ widely in the approach to monetising content online. There are broadly speaking three models for gaining revenue from readers through direct payment: premium, freemium, and the metered model. The premium model is exclusively paying and enforced by a strict paywall; it used for example by *The Times*<sup>41</sup>. The freemium model makes the difference between free content and premium content; a reader needs to pay a subscription fee to access the latter content. The freemium model is used for instance by *Le Monde*. The metered model offers a set of free articles every month; any user reading more than a given number of articles has to subscribe. The metered model is used for instance by *Le Temps*, *The New York Times* or *The Financial Times*<sup>42</sup>.

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<sup>40</sup> Platforms that act as “merchants” (Walmart, Amazon) gain higher profits in the presence of indirect network effects than “two-sided platforms” (eBay) which links the seller to the buyer (Hagiu, 2007).

<sup>41</sup> *The Times* is owned by Rupert Murdoch via News International; this company introduced a strict paywall for non-subscribers on the websites of all its newspapers in 2010.

<sup>42</sup> The metered paywall is a common model for newspapers of reference because it ensures frequent users pay for the content without losing occasional readers which bring along advertising revenue (Standage, 2011).

## **4.6. Relations between the Building Blocks**

The four building blocks are interrelated; any decision in one block will impact all the others. We now turn to briefly discussing systematically relations between the variables. For the purpose of this research we focus on the relations between the independent and the dependent variables.

### **Value Creation Processes – Value Proposition**

The Internet has reintroduced a social dimension in media, with the opportunity for a two-way communication. While journalists often keep an editorial role, newspapers increasingly offer their readers the option to participate in a conversation and present their views or their input. This input may then be used in the production of news by the paper's staff. Additionally, the decision to integrate the online and print editorial teams leads to one content across all platforms, whereas keeping two separate teams, a value creation processes decision, impacts the value proposition by providing different content in print and online.

### **Customer Interface – Value Proposition**

The value proposition is the service or product that brings value to a customer, including the platform through which it is delivered. In the case of newspapers in a digital era, the channel through which the news provided by a newspaper is crucial and determines the value proposition. Providing the same content seamlessly across platforms (print, online, mobile) or differentiating the content in pricing depending on the platform changes the value proposition, and is directly linked to the customer interface. Hence, the customer interface and the value proposition are interrelated.

### **Financial Model – Value Proposition**

The value proposition includes pricing decisions. Pricing a news service, be it in print, online or mobile, directly impacts the financial model. The financial model includes the positioning decision regarding revenues and costs, and is related to the value proposition: does this newspaper provide high editorial content, which is costly? Or does it focus on low editorial content and sensational content, which is less costly to produce? Similarly, decisions on the value proposition determine the size of the readership, which in turn impacts the potential advertising revenue, hence the financial model. Decisions in the financial model, both on the cost and revenue sides, impact the value proposition; decisions on the value proposition similarly impact directly costs and revenues.

## **4.7. Limitations of the Model**

This model draws on relevant literature of business models, and in particular networks. Given characteristics of news goods, the original market a newspaper operates in, the importance of the brand became clear. While the revenue model presented here is based on literature, nothing prevents a newspaper from developing further. In fact, it is possible that media convergence strengthens going forward and that the category ‘newspaper’ becomes less and less relevant, as some newspapers terminate their print operations and continue solely online. The divide may then come to be between investigative journalism, news reporting, and entertainment, rather than between newspaper, radio, television, etc.; this would mean a new definition of categories based on the content rather than on the medium. While the focus of this report and research is on newspapers, we believe that to a certain extent this framework may be applied to other firms operating in the news industry.

Additionally, this model focuses on the relations between each independent variable and the dependent variable, the value proposition. However, the independent variables interact equally, even though these interactions are outside the scope of this thesis. For example, the customer interface, as the way to select and reach customers, clearly impacts the revenues and costs, and hence the financial model. As a case in point, decisions on the way in which advertising space is sold to advertisers is crucial to the financial model: Does the newspaper decide to have separate sales teams, or one integrated sales team for all platforms? Similarly, as digitalisation allows for users to increasingly be involved in the value creation processes, as interactivity on the online platform of newspapers is increasingly relevant, customer interface and value creation processes become increasingly interdependent. Lastly, decisions on the way the value creation processes are structured impact strongly on the cost side of the financial model: Should resources be pooled for creating the content, or should separate editorial teams be created? How much editorial content should be created? While these are all interesting questions, we focus for the purpose of this thesis on the relations between each of value creation processes, customer interface and financial model on the one hand, and value proposition on the other.

## **5. Methodology**

This chapter introduces the research design for this report and addresses issues of validity and reliability, justifies the data collection process and reviews the credibility of the research findings.

### **5.1. Research Design**

The research design is the overall plan on how to answer the research question (Saunders; Lewis & Thornhill, 2007). This includes providing specific goals, indicating the sources that will be used and highlighting potential limitations (Saunders et al, 2007).

According to Saunders, Lewis and Thornhill (2007), academic research can be divided into three categories, namely exploratory, descriptive and explanatory. Exploratory research allows to gain first insights into a topic, to better understand the problem; such research is primarily conducted in the form of a literature review, interviews with experts, and focus group interviews. The advantage of exploratory research is its flexibility, which does not mean a lack of focus, but rather a narrowing focus as the research advances (Saunders et al., 2007).

Descriptive research presents persons, events or situations as accurately as possible. Such research is rarely independent, but rather part of a more extensive research including exploratory or explanatory research (Saunders et al., 2007). Put otherwise, descriptive research usually is not an end in itself, but rather a means. An explanatory research aims at explaining causal relationships between variables. This may be based either on quantitative or qualitative data (Saunders et al., 2007).

This thesis uses an exploratory and descriptive research design, as an extensive literature review and interviews are used to test qualitatively a framework of business models for newspapers.

A range of research strategies can be used, which are typically either deductive or inductive. They are not mutually exclusive and include for instance experiments, archival research, surveys or case studies (Saunders et al., 2007). This thesis uses case studies to test the framework and its applicability. Robson (2002) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (p.178). The context is important to understand the case studied (Yin, 2003). For the purpose of this

research, we therefor provide context on the market the newspapers studied are operating in. When using a case study strategy, the design can include one or several cases; in Yin's (2003) formulation, single or multiple case, and a holistic or embedded design. In the case of this thesis, we consider several case studies in different countries: a multiple case approach with a holistic design. Since no single newspaper publisher is unique in dealing with the challenges the industry faces, and hence no single case is critical or revelatory, there is no strong argument for a single-case approach. In a qualitative research, the focus in selecting cases is not on representativeness, but rather conceptual grounds (Yin, 2003).

News is a highly differentiated product, and each newspaper operates within a national context with its own specificities. Considering one newspaper in several countries allows to enhance the credibility of findings.

The purpose of this thesis is not to come up with one specific business model for a newspaper in order to set up a business, but rather to show the key dimensions of a business model that are required of a newspaper in today's world. The focus is on Western newspapers, as the challenges faced by Western and other newspapers differ, in a context of sinking versus raising circulation, for instance, or also different Internet penetration rates.

To sum up, this is both a descriptive and an exploratory research. In its descriptive part, the research reviews literature and data about the newspaper industry. This is the basis for the framework, which allows to construct the interview questions. In the exploratory part of the research, primary research is conducted as case studies of several newspapers in order to test the framework developed.

## **5.2. Data Collection**

Data may be collected either as quantitative or qualitative. Quantitative research is used to gather large amounts of data, usually for it to be analysed statistically. Qualitative research techniques generate non-numerical data. Data collection for a case study may be based on a range of techniques, including interviews, observation, documentary analysis or questionnaires (Saunders et al, 2007). In this research, we use a combination of secondary data collected through observing the products and services offering on the website of the newspaper and primary data through interviews.

According to Saunders et al. (2007) there are several categories of interviews: structured interviews; semi-structured interviews; unstructured or in-depth interviews. Structured

interviews present the same questions in the same tone of voice with the aim of gaining a large sample of quantifiable answers. Semi-structured interviews follow a list of questions or of themes, but are asked in an order depending on the flow of the interview; follow-up questions may be asked for clarification purposes. Such interviews are typically recorded. Unstructured or in-depth interviews are informal and flow largely based on the responses of the interviewee. The last two categories of interviews are qualitative interview methods. One interview can contain several techniques, such as starting as a structured interview for the information about the interviewee before moving on to a semi-structured interview.

The interviews are conducted as semi-structured interviews; interview guidelines serve as a basis for the interview, but follow-up questions are asked to clarify if necessary, or to explore topics particularly relevant to the case. These interviews are conducted mainly on the phone, in English or in French. The interview duration varies from 25 minutes to one hour, with an average of approximately 40 minutes.

The advantage of the interview is manifold: it allows the respondent to think freely; it allows to cover more grounds and is easier for the respondent (as opposed to filling in a questionnaire). Interviews are recommended when the questions are complex or open-ended (Saunders et al., 2007).

Interview respondents are newspaper publishers, employed on the business-side of the firm rather than journalists. This is because the range of services and products offered by newspapers goes beyond the news provision and the publishers appear more likely to have a deep understanding of the firm's business model.

### **5.3. Presentation of Cases**

We now turn to briefly presenting the newspapers whose managers were interviewed for this research. They are all European newspapers and major actors in their market for one reason or another. The selection of cases is based first on an interview request sent by email or by telephone to a sample of fifteen major newspapers including web-based (paying), paper-based (free and paying) in a range of countries. The final selection is based on gaining sufficient access to valid information, both through research prior to the interview and to gaining access to a senior manager for an in-depth interview. Additionally, it is worth mentioning that the range of different types of newspapers highlights the fact that this thesis does not aim at providing a taxonomy of business models for newspapers, as do for instance

Malone et al. (2006) with companies of all industries, but rather to understand the essential dimensions of the business model and their interplay through a framework.

Table 1 presents an overview of the interview respondents, the date and mode of the interview as well as the newspaper or news organisation they represent.

**Table 1: Overview of Interview Respondents**

<b>Newspaper name</b>	<b>Country</b>	<b>Interview respondent</b>	<b>Interview respondent title</b>	<b>Date of the interview</b>	<b>Interview mode</b>
<i>20 Minuten</i>	Switzerland	Mr Steven Goodman	Head of Business Development	04/07/2012	Phone call
<i>Aftenposten</i>	Norway	Mr Sondre Gravir	CEO and Head of the Administration	27/06/2012	Phone call
<i>Die Zeit</i>	Germany	Mr Christian Röpke	Managing Director, Zeit Online	31/07/2012	Phone call
<i>Le Temps</i>	Switzerland	Ms Virginie Fortun	Member of Management, Head of Strategic Development	03/07/2012	Meeting
<i>Mediapart</i>	France	Ms Marie-Hélène Smiéjan	Co-founder, Financial and Administrative Director	02/08/2012	Phone call
<i>Süddeutsche Zeitung</i>	Germany	Mr Ulrich Bensel	Director Süddeutsche Medien Holding Human Resources	29/07/2012	Email
<i>The Guardian</i>	United Kingdom	Mr Stephen Folwell	Director of Business Development and Brand Extensions	02/07/2012	Phone call
<i>Verdens Gang</i>	Norway	Mr Jo Christian Oterhals	Digital Director	01/08/2012	Phone call

Source: Author

All newspapers are introduced by addressing their ownership, their country and positioning, their product offering, their circulation, the foundation year and a brief description of the position of the person interviewed at each newspaper. The cases are studied in detail in the findings chapter.

### **5.3.1. 20 Minuten**

*20 Minuten* is a free daily newspaper handed out in Switzerland in particular at commuting points. Originally founded by the Norwegian media conglomerate Schibsted, it subsequently was sold in 2005 to Swiss media conglomerate Tamedia. With *20 Minuten*, Tamedia has a large circulation free newspaper – in fact, *20 Minuten* is Switzerland’s newspaper with the largest circulation: according to market researcher WEMF (2011), *20 Minuten* has a circulation of 699’612 in the French and German-speaking regions in 2011. *20 Minuten* is headquartered in Zurich, Switzerland.



Reflecting the country's three languages, it currently exists in three versions: *20 Minuten* (German-speaking part); *20 minutes* (French-speaking part); *20 minuti* (Italian-speaking part). Each language newspaper has a main editorial centre (Zurich, Lausanne and Lugano-Breganzona), producing most of the content; the German and French-speaking regions have additional sub-regional editorial team that produce regional content on two pages. Having been founded in 2004, *20 Minuten* has had an online presence from the start.

The interview respondent is the Head of Business Development, Mr Steven Goodman.

### **5.3.2. Aftenposten**

*Aftenposten* is the largest newspaper in Norway by circulation<sup>43</sup>; according to the Norwegian media industry association Mediebedriftenes Landsforening, *Aftenposten's* circulation in 2011 was of 235'795 for its morning edition, and of 101'754 for its evening edition. It is owned by the Norwegian media conglomerate Schibsted<sup>44</sup>, which also owns *Verdens Gang*, another of our case studies. *Aftenposten* was founded in 1860 and is based in Oslo, Norway.

Its products include a morning daily newspaper with a national distribution and, since 1989, an evening paper distributed in Central Eastern Norway.

The interview respondent is *Aftenposten's* CEO and Head of the Administration, Mr Sondre Gravir.

### **5.3.3. Die Zeit**

*Die Zeit* is a major German weekly newspaper headquartered in Hamburg, Germany. Published since 1946, its readership is rather highly educated. It is owned by the Verlagsgruppe Georg von Holtzbrinck, a large German media conglomerate. According to IVW<sup>45</sup>, average circulation of *Die Zeit* in the last quarter of 2011 was 537'129. *Die Zeit* has also had an online operation since 1996, *Zeit Online*.

The interview respondent is the Managing Director of *Zeit Online*, Mr Christian Röpke.

### **5.3.4. Le Temps**

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<sup>43</sup> It took the position of most circulated Norwegian newspaper back from *Verdens Gang* in 2010.

<sup>44</sup> Schibsted owns assets outside of Norway also, including the 20 Min Holding AG which publishes a form of free daily newspaper including *20 minutes* in France and *20 minutos* in Spain; this firm previously owned *20 Minuten* in Switzerland, which now belongs to Swiss media conglomerate Tamedia AG and is another of our case studies.

<sup>45</sup> The Informationsgemeinschaft zur Feststellung der Verbreitung von Werbeträgern e.V. is a German state organisation that audits circulation of advertising supports, including newspapers.

*Le Temps* is a newspaper from French-speaking Switzerland based in Geneva. It was founded in 1998 as the merger of two former daily newspapers. Its ownership structure is particular in that it is owned largely at equal share by the two Swiss media conglomerates Tamedia and Ringier, as well as smaller shares by the French newspaper *Le Monde*, a private banker and the editors of the newspaper. Since 2004, it has developed an expertise focus on the areas of Swiss and international politics, economics and finance, and culture. Its circulation is 133'000 throughout Switzerland, with a focus on French-speaking Switzerland (119'000) in 2011 (Le Temps, 2011). It is a daily newspaper with a weekend edition.

The interview respondent is the Head of Strategic Development and Member of Management, Ms Virginie Fortun.

### **5.3.5. Mediapart**

*Mediapart* was founded in 2007 and first published in 2008 as a pure online player. Founded by reputable journalists, including former leaders of French newspaper *Le Monde*, it is purely subscription based (9 euros per month) and does not have any advertising revenue. Beyond its editorial content provided by its currently 30 journalists, it invites subscribers to contribute in its participatory edition, *Le Club*. It offers three daily updates to its content. *Mediapart* claims over 60'000 subscribers, allowing it to break even financially since 2011. It is owned by the founders, the editors and a small number of individual investors.

The interview respondent is the Co-Founder and Financial and Administrative Director, Ms Marie-Hélène Smiéjan.

### **5.3.6. Süddeutsche Zeitung**

*Süddeutsche Zeitung* is a German daily newspaper published since 1945 and headquartered in Munich, Germany. It is the successor of *Münchener Neuesten Nachrichten*, a newspaper published from 1848 to 1945. The newspaper is 81.25% owned by Südwestdeutsche Medien Holding (SWMH) while the remainder is owned by one publisher family. According to the IVW, average daily circulation in the second quartal of 2012 was 436'661.

The interview respondent is the Director of Süddeutsche Medien Holding Human Resources, Mr Ulrich Bensel.

### **5.3.7. The Guardian**

*The Guardian*, founded in 1821 as *The Manchester Guardian*, is a national British newspaper. While it is the second largest newspaper in terms of circulation on a national scale<sup>46</sup>, it has a large impact. According to numbers by ABC<sup>47</sup>, the average daily circulation of *The Guardian* for June 2012 was 211'511, on a downward trend<sup>48</sup> (Sweney, 2012). Owned by the Guardian Media Group, or GMG, a trust owning media company<sup>49</sup>, it has early on pursued an online strategy deliberately offering its content for free<sup>50</sup>. The newspaper is a daily and is headquartered in London, UK.

The interview respondent is the Director of Business Development and Brand Extensions, Mr Stephen Folwell.

### **5.3.8. Verdens Gang**

*Verdens Gang* is a Norwegian daily newspaper headquartered in Oslo, Norway, and published since 1945, although its origins date back as a weekly paper to 1868. The paper is owned by Schibsted, a Norwegian media conglomerate. According to Mediebedriftenes Landsforening, *Verdens Gang's* average daily circulation in 2011 was 211'588. Next to its print edition, it runs an online operation, *VG Nett*, which has been profitable since 2006 (Pfanner, 2007).

The interview respondent is the Digital Director, Mr Jo Christian Oterhals.

## **5.4. Credibility of Research Findings**

The research design ought to enhance the credibility of research findings. We now turn to a discussion of the two main dimensions of findings credibility: reliability and validity. We then address the generalisability of findings as well as limitations.

### **5.4.1. Reliability**

Reliability refers to the consistency of findings, i.e. the extent to which the same findings can be made under the same conditions by someone else. In the case of semi-structured

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<sup>46</sup> According to numbers quoted by Mr Folwell during the interview, *The Guardian* is the 9<sup>th</sup> largest newspaper in the UK by circulation.

<sup>47</sup> The Audit Bureau of Circulations (ABC) is the British industry body for circulation measurement.

<sup>48</sup> The circulation is down 17.47% year-on-year (Sweney, 2012).

<sup>49</sup> In the context of the convergence of media discussed earlier in this thesis, it is interesting to note that the trust has diversified into a range of media but has divested its radio business in late June 2012 (Guardian Media Group, 2012). The Guardian Media Group also owns *The Observer*, the country's oldest Sunday newspaper.

<sup>50</sup> As we will discuss later, this is a controversial strategy. According to de Lisle (2012), *The Guardian* has been losing 100'000 pounds per day over the past three years.

interviews, two major biases need to be considered. First, the interviewer bias describes the extent to which a bias is created by the way the interviewer asks the question, the tone, the way the question is framed, and whether the interviewer is perceived as credible (Saunders et al., 2007). Secondly, the respondent bias describes cases in which the respondent may not wish to disclose certain information, or may have strong time constraints in answering. Firm representatives are unlikely to provide detailed data on, for instance, the conversion rate from free to paying subscribers, for confidentiality and competition issues (Pauwels & Weiss, 2008).

Given the dynamic of the news market, the semi-structured interview aims at gaining an understanding of newspaper publishers' view of their business at a given moment in time. Interviewer bias is aimed at being reduced by a friendly tone and extensive knowledge of the public information about the firm, as well as by providing sufficient information to the respondent about this research prior to the interview. Respondent bias will be reduced by clarifying the timeframe for the interview prior to the interview and by being transparent about the use of this research.

A final point regarding the reliability is the cultural issue. Publishers in different countries come from different cultural backgrounds and typically interact differently. An awareness of cultural issues (as described by Hofstede, 1980, and Trompenaars & Hampden-Turner, 1997) by the interviewer should further reduce interviewer bias.

#### **5.4.2. Validity**

Validity refers to the extent to which the research design allows to answer the research question using scientific methods, or in other words whether the data actually describes what it is expected to describe (Saunders et al, 2007). In in-depth interviews validity is enhanced by the opportunity to ask follow-up questions and to clarify ambiguities. The choice of interviewing newspaper publishers, i.e. individuals employed on the business-side of the business, is deliberate to ensure a view of all products and services, whereas a journalist might focus on the part of the business he is involved in, i.e. news production.

#### **5.4.3. Generalisability**

Sometimes named external validity, generalisability describes the extent to which findings can be applied in another setting (Saunders et al., 2007). The question for this research is: are the findings applicable to newspapers that were not studied directly in this research? To the

extent that this thesis describes its limitations in considering ownership structure to a limited extent, its focus on European newspapers and the issue of media convergence, its aim is to test the framework developed. The focus is limited and not expected to be generalisable to all news organisations or even to all newspapers in the world. Additionally, the activity of businesses in an industry being disrupted by a new technology calls for innovation. Newspapers considered in this research may have a solution to make both their own print and online businesses financially sustainable, none has a perfect, generalisable plan as the business model depends on the positioning of the newspaper, i.e. the value proposition depends amongst others on the customer interface and a set of combinations are feasible.

#### **5.4.4. Limitations**

Gaining sufficient access to information is key in in-depth interviews as the basis of an empirical research. Addressing issues such as profitability in a competitive industry such as strategic choices with executives of a firm in this industry may prove difficult. We expect to build up trust and gain access to some data, but are aware that plans about mid-term strategic decisions and expectations are unlikely to be addressed openly if competitive risks are involved.

## 6. Findings

This chapter presents in a descriptive manner the findings of the research conducted as described in the methodology chapter. In describing the single issues addressed in this research, we will present the exemplary situation of newspapers studied as well as direct quotes from interview respondents. However, for the purpose of keeping this section of a reasonable size, we will not systematically address all newspapers in details in all dimensions. We conclude all building block findings with a summary of key findings in a table.

### 6.1. Value Proposition

The value proposition is the dependent variable in the model and describes the value provided to the customer, be it the reader, advertiser or consumer. According to Mr Gravir of *Aftenposten*, what a newspaper does, in particular online, is “to handle readers’ attention, to get the time of the consumer, and to get money from the advertisers”; we additionally consider the ways in which newspapers act as merchants of non-information goods.

#### 6.1.1. For readers

Readers research news for different reasons<sup>51</sup>, which is reflected in the positioning of single newspapers and in their value proposition for readers. The Internet has changed the value proposition of newspapers inasmuch as it has altered the pricing policy, the distribution channel, the communication interface with the readers and even the way journalists work to produce news. We now review the value proposition of our case studies for readers, considering both print and digital offerings.

##### *20 Minuten*

Beyond its free daily print newspaper, *20 Minuten* had a website from the start of its print operation, although at the beginning “the crew working on the website was rather small”, says Mr Goodman. The first mobile app was launched with the first iPhone. The target group is 18-30 years old.

##### *Aftenposten*

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<sup>51</sup> As described previously, reasons to consume news good can include entertainment, consumption, voting, production (Hamilton, 2003).

*Aftenposten*'s online content is currently still free, and its print audience is mainly in the Oslo region. The pricing policy impacts the interaction with the reader, since the website is "the sales shop in a way, so you may want to give away some content for free to start with", says Mr Gravir of *Aftenposten*.

### ***Die Zeit***

*Die Zeit* sees as one of its key strengths that its newspaper has a beginning and an end. It takes a certain time to read, and once read, it is a thing done during the day, says Mr. Röpke. A message may have to be presented in a shorter version on the website. Hence *Die Zeit* presents two categories of products: (1) the newspaper, in print, on Kindle and as an app or as a PDF download, with its structure and its flow; (2) its online presence, with often shorter stories and the option to personalise by bookmarking articles of special interest ('Meine Zeit'). Additionally, Mr Röpke of *Zeit Online* argues that being a weekly newspaper is an asset for *Die Zeit*, as opposed to daily newspapers for which "it is much more difficult to have a good positioning of these two products next to each other: the newspaper on a daily basis and the website". "People rip out articles, they scissor them out because they love them so much" says Mr Röpke, "so we try to reinvent that in a digital format".

### ***Le Temps***

*Le Temps*' positioning is defined as 'quality paper'<sup>52</sup>, with a triple focus: economics and finance; culture; as well as national and international politics. Founded in March 1998, it started with both a print edition and a website providing free content and the PDF version for a subscription fee, says Ms Fortun. *Le Temps* introduced a paywall on its website *letemps.ch* in January 2011 on a metered model, charging a fee after 10 articles for free per month. "The brand is essential online", says Ms Fortun.

The cross-platform subscription offering reflects the different range of information needs of one person throughout the day, says Ms Fortun; "what we try to do at *Le Temps* is to provide an uninterrupted reading experience; this means that, for us, whether a reader comes through the iPhone app, via print, via the web or via a tablet is not important; what is important is that he finds high quality information when he wants, in the format he wants; that is our challenge". This positioning, Ms Fortun explains, makes sense since she sees a clear trend to

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<sup>52</sup> A quality paper is a newspaper that is broadly considered to have high editorial standards and to describe news seriously.

a digital transition, yet the moment of the transition point when the migration of readers and advertisers to online is difficult to predict.

*Le Temps* is not running after the audience in numbers, says Ms Fortun, “rather, we focus on our target group: leaders and top leaders, people with a high education, with a high revenue, with a decision-making power in their firm and who use *Le Temps* in their professional life”. Additionally, the online operation allows *Le Temps* to reach new audiences in French-speaking France and Canada.

### ***Mediapart***

*Mediapart* views itself as “a daily information provider, independent and participatory”, with a deliberate choice of a paying financial model, and as a pure online player, says Ms Smiéjan. It is a daily because it provides three major updates to its content every day. It is a provider of information, political and general, with an editorial comment, a deliberate choice in the news and information provided, including investigation work. *Mediapart* is independent, inasmuch as it is owned largely by the founders, while the largest French newspapers are owned by large conglomerates. It is participatory, because *Mediapart* offers first the online newspaper produced by its journalists, and *Le Club*, a platform for readers’ content, including comments and blogs. *Mediapart* also offers several mobile apps. Although it is an online actor, *Mediapart* has considered it important to have on its website both a cover page, like a print newspaper, and tabs for the single sections, like the sections of a print newspaper. It also offers the option to receive the weekly selection by mail in print.

### ***Süddeutsche Zeitung***

*Süddeutsche Zeitung* uses its online operation to present current news, while the newspaper in print offers more reporting with background information, according to Mr Bensele. Yet the value proposition remains the same: the high quality content of *Süddeutsche Zeitung* both online and offline.

### ***The Guardian***

In the future, for *The Guardian*, “the key is the degree to which you can build a sufficient brand and relationship with an audience so that you can build on content services, with non-text, audio or video that they may want to pay for, you can provide them with other e-commerce services and products”, says Mr Folwell. *The Guardian* aims at positioning itself “in the UK as a cross-platform brand which is about delivering the whole picture to our



audience; outside the UK we have very little association with print, so in that sense we are digital outside of the UK”, states Mr Folwell.

### ***Verdens Gang***

“The value proposition is to keep our readers updated at any time on news and sports and to be entertaining”, says Mr Oterhals. *Verdens Gang* has been online for 17 years and has many more readers on the online edition than in print; “the majority of our audience now connects with us through the Internet” explains Mr Oterhals. The Internet is the most important platform for providing breaking news. Most online content is produced specifically for the web platform. “I think that online we have brought something extra to the brand, for instance we have a slightly different kind of journalism, different in what it covers, in what it produces, for instance the newspaper is mainly a bundle of hard news, of sports and of entertainment; online, we also complete the brand with economics and finance news for instance, we complete it with lots of entertainment content such as TV series, so I think that we are expanding the brand online”, says Mr Oterhals. The main difference in content is a focus on comment in the print edition.

The main strategy to attract readers “has been to be the most up-to-date and the best on the big news”, which includes expanding the definition of what is news, to include for instance the death of Michael Jackson as big news. The Internet then allows to provide readers “some way of ventilating, either by comments or the possibility to add their condolences to a protocol, social functions like that are very important”. The Internet operation being more multimedia, it has video teams that are more mobile and faster than TV teams, allowing to provide live coverage online of current events fast.

### **Partnerships for Innovative Solutions**

Newspapers differ in the extent to which they partner with innovative new solutions and firms. *The Guardian* embraces new technological developments and partners for instance with Flipboard, an application that aggregates news via social media and creates a magazine that can be flicked through; or also through the social reader app on Facebook. Other newspapers showed more restraint in using social readers on Facebook, for example *Le Temps* and *Mediapart*.

### **The Importance of Print for the Future of the Newspaper**

The importance allocated to the print operation for the future of the business differs widely. *Die Zeit* views itself as a print business with online operations, providing its newspaper also

electronically. *Aftenposten*, as a subscription based newspaper, has a loyal readership attached to the printed edition, while *Verdens Gang*, mainly sold over the counter, is less. Mr Oterhals does not see print as essential to the future of *Verdens Gang*; “in the long term, print will not be here”. Hence *Verdens Gang* is working on managing the digital transition, while being aware that the print business still is and will remain for years to come a good business. Mr Gravir sees *Aftenposten* continuing its print operation at least for another ten years, but cannot predict beyond. Ms Fortun sees the paper remaining important, due to the reader experience, even if it might have to be subsidized by the digital operation in the future.

### **Competition for Readers’ Time**

Newspaper publishers are aware that competition for readers has intensified with digitalisation, yet the definition of the competition differs from newspaper to newspaper. For Mr Röpke, “the new competitors are basically all that publish a website with qualitative content on it”; As *Die Zeit* is a weekly newspaper, “we used to compete against weekly magazines and other weekly newspapers; now on the web we compete with daily newspapers, with monthly magazines, we compete with TV stations, we even compete in Germany with T-Online, an Internet access provider because they have a news site”. “Basically, you compete on a certain budget of people”, says Mr Röpke, “but I think that this has intensified because of the rise of the digital era”. For *20 Minuten*’s Mr Goodman, “in the digital world, there is a lot of competition from international players; it is more a competition for media usage time, for users compared to competition for ad spending”. “We see a lot of users that not only use our website but also read articles from *Der Spiegel* for example in Germany”, he explains. For *Verdens Gang*, “the competitive landscape online is much, much harder to define than in the print world; when you are online you have traditional competitors such as *Dagbladet* there too, but there also is the Norwegian Broadcasting Company NRK, a competition for people’s time, so Facebook and lately Twitter”.

### **6.1.2. For advertisers**

Advertisers have long driven revenues of newspapers, with shares up to 80% in the US (Standage, 2011). To attract advertisers, newspapers need to offer them an attractive value proposition.

### **Niche Classifieds**

The classified market is widely regarded as being gone for most newspapers (Standage, 2011). Yet on some niche markets, newspapers appear to be able to maintain a strong standing. Comparing his newspaper to *The Economist*, Mr Röpke highlights *Die Zeit*'s strong standing on the classified market for academic positions, as well as qualified staff for private clinics or high-level civil servants.

### **Offering a Targeted Audience**

Newspapers may have a very specific target audience, which they sell to advertisers. *Le Temps* focuses on highly educated, professionally successful readers with a high revenue, and the same audience is available throughout all devices (print, mobile, online); they are simply slightly younger on digital platforms, says Ms Fortun. Beyond the overall audience of a newspaper, the Internet allows to further segment the audience via online, targeted advertising. This is an opportunity available online that attracts advertisers. Most newspapers offer it, for instance *Die Zeit*; “we offer some targeting, for example we have one targeting aimed at decision-makers on our website”, says Mr Röpke. The sale of the advertising space to this target audience is operated by one advertising agency that sells advertising space at *Die Zeit*, *Handelsblatt* and *Süddeutsche Zeitung*.

### **Redefining Competitors**

Most newspapers identify that due to the Internet, they increasingly compete with new companies. “In terms of giving the audience high quality journalism, I would not say that we are competing with international giants like Google etc., but in terms of the advertising money and in terms of the readers’ time of course we are competing with non-traditional content providers” says Mr Gravir of *Aftenposten*. While *The Guardian* provides news content, its competitors, both news and non-news, are also aiming at people’s time, such as Facebook which also are a partner of the newspaper. “You are essentially competing with anyone who can command a decent amount of time from an audience”, comments Mr Folwell. While aiming for a global readership online, commercially, *The Guardian* is “focussing on the UK obviously and then the US next”. For Mr Oterhals, “when it comes to ads Google is a competitor”.

### **The Importance of Audience Reach**

*20 Minuten*'s business model is “based on audience reach”, says Mr Goodman, “it is absolutely essential for us to be the most read daily newspaper, the most visited website online, to be the most used mobile app”; as a free daily, *20 Minuten* relies nearly entirely on

advertising revenues. “All the editorial content is aimed at generating maximum reach”, which explains why stories are not scandalised on the first page, so as not to lose any readers. *20 Minuten* provides advertisers with a national offering: “an advertiser who wants to get a national coverage can come and speak to us and there is one price, it makes it really simple for the client”, comments Mr Goodman.

### **6.1.3. For consumers**

Many newspapers have used their brand to offer branded products and services. Products include anything from bathing towels to edited DVD and books collections through calendars and wine. Services include dating websites, organised trips and conferences.

The newspaper’s brand and its positioning is key to successfully extending the brand with products. “*Aftenposten* has a position in its market, among the readers, both in terms of volume and brand position to absolutely move into new areas, to grow our business, that is something we are working on”, so Mr Gravir. Schibsted, owner of *Aftenposten* and *Verdens Gang*, owns a classified website, finn.no, with a strong position on the Norwegian market.

Newspapers are very creative in their non-news offerings. *Die Zeit* offers “Die Zeit Akademie, a business academy, we have a business, Zeit Reisen, where we sell special up-market trips, we have our e-commerce offering on the website; for example we have bought information from the German state about 14’400 university courses, basic information that we have put online and we are letting universities pay us to let them upgrade these basic profiles into premium profiles, because we have a lot of potential students on our websites, so the universities give us content and money”, says Mr Röpke.

### **Key findings**

Table 2 presents a summary of the key findings on value proposition.

**Table 2: Key Findings on Value Proposition**

For...	<i>20 Minuten</i>	<i>Aftenposten</i>	<i>Die Zeit</i>	<i>Le Temps</i>	<i>Mediapart</i>	<i>Süddeutsche Zeitung</i>	<i>The Guardian</i>	<i>Verdens Gang</i>
<b>readers: Print offering</b>	- Free daily newspaper	- Focus on the Oslo region - Morning and evening editions	- Weekly newspaper	- Daily newspaper	- Self printed for subscribers	- Daily newspaper focussing on reporting and analysis	- National daily	- Daily newspaper focussing on comment
<b>Online offering</b>	- Free website	- Free website	- <i>Zeit Online</i>	- Registered users - 10 free articles/month	- Mediapart (newspaper) - Le Club (participatory)	- Free website with current news	- Free website	- Free website (includes economic and financial news)
<b>Mobile offering</b>	- Free news app - Paying TV app	- App	- <i>Die Zeit</i> app (paying) - <i>Zeit Online</i> app (free) - Other apps	- App	- App	- Freemium app	- Range of free and paying apps	- Range of apps
<b>Pricing</b>	- Free	- Paying in print - Free online	- Paying in print - Free online	- Subscription across platforms	- Subscription	- Paying in print (subscription), - Free online	- Paying in print - Free online	- Paying in print - Free online - VG+ subscription
<b>Positioning</b>	- Free daily newspaper	- Quality paper	- Weekly quality newspaper	- Quality paper	- Daily, independent & participatory	- Quality paper	- Quality paper	- Tabloid newspaper
<b>Target group</b>	- Commuters - Young people	- No comment	- No comment	- Leaders & top leaders in French-speaking CH	- French readers - Interest in investigative news - 45-65 y.o.	- No comment	- Readers around the world	- Norwegians
<b>Partnerships for technology</b>	- Yes	- No	- No	- No	- No	- No	- Yes	- Yes
<b>Perceived competition</b>	- International players - Competing for users media time	- Competing for attention online	- Newspapers - All websites with qualitative content	- News providers & magazines targeting same group	- To a limited extent, other French news providers	- Print sector, online and in print	- Competing for time online	- Competing with all websites for people's time
<b>advertisers Classifieds</b>	- Cross-platform reach	- No comment	- Niche in positions in academia, private clinics & state	- Cross-platform targeting leaders and top-leaders in French- CH	- Irrelevant	- No	- No comment	- No comment
<b>Target audience / audience reach</b>	- Audience reach (Switzerland)	- Audience reach (Norway)	- Balanced	- Target audience	- Irrelevant	- Balanced	- Audience reach (UK & US)	- Audience reach (Norway)
<b>consumers Offering</b>	- Tickets, dating services, etc. with partners	- Work in progress	- Business academy; trips; other e-commerce	- Testing travels, co-edition	- Edition	- Editing of DVDs and books - Various e-commerce	- E-commerce (travel, finance); dating business; courses; etc.	- Weight-loss club and other e-commerce activities

Source: Author

## 6.2. Value Creation Processes

While the traditional value chain of a newspaper was previously described, digitalisation changed the way journalism is practiced and the way newspaper businesses are organised. We address now some of these changes and the way our case studies face them.

### Separate or Integrated Editorial Teams

Newspapers differ widely in their approach to separating or integrating their online and print operations and hence in their value proposition. In our sample, we see newspapers with two entirely separate teams (*Die Zeit*), newspapers with one integrated team (*Le Temps*), newspapers with the two models in two regions (*20 Minuten*) and newspapers that have operated a merger of their two operations (*Verdens Gang*).

In terms of editorial teams, *Die Zeit* and *Zeit Online* have separate teams and separate editors-in-chief, says Mr Röpke. This reflects the different time horizon these teams operate in (constant updates for the former, weekly for the latter). While the website used to publish a lot of print content, that has changed since the website produces a lot of content itself.

Since 2009, *Le Temps* has one single integrated editorial team producing content for all platforms; this is based on the vision that “the journalist’s expertise is what is relevant, not the distribution channel”, says Ms Fortun. Yet providing content online “is not just taking the print content and displaying it on all devices; it is creating specific content with a rhythm and a format adapted to the device”, explains Ms Fortun. Online calls for multimedia content, and the newspapers rhythm is changed, as the deadline is not once a day<sup>53</sup>, but continuously.

*20 Minuten* has two bases, one in Lausanne for the French edition, and one in Zurich, for the German edition. “In Zurich, there are two editorial teams, one for the print edition and one for the website and mobile”, explains Mr Goodman, “whereas in Lausanne there is only one editorial team” that creates content for all platforms.

Up to March 2011, *Verdens Gang* had two fully separate editorial teams; in fact, *VG Nett* and the print edition were two separate companies. “Last year, we merged the two companies back into one”, explains Mr Oterhals, leading to more collaboration across platforms, for example during big events such as the Olympics. The merger is complex in

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<sup>53</sup> At *Le Temps*, the day starts at 9AM and finishes at 10.15PM, when the last pages are due for the printer. This type of timeframe is common for most print newspapers published in the morning.

terms of cultural integration, as the web journalists are more used to operating multimedia, and because the online operation was smaller in terms of staff, for example with less support staff per journalist, says Mr Oterhals, adding that online journalism is a different way of writing.

### **Sourcing Information Online**

The extent to which newspapers use the Internet to source information differs widely. *The Guardian* largely publicised its use of the Internet to gain direct access to what was going on during the riots in London and the United Kingdom in 2011. *Die Zeit* set up in July 2012 a website allowing for informants to anonymously and safely leak documents to the newspaper; additionally, “we have worked with readers in the Arab states last year when the revolutions started”, says Mr Röpke.

“Internet has changed the way we practice journalism”, says Mr Folwell of *The Guardian*, “we use it both to disseminate the stories through Twitter, through Facebook, obviously live search on Google and Google News, but we also use it internally and externally to generate and gather stories”, such as the partnership with WikiLeaks or the coverage of the London riots which included reading Twitter messages to understand where the action was, but also extensive analysis afterwards with a document called ‘*Reading the Riots*’<sup>54</sup>.

### **Online Journalism**

Producing journalistic content online is a different job to print journalism, argue many newspaper publishers. Beyond the cultural issue, the way to produce a paper and to deal with the need for multimedia content and links to references changes the process.

*Mediapart* uses the depth of the web, which means to include the actual article, but also pictures, sounds, videos; a journalist also uses only a fraction of the information he gathers to produce the article – the web allows to provide the reader an access to the whole information via hypertext links. “It has grown so important that more and more we create reports”, says Ms Smiéjan. *Mediapart*’s main challenge is the limited space available on the screen to showcase all its content depth, explains Ms Smiéjan, “we can easily do it on depth”. *Mediapart* works with approximately 30 journalists and selects the news it provides based on its expertise and the contexts in which it can provide its reader with added value,

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<sup>54</sup> This extensive, multimedia reporting can be found here: <http://www.guardian.co.uk/uk/series/reading-the-riots>.

explains Ms Smiéjan. The wealth of skills *Mediapart* requires from its journalists makes recruitment difficult.

The way journalism is done has changed due to the Internet, observes Mr Röpke: “Daily newspapers are changing because they are competing so much, so hard, against topical websites that they are reinventing themselves as daily magazines, away from the news towards the stories”. On the web, journalists have to give the news, but readers also expect depth and analysis on the website as well. Also, the Internet offers access to huge amounts of data that allow data-driven journalism at an unprecedented scale, so Mr Röpke.

### **Reader Involvement in Content Production**

With the Internet, news provision has gone back to a two-way conversation. Newspapers differ widely in the extent to which they involve readers in the provision of content, be it only commenting articles, or actually producing articles and videos, or even sending in material used by journalists in their reporting. Many newspapers use readers as correctors, as reactions to articles published online are corrected following comments.

*Die Zeit* allows readers to send in reader letters, which are slightly edited before being selected for publishing, one per day, says Mr Röpke; “as a thank you to the reader we plant two trees in a certain devoted *Zeit Online* wood, which is near Berlin”.

“In the last 5 to 10 years, there has been a revolution in the editorial department in terms of involving the readers”, says Mr Gravir of *Aftenposten*. Reader involvement used to be limited to product testing just before a launch; currently, readers are involved in the development of new products but also as content providers, including pictures, commentaries, and videos. “It is not a problem to get the readers involved because they really want to be involved”, says Mr Gravir; the issue is rather to get the editorial department to accept the idea of readers’ involvement.

Readers are then involved in commenting and correcting the articles, “so in a way it’s a manner to open up the whole news operation”, so Mr Folwell, yet the actual number of readers involved in sending in content or comments “is in the low single number of percentages of the overall audience”. Reader involvement allows to be faster in picking up a news story.

*20 Minuten* uses reader reporters who send in text messages, photos and videos; “we try to encourage our readers to interact”, says Mr Goodman, “we have got reader reporters where readers can send text messages, photos whenever anything happens in their world, and we



also publish reader content in the newspaper”. Additionally, readers can comment online. In print, “we are working on certain augmented technology so that basically using the mobile app, users could comment on our articles in the newspaper”, says *20 Minuten*’s Mr Goodman.

*Mediapart* has approximately 60’000 individual subscribers, of which roughly 2’500 run an active blog and 500 active group blogs.

### **Partnerships**

In terms of sharing editorial content, *Le Temps* has agreements with a range of other “quality papers”, including *Le Monde*, *Die Neue Zürcher Zeitung*, *Le Soir*, *The Financial Times*, etc. This is a part of the newspaper’s philosophy of seeking partnerships when it cannot cover extensively an issue. Partnerships can also be commercial: *Le Temps*’ partnership with *Le Monde* covers visibility, but also the follow-up on copy sales, *Le Temps* checking *Le Monde*’s sales in Switzerland and vice versa.

In driving innovation in their business models, many managers follow not only what is being done by other newspapers, but also by technology firms and start-ups, sometimes leading to partnerships such as *The Guardian* with news aggregators.

### **Key findings**

Table 3 presents a summary of the key findings on value creation processes.

**Table 3: Key Findings on Value Creation Processes**

	<i>20 Minuten</i>	<i>Aftenposten</i>	<i>Die Zeit</i>	<i>Le Temps</i>	<i>Mediapart</i>	<i>Süddeutsche Zeitung</i>	<i>The Guardian</i>	<i>Verdens Gang</i>
<b>Separate or integrated editorial teams</b>	- Separate in German-speaking region - Integrated in French-speaking and Italian-speaking region	- Separate teams for online, morning and evening in print	- Separate teams	- Integrated team	- Irrelevant	- Separate teams	- Separate teams	- Recent merger of the teams
<b>Reason</b>	- Costs	- Different time horizons & format	- Different time horizons	- Determined by quality of content, not by channel	- Only online	- Different time horizons & format	- Different time horizons & format	- Recent merger of <i>Verdens Gang</i> and <i>VG Nett</i>
<b>Special sourcing information online</b>	- Yes	- Yes	- Yes (e.g. <i>Die Zeit</i> Briefkasten)	- Limited	- Yes	- Limited	- Yes (e.g. London riots)	- No comment
<b>Reader involvement</b>	- Yes; reader-reporters	- Development of new products and content	- Limited (reader's letter)	- Limited; commenting in one section	- Yes; Le Club	- Low; readers conferences	- Yes	- Yes

Source: Author

### 6.3. Customer Interface

We now turn to our findings about the way newspapers interact with their customers: readers, advertisers, consumers.

#### **Different Audiences on Different Platforms**

The interviews show that the target groups of the online and the print businesses often differ slightly: although they regularly represent similar socio-economic categories, they differ in age group and willingness to pay. Newspapers have different levels of knowledge of their readers. While *Mediapart* does not know exactly who their readers are even though it requires a subscription, *Le Temps* requires readers to register to read articles.

Many newspapers see their online operation as a means of attracting younger audiences. For example, over half of *Die Zeit's* print audience is over 50 years old, while *Zeit Online's* readership is over 50% younger than 35; “basically we can say that the readership of *Zeit Online* is a lot younger than the readership of *Die Zeit*”, so Mr Röpke; yet “from a socio-economic standpoint, they are very similar: they are professionals, they have a very good income”. A strong investment in 2009 in personnel for its online operation, combined with targeted marketing, has led to an increase in student subscriptions for the print version, by communicating a younger image (between one third and one quarter of new subscriptions are by students, according to Mr Röpke). “*Zeit Online* has a very important role in attracting younger people to the whole brand family of *Die Zeit*”, says Mr Röpke.

For *Verdens Gang*, the target audience for the newspaper is older than online and have more traditional values, says Mr Oterhals. “We have readers online who would never, ever buy *VG* the newspaper because it would not fit their profile”, adds Mr Oterhals.

Most newspapers appear to have a different, larger reach online than in print, such as *Verdens Gang*. *The Guardian* is the 9<sup>th</sup> largest national newspaper in the UK by circulation, “with a good and loyal yet quite limited audience”, “mainly a progressive audience”, so Mr Folwell, “we are now, depending on how you measure it, certainly one of the top five, globally, in terms of traditional news media, in the English language”. Hence *The Guardian* has a substantially larger audience online than in print.

#### **Audience Extension**

Newspapers differ in the extent to which their readers are international or not. The Internet offers the opportunity to reach international readers at a very low marginal cost, while this is

more difficult in print. A newspaper like *The Guardian* openly aims at increasing international traffic to its website by providing all its content for free in English. The Norwegian *Aftenposten* does not see any potential to expand internationally due to the language barrier and the potential to further growth in their home market, says Mr Gravir. *Mediapart* has had some content in English for two years, says Ms Smiéjan; this content is a translation upgraded with contextualisation targeted at both foreign journalists and foreign readers.

New audiences can be attracted via news aggregators, search engines or social readers, yet the impact on newspapers' website traffic differs widely: "80% of our readers type directly in their browser *letemps.ch*, so we have really little traffic from search engines", says Ms Fortun.

### **Interacting with Readers**

Interaction between readers and the newspaper is often an integral part of the online operation; either via a moderated discussion and reactions to articles, or via the opportunity for direct email contact with journalists. Yet the level of interaction with readers differs widely from one newspaper to another. *Le Temps* only allows comments to articles in its 'Opinion' section online; the newspaper does however organize live chats on topics related to finance and economics. This is a deliberate policy reflected also in the restraint in dealing with social networks, as it is *Le Temps* and not its journalists or its sections that appear.

*Mediapart's Le Club*, the participatory part of the online project, requires limited moderation by journalists (two journalists who select articles that are highlighted), as only subscribers can get involved; "no one is anonymous on *Mediapart*", says Ms Smiéjan. The participation numbers however fluctuate largely. "Having been launched in March 2008, we were able to see the evolution in the readers' behaviour", says Ms Smiéjan, as readers increasingly accept reading content on a digital platform. She stresses that the content *Mediapart* produces is aimed rather to the 45-65 years old, which are less familiar with digital technology, with a major change in France in 2010. Although it originally monitored subscribers' demographics, *Mediapart* reduced the amount of information it asked from its subscribers to prevent weariness of sharing information<sup>55</sup>. Based on the information they had originally, and contrary to most French newspapers, the majority of readers are based outside of Paris

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<sup>55</sup> "The more information you require during the subscription procedure, the more you loose subscribers who are interested in subscribing to read one article or one content", says Ms. Smiéjan, which led to only asking for the name and email address after 18 months operation.

(60% - 40%, or the inverse of most French newspapers, according to Ms Smiéjan), and 10% abroad and 90% in France. *Mediapart* has had new subscribers every day since its launch, says Ms Smiéjan.

In terms of interacting with readers, “I know that a lot of traditional journalists feel that it is very strange when you are on a website and people leave comments and may even think the journalist has made a mistake in the article and tell him below the article, for [traditional journalists] this is a great game changer”, says Mr Röpke.

### **News Consumption and Platform Choice**

Mobile and web are different in terms of reader habits; according to Mr Röpke, “we see that mobile users read long articles, so it seems that people, when they have their mobile, on the train for example, select an article and really read that article from beginning to end whereas on the web typically you see a lot of snapping and browsing in articles”.

### **Social Media and Social Readers**

The use of social readers on social networks such as Facebook is supported by *The Guardian*. The choice of social network is based on the place where the majority of current readers are, as the major target groups are in the UK and the US. The readers reached through Facebook have a “high engagement” with *The Guardian*, yet it is “a different audience, much younger”. *20 Minuten* on the other hand did not create a social reader on Facebook, but has various pages on that platform on which they do publish some limited content. “We try to use Facebook and Twitter to attract new readers to our website”, says Mr Goodman, “and the articles we publish on social media are usually aimed at creating user comments or user input, like votings”. Additionally, *20 Minuten* is looking into news aggregators such as Mobiles Republic<sup>56</sup>. *Verdens Gang* has implemented the Like function of Facebook and the opportunity to get readers to comment on its page, but did not introduce a social reader; “the understanding that we have of social readers now is that it is rather intrusive”, says Mr Oterhals.

### **The Importance of Print**

A newspaper like *Aftenposten* has a strong subscriber basis of approximately 250'000 that are attached to the print as a medium. “Print is a really important part of the way that we

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<sup>56</sup> News aggregators bring together content from several content providers and either allows the reader to create an own magazine based on his interests, or provides a standardised magazine with content from multiple providers.

connect with most of our readers in the UK”, says *The Guardian*’s Mr Folwell. For *Die Zeit* also, print remains essential to interact with readers.

### **Sale of Advertising Space**

The interaction mode with advertisers also reflects in the value proposition the extent to which the online, mobile and print businesses are integrated. Does the newspaper typically offer cross-media advertising? *Die Zeit* chooses to separate its online and print advertising, while trying to gain strength on the advertising market by selling its advertising space jointly with major German newspapers such as *Handelsblatt* and *Süddeutsche Zeitung*. This is based on the understanding that all major newspapers are competing against each other for advertising, but also against large players such as Google and Facebook; grouping allows to appear more important and to offer a wider audience to advertising agencies.

*20 Minuten* now has a dedicated mobile team selling advertising in the mobile apps; although *20 Minuten* centralized its advertising sales force in early 2012, while keeping some specialists. At *Verdens Gang*, following the merger of the digital and the print firms, the sales teams merged; “now they are around 50 in that part of the organisation to sell on both platforms”, says Mr Oterhals, although some maintain their specialisation, before adding: “I think that is the part of the merger that so far has been most successful”. A lot of the first online advertisers had not advertised with *Verdens Gang* in print before, so it made sense to keep the two sales team separate; this situation changed over time, justifying the merger.

*Le Temps* has an independent team of sales people for advertisements, owned by Publicitas, a leading Swiss marketing agency, which sell advertising space of *Le Temps* throughout the platforms, making it a one-stop-shop for advertisers.

### **Personalisation**

Personalisation is a feature of the value proposition, but it also is a characteristic of the customer interface. Personalisation largely already exists in terms of advertising, less so in terms of editorial content, and newspapers have widely diverging views regarding this issue. *Aftenposten*’s Mr Gravir describes newspapers as “not very good” at dealing with data regarding their readers, making it difficult to target editorial content. Yet personalisation offers “huge opportunities both on the content side and on the commercial side”, comments Mr Gravir; he thinks it would allow to provide a better product for the reader and better opportunities for the advertisers. *The Guardian*’s Mr Folwell says: “personalisation is going

to be increasingly important”. *Le Temps* allows personalisation to the extent that it allows the user of the applications to select the sections he is interested in, which also allows to receive relevant live updates. Rather than personalisation, *20 Minuten* is interested in localisation “we try to create really, really specific local content”, a project that did not take off.

*Verdens Gang* has not invested much in personalisation much this far due to circumstances in the Norwegian market: “there are very few national programs and things that everybody sees and talks about left, the common experience; with our 1.6 million readers daily online, we have become one of the very few common things that people can relate to, so I think having the same version of *VG* for everybody has been important up to now”, says Mr Oterhals. Yet he also points out that the web is increasingly personalised, even though one may not be aware of it, such as with search results on Google. “It is really a good business logic behind it, because the better we can match interests and content, the more people will read and the more money we will earn”, says Mr Oterhals, “so this will come”.

*Mediapart’s* Ms Smiéjan says there is a real discussion there; “should the content be filtered based on reading habits of a subscriber, which means setting up tools that would monitor continuously what the user reads, which is an ethical question”. Also, Ms Smiéjan argues that a daily newspaper provides value by selecting and hierarchizing information, which would be lost with personalisation.

### **Key findings**

Table 4 presents a summary of the key findings on customer interface.

**Table 4: Key Findings on Customer Interface**

	<i>20 Minuten</i>	<i>Aftenposten</i>	<i>Die Zeit</i>	<i>Le Temps</i>	<i>Mediapart</i>	<i>Süddeutsche Zeitung</i>	<i>The Guardian</i>	<i>Verdens Gang</i>
<b>Online readers vs. print readers</b>	- On average younger	- No comment	- A lot younger - Similar socioeconomic group	- Same audience - Slightly younger	- Irrelevant	- Younger	- More international - Way larger reach	- Younger - Less conservative
<b>Interaction with readers</b>	- Yes	- Yes	- Yes	- Limited to comments in one section	- <i>Le Club</i> with slight moderation	- Moderation of comments below articles	-Yes	- Yes
<b>Importance of print for the future</b>	- Important, but not essential	- High (readership attached to print)	- High (print business with online operation)	- Still important	- Irrelevant	- Important	- For audiences outside of UK, no - In the UK, yes	- Decreasing (very large share of readers online), but still important
<b>Social media presence</b>	- Yes	- Yes	- Yes	- No	- Yes	- Yes	- Yes	- Yes
<b>Social reader</b>	- No	- No	- No	- No	- No	- No	- Yes	- No
<b>Offering of cross-media advertising</b>	- Integrated - Special team for mobile	- Yes	- Separate advertising sales teams	- Integrated sales team	- Irrelevant	- Yes (with other major German newspapers)	-Yes	- Merged sales team

Source: Author



## 6.4. Financial Model

The financial model represents the costs and revenues of a business, and hence eventually its profitability. We now present our key findings regarding the financial model of our case studies, before turning to common issues.

### *20 Minuten*

“If you compare *20 Minuten* with the other products within the Tamedia corporation, *20 Minuten* is by far the most efficient product if you look for example at editors per reader, or average income per reader”, says Mr Goodman. This is the case because *20 Minuten* is the most read in its market; *20 Minutes* in France is struggling because it spends a lot more on marketing as it is competing fiercely with two other free dailies. In the French (introduced in 2006) and Italian (introduced in 2011) speaking parts of Switzerland, *20 Minuten* is the only free daily, while it only has one competitor in the German-speaking regions of Switzerland.

“We do sell a lot of cross-media packages to our advertising clients”, says Mr Goodman of *20 Minuten*, making it difficult to attribute both costs and revenues to either the digital or the print operation. *20 Minuten* has approximately 3’000 advertising clients in print, and 600 online clients; “roughly 90% of our digital clients also spend money on our print products”, says Mr Goodman. Mobile still is smaller in terms of clients and revenues, “roughly 100 clients”, but it is “the fastest growing area”. *20 Minuten’s* website however is profitable, “but it probably would not be profitable on its own if it were not for the other parts of the business”, as the website profits from brand recognition, advertisers interest in the largest national daily, etc.

“Probably 99% of our income is advertising”, says Mr Goodman of *20 Minuten*, “we have one mobile app which costs a monthly fee allowing to view TV channels, we had an offer in the music area on the Spotify business model, but we closed that last summer and we also were a mobile service provider, but we closed that last year”.

### *Aftenposten*

*Aftenposten’s* print media revenues are approximately 60% advertising and 40% subscriptions and sales of copies. *Aftenposten* currently is 100% dependent on advertising

for its online operation, although it is likely to introduce pricing later in 2012<sup>57</sup>. Such a pricing policy is likely to be freemium, with both free and premium content. The free content will be the general news; “more high quality journalism, local journalism where you do not have competitors, debates, commentary, etc. that’s premium content”, says Mr Gravir, “that is maybe the model that is most used internationally”, as opposed to the premium and metered models. This in turn allows to guarantee revenue from another source: advertisers. Indeed, “a lot of traffic comes from fly-byes, you need to keep that traffic volume”. “The advertisers will put their money where they find the time of the readers”, says Sondre Gravir.

### ***Die Zeit***

“*Zeit Online* still depends on *Die Zeit*”, says Mr Röpke, “in 2009 we invested heavily into *Zeit Online*, into personnel and technology”. “We have grown [*Zeit Online*’s] revenues by over 250% in the last three years”, says Mr Röpke. *Die Zeit* expects its online operation to be financially sustainable in about two years. Currently, *Zeit Online* has three main sources of revenue: advertising (60%, on a strictly CPM model); classified<sup>58</sup> (25%, which includes its merchant activities such as its publishing operations, *Zeit Akademie*, trips, e-commerce); and digital *Die Zeit* (15%, revenues from the sale of its app, Kindle and PDF newspaper). In terms of the print edition, in recent times, “the split between advertising revenues and circulation revenues has turned two or three years ago towards circulation revenues; it used to be about 60% advertising and 40% circulation; right now it has tipped to be over 50% circulation revenues because we have had a lot of price increases, because we have seen that for upmarket newspapers and magazines in Germany the price sensitivity is relatively low”, says Mr Röpke. Hence circulation revenues will “still drive the newspaper for years to come and it will take quite some years until in the whole revenue mix [*Zeit Online*] will make [it’s] 10% mark”.

### ***Le Temps***

*Le Temps* introduced a metered paywall in January 2011. The decision to introduce a paywall was based on three reasons: First, equality of readers; “why should a print readers

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<sup>57</sup> While media conglomerate Schibsted owns several major Norwegian newspapers, the move to a paywall will be independent for each newspaper.

<sup>58</sup> “*Die Zeit* is very strong in a certain readership of university people, university professors, so in print also we still have a very strong classified market for university positions, like *The Economist* still has a very strong market for certain positions, we still have certain niches which in the light of the whole classified business of Germany are small niches, but to have in certain niches 80-85% of market share as *Die Zeit* has, it is very lucrative. We are also very strong for private practices, private hospitals personnel. We have a strong niche position in people working for the state”, says Mr Röpke.

subsidise the digital readers?”, says Ms Fortun. Secondly, “coherence of the price of information throughout the platforms”; the value of the information does not depend on the channel, but on the expertise. Thirdly, “the issue of profitability”, she adds. A subscription can be for one day, one, three, six or twelve months. There also is a digital subscription including the website, and the smartphone and iPad apps. Between January 2011 and January 2012, revenues from readers were up 300%; on the same period, advertising revenues were up 30%, although the market was up 15%. Additional effects that impact costs are the observation that journalists tend to publish their papers faster on the website “and the purely digital content production also increased over this period” as journalists feel their content is valued due to the paywall. Yet the paywall revenues do not yet cover the reduced revenues from diminishing circulation. The aim of diversification is to, in the future, “be able to continue to finance our traditional activities”, says Ms Fortun. The print costs are now rising; printing costs, distribution costs, etc. The reduction in audience online due to the paywall was not dramatic in terms of advertising revenue as *Le Temps* never sells 100% of its audience to advertisers. After introducing the paywall, *Le Temps* faces a reduction of reader numbers online (between 25 and 30% between 2010 and 2011), but is now back to pre-paywall levels, says Ms Fortun.

### ***Mediapart***

*Mediapart* made a profit in 2011 and is expecting to make a profit in 2012 also, says Ms Smiéjan. “What the *Mediapart* project shows is that it is possible to find subscribers in France with a willingness to pay for quality information, inquiries, investigations, without advertising”, as subscriptions are 97% of revenues, says Ms Smiéjan. The additional percentages coming from content resale, e-books publication and the sale of reports. 50’000 to 60’000 subscribers were required to break even, and the pricing was originally a very complicated issue (it is set at 9 euros per month); the pricing was based on costs, with a necessary base of 30 journalists to produce the editorial content, which in turn means approximately 4-5 million euros of labour costs; and on a realistic estimate of potential subscriber numbers. To be advertising financed online, a content provider needs millions of clicks, says Ms Smiéjan, “to have millions of clicks, you need to offer content about celebrities, sex and sport, which is not *Mediapart’s* editorial project, so advertising is not sufficient to finance editorial teams”. She argues that this economic rationale explains why since the launch of *Mediapart* most newspapers have operated a transition to some paying

content. Eventually, the challenge will be to see if readers are ready to subscribe to several online content providers<sup>59</sup>.

### ***Süddeutsche Zeitung***

For Mr Bensele of *Süddeutsche Zeitung*, “a mixture between advertising on websites and apps and special paid content areas is our way” of generating revenue.

### ***The Guardian***

The approach to ensuring the financial sustainability of a newspaper differs broadly, as we have seen; so does the importance given to the issue of profitability. *The Guardian*, for instance, does not see it as extremely important if it is losing money on a daily basis through its online all free offer, arguably because it is owned by a trust that does not pursue profitability. Newspapers accept losses online as an inevitable step in their development. “Currently there does not need to be a sustainable business model for most of the owners”, explains Mr Folwell.

Is the web platform of the newspaper financially sustainable? This question is often difficult to answer as it implies having a clear cut distribution of costs, which may prove difficult when the online platform presents content from the print version. Commercially, *The Guardian* definitely needs its print business, which “delivers about three quarters of our revenue still”, says Mr Folwell. Yet on costs, the split is more difficult, in particular regarding editorial costs. To readers, all *The Guardian's* content is free online, amongst other reasons because of the owning trust's mission. “It's not that we do not do paid content, of course we do, we do it on the paper, we do it in our mobile app, we do it in our iPad apps, we do it with our professional communities including events”, says Mr Folwell. *The Guardian's* online operation is currently not financially sustainable, but revenues are growing year on year, as does the cost basis. The apps are paying and are downloaded by tens of thousands of users or even hundreds of thousands, which is partly “because there is not an ubiquity of Internet access on the move”, says Mr Folwell “which is what many users are paying for with the apps”. Mr Folwell is not sure that the paying apps will survive to the Internet being available on the go everywhere in the near future.

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<sup>59</sup> Several Slovakian newspapers and magazines have introduced a shared payment scheme allowing readers to pay a given fee to access premium content of all participating content providers online (Standage, 2011). Ms. Smiéjan highlights how complicated setting up such an agreement is, regarding the period of subscription, independence issues, information prioritization, etc. *Mediapart* currently has a partnership with *Arrêt sur Image*, a web-based TV program, in that the two partners refer subscribers from each other at a discounted rate.

## ***Verdens Gang***

*Verdens Gang* was one of the world's first newspapers to earn a profit on its online operation, as early as 2003, and on an important scale since 2006 (with profits ranging from 70-110m NOK every year). "The revenues are much smaller online than they are on print", stresses Mr Oterhals, even though now the advertising revenues online are similar to those in print, but the newspaper has the additional circulation revenue. For the print edition, the main source of revenue is the circulation (75-80%) and not the advertising (20-25%). Next to advertising revenues, *Verdens Gang* does have side activities online, which all have to be profitable and "which are perhaps 20% of the total income online", says Mr Oterhals: subscription income through *VG +*<sup>60</sup>; subscription revenue from a weight club online; and so on. "What they have in common is that they are very small, but together they form quite a substantial amount now, but none is really, really big". Regarding apps, *Verdens Gang* offers *VG +* and *vg.no*, the latter being for free; "I can say that it is better business to give it away for free and earn money through advertising than it is to get subscription income", says Mr Oterhals.

## **Price Sensitivity**

Similarly, regarding print operations, newspapers see diverging price sensitivities. A weekly newspaper with high quality journalism such as *Die Zeit* was able to increase its price to increase total revenues and hence counter-balance reduced advertising revenue, allowing for a shift from 60% of revenues from advertising and 40% from circulation to over 50% from circulation.

## **Cost Savings**

Cost saving operations online are in particular possible in the field of marketing – indeed, the website is a great way to communicate to potential subscribers, says *Zeit Online's* Mr Röpke. He also describes the need for premium newspapers to build an alliance to build the critical mass to be relevant for media agencies, which *Die Zeit* does with *Handelsblatt* and *Süddeutsche Zeitung*.

## **Online Advertising Pricing Models**

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<sup>60</sup> This is on the iPad and online currently. It is a specialized version of the printed newspaper with updates for the app, and is subscription-based.

In terms of advertising pricing online, newspapers differ. *Aftenposten*, for instance, uses several existing models: fixed price for a given period of time; cost per click; cost per order. The latter model is popular amongst advertisers, as they only pay on a commission basis when a transaction is successful, according to Mr Gravir. *The Guardian* still mainly uses CPM (Cost Per Mille, or pay per display), although it also offers some pay per click. *Le Temps* is flexible and considers the client's needs, but prefers quality to quantity regarding advertising on its website; in terms of CPM, *Le Temps* is the most expensive on its market. *20 Minuten*'s largest model is pay per impression, pay per view; the newspaper sells 25-30% of its inventory on the website, and hence at a higher price. *Verdens Gang* sells its advertising online largely (90%) on the print model, i.e. a certain position for a certain duration for a fixed price; "the interesting thing is we had much more sophisticated models in the first five years of being online, where we had CPM models etc., but our experience was that when you came to the marketing directors at the big companies, they were not used to buy inventory in that way so we took a very old-fashioned model and adapted it to the online world". However, *Verdens Gang* is increasingly selling its advertising space online through CPM, auctioning models, or on a commission basis<sup>61</sup>.

However, in a digital era, advertisers can more easily monitor the effectiveness of an advertising campaign, giving them more power vis-à-vis the newspaper publisher, especially in cost per clicks or cost per orders.

### **Costs of Online Operation**

Regarding costs, Mr Gravir describes the Internet as "increasing costs" for a newspaper; "transition from print to digital results in lower costs in terms of print and physical distribution, but not in terms of having a new type of competence, programmers, not only trained journalists; if you stopped the print and went into digital you would decrease the costs, but since you have to do it in parallel you in fact increase the costs". Ms Fortun explains: "There are website development costs, you need to have it evolve and introduce new services, the design costs, the technical costs, the server costs, etc.", as well as the content production.

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<sup>61</sup> Mr Oterhals stresses that the model based on a commission of a successful transaction actually is a model that *Verdens Gang* is pushing, as they earn more from this than from fixed-price advertising.

Integrating or separating digital and print editorial teams can be compared at *20 Minuten*: “From a cost perspective, they are more or less at the same level of efficiency”, says Mr Goodman.

### **Ownership and the Importance of Profits and Positioning**

Eventually, the financial model and the importance of profits depend on the ownership structure. In this regard, the sample of cases is interesting. *The Guardian* is owned by a trust, the Scott Trust, which owns the Guardian Media Group, a company owning a range of media as a part of a diversification strategy. *20 Minuten* is owned by Tamedia, a Swiss media conglomerate; Tamedia’s corporate strategy involves a free daily financed by advertising, *20 Minuten*, while keeping premium, paying journalism (in print and online) to other newspapers it owns such as *Der Tagesanzeiger*, says Mr Goodman.

### **Unconventional Sources of Revenue**

Many newspapers have tried to diversify revenue sources by expanding into new businesses. *The Guardian* has a range of revenues, including: circulation; advertisement display; apps; digital jobs postings; e-commerce (travel, finance); dating business; courses; professional communities; sponsorships. *Le Temps* is testing diversification, such as travels, co-edition that are being experimented; these activities are currently relatively small. “We cannot do everything”, says Ms Fortun, *Le Temps* has a strong brand and it is important not to dilute it.

### **Key findings**

Table 5 presents a summary of the key findings on the financial model.

**Table 5: Key Findings on the Financial Model**

	<i>20 Minuten</i>	<i>Aftenposten</i>	<i>Die Zeit</i>	<i>Le Temps</i>	<i>Mediapart</i>	<i>Süddeutsche Zeitung</i>	<i>The Guardian</i>	<i>Verdens Gang</i>
<b>Share of print revenue from advertising</b>	- 100%	- 60%	- <50%	- No information	- Irrelevant	- No information	- No information	- 20-25%
<b>Share of print revenue from copy sales</b>	- 0%	- 40%	- >50%	- No information	- Irrelevant	- No information	- No information	- 75-80%
<b>Share of online / mobile revenue from advertising</b>	- 99%	- 100%	- 60%	- No information	- 0%	- No information	- 63%	- 80%
<b>Share of online/mobile revenue from sales</b>	- 1% (one app for watching TV)	- 0%	- 40% (including merchant activities, sale of apps and PDF of the newspaper)	- No information	- 100%	- No information	- 37% (online dating; apps; etc.)	- 20% (subscription to VG+; weight club; etc)
<b>Number of advertising clients (print; online; mobile)</b>	- 3'000; 600; 100	- No comment	- No comment	- No information	- None	- No information	- No information	- No information
<b>Website profitable?</b>	- Yes, but as a part of the whole <i>20 Minuten</i>	- No	- No; expected in 2 years	- No	- Yes	- No information	- No	- Yes
<b>Pricing model online</b>	- None (except for monthly fee for TV app)	- None	- None	- Metered paywall	- Subscription (all content premium)	- None	- None (all free)	- Freemium (subscription for VG+)
<b>Advertising model online</b>	- Mostly pay per view	- Combination of models	- CPM	- Combination of models	- No advertising	- No information	- Mainly CPM	- 90% print model: pay per display
<b>Owner</b>	- Tamedia	- Schibsted	- Verlagsgruppe Georg von Holtzbrinck	- Mainly Tamedia and Ringier in equal shares	- Founders and a group of private investors	- SWMH + family	- Guardian Media Group	- Schibsted

Source: Author



## **6.5. Summary of Findings**

This chapter has presented the key findings proceeding from the interviews. Along our four dimensions, we have now a grasp of the way eight major European newspapers deal with current challenges in their business model. We have also noticed that there are interactions between the single dimensions, and that a choice in the pricing content for example impacts the value proposition for both readers and advertisers. Similarly, merchant activities will impact the revenue in the financial model. The next chapter will allow us to analyse our findings by considering along our model the interactions of the four dimensions, linking back to theory.

## 7. Analysis

This chapter reviews the findings described in the previous chapter along the lines of our model and theoretical findings. This chapter should allow to answer the research question along the lines of our empirical findings and theory. We review elements of the impact of each of the three independent dimensions in our model on the dependent dimension, the value proposition. The aim is to show the existing choices available to newspapers.

### 7.1. Value Creation Processes and Value Proposition

The value creation process includes the editorial work. We see different levels of editorial work. Hamilton (2003) argues that advertising driven newspapers will be biased against expensive reporting. We find that the newspaper that focuses solely on high comment, investigative journalism is the only fully subscription based newspaper in our sample, *Mediapart*. Advertising driven newspapers, such as free daily *20 Minuten*, deliberately aim at large audience by treating news fast and in a neutral manner. In fact, *20 Minuten* is Tamedia's most efficient product in terms of editor per reader, which goes in the sense of Hamilton's argument. Findings by Ellman and Germano (2009) of reporting bias on certain topics due to advertising activities are the basis for *Mediapart's* value proposition of independent news created without any advertising revenue. Its value creation processes are integral to the value proposition.

The value creation processes also impact the value proposition by allowing and encouraging readers to participate in producing content or not. This also involves the dimension of customer interface. *Mediapart's Le Club*, its participatory part of the website, is explicitly part of its value proposition in involving readers in creating value by posting content. At the other end of the spectrum, *Die Zeit* only posts one reader letter per day in terms of content – reflecting the view of the journalist as producing the content, and the reader appreciating the journalist's content more than that of other readers. Comments are allowed on most newspapers' websites, in at least one section.

In terms of sourcing content, digitalisation has impacted journalism. Several newspapers source their news and information from readers and users throughout the world, be it video, photos or hard news. The journalists then aggregate and verify the information. *The Guardian* uses it in its value proposition; indeed, it provides the big picture by having informants everywhere, over all of London during the riots, and in different countries in the

Arab world during the Arab Spring. Since its news is not sourced through the classical channel of news agencies only, it brings a new perspective to current events. Many newspapers have followed this approach. The use of this approach however reflects the value proposition itself: *20 Minuten* publishes content from its readers on what is going on in their world, as long as it provides entertainment to the readers and hence audience to the website and newspaper.

According to Hamilton (2003), the need of the audience drives what becomes news; if an audience is interested in a certain event, it becomes news. The *Mediapart* project is based on this premise. By offering a content different to what is produced in France by guaranteeing its independence (through its ownership structure), it satisfies the need of 60'000 subscribers in France and allows its investigations to become news. The public good dimension of news appears here again: 60'000 subscribers pay for *Mediapart's* journalists to investigate events in France; the key messages of *Mediapart's* investigations are then disseminated for free by other newspapers in articles and on the websites.

## **7.2. Customer Interface and Value Proposition**

In terms of considering the value proposition from the perspective of the reader's need, we see empirically two approaches: first, newspapers that consider that they are competing for the reader's time, and as such competing on entertainment; this is the case of *20 Minuten* and *Verdens Gang*. Second, newspapers that satisfy the reader's need for information for production (i.e. linked to work), such as *Le Temps*, or the need for civic information (voting, as Hamilton defines it, 2003), as is the case with *Mediapart*. Hence understanding the reader's need defines the value proposition in the type of information offered.

The need also determines the type of news provided online. While the key for a newspaper like *Verdens Gang* online is to be fast in providing hard news, while then offering the opportunity to react and ventilate, thus satisfying the need for entertainment, a newspaper like *Die Zeit* will focus on the need for editorial comment beyond the hard news, in particular in its weekly print edition.

Thorbjørnsen et al.'s (2007) describe networks as having three drivers: intrinsic, user network and complement network attributes. The intrinsic value of a network is essentially the extent to which it is useful to the reader, and the extent to which the website of the newspaper for instance is easy to navigate. A more traditional newspaper such as *Die Zeit* or *Le Temps* will have a clearly organised, clearly structured website highlighting the different

sections of the newspaper; a newspaper providing news as entertainment will highlight single events, such as the *Verdens Gang* website. The user network refers to the size of the network user numbers, considering that the higher the number of users, the better. For regional newspapers, having a large share of audience on free articles allows to create a local community online through comments. *Verdens Gang* has done that on a national scale for Norway, as mentioned by Mr Oterhals when he refers to the ‘common experience’. A newspaper like *Le Temps* aims at creating user network value by allowing comments solely in its ‘Opinion’ section online, reflecting the value proposition to its target audience, as with its topical live chats on financial and economical issues. Additionally, conferences organised by newspapers can also be analysed with this approach, providing opportunities for networking, which is a use of the readers’ network. Finally, complement network value is driven by additional services provided by the network; these are the additional products and services a newspaper’s website offers either to attract more audience or generate revenue. *Zeit Online*’s offering of German university course description, with profiles updated by universities on a paying basis, offers additional value to student readers, making the website more valuable to those readers.

The user network value described by Thorbjørnsen et al. (2007) reminds of Brousseau and Penard’s (2007) use of economics of matching for online platforms, namely the matching of a combination of services offered to satisfy demand. Indeed, the newspaper not only provides its own content, but also integrates content from users to create a complete image of the news as desired by the readers. The option to react to current events offered for instance to readers of *20 Minuten* or *Verdens Gang* includes the customer interface with the value creation processes to a value proposition that is attractive to many readers.

Steensen (2010) found three main qualities of the Internet for journalism, which we observed in our empirical research: hypertext, interactivity and multimedia. Again, choices on using these options impact the value proposition. *Mediapart*, the online player, unsurprisingly uses all three. In particular, it uses the hypertext to offer more background information, and its *Le Club* allows for interactivity both of journalists with the readers, but also of readers with readers. *Verdens Gang* uses multimedia, with its online operation using its own video team. We however do not find personalisation to currently be used by newspapers in news provision, which Chan-Olmsted (2011) sees as an asset of the Internet.

Our empirical research has not shown newspaper publishers using lock-ins, apart from offering the news on several platforms (print, online, mobile). The high substitutability of

online news suggests using lock-ins to keep users, as recommended by Kaye and Quinn (2010), yet a suitable solution for newspapers is still to be found.

### **7.3. Financial Model and Value Proposition**

The trend at the beginning of online news provision has been to offer all content online for free. While there were some outliers such as *Mediapart* with a paying model as early as 2008, newspapers started introducing on a large scale paying models in 2010, when Rupert Murdoch's News International introducing a strict paywall on all its websites. Our sample shows that there is a true willingness to pay for news online when the readers perceive an added value in the paying content, as is the case with *Le Temps*.

The financial model impacts the value proposition: producing content for the website puts costs up, which in turn require additional revenue to cover. These costs cannot be covered by advertising, unless the website is the largest in its market and the cost of producing content is low. *Verdens Gang* is profitable online because they have a tremendous online readership. Yet a newspaper such as *20 Minuten*, which has limited costs for its online operation due to the limited extent of actual editorial work compared to a 'quality paper' such as *Le Temps* would not break even on its website without cross-selling its advertising in print and online; it also profits online from brand recognition from its print business. The issue of costs of providing news online tends to support the view of Daripa and Kapur (2001) rather than those of Teece (2010), whereby there still are strong barriers to entry online in content provision due to the importance of the brand, and the investments required in a team to maintain the website, both in terms of infrastructure and in terms of content. While costs and revenues are often not clearly allocated in cases of news presented on multiple platforms, *Aftenposten*, *Le Temps* and *Die Zeit* faced important investments in their online activities. New actors in the online content provision would face similar barriers and investments.

The interviews show that selling advertising space across platforms increasingly makes sense. In a first period, due to different clients across platforms and separate client needs as well as a low willingness to pay for online advertising, many newspapers operated separate, specialised sales teams. However, there appears to be a tendency to integrate the teams, either as part of a broader move to merge the online and print operations, as is the case for *Verdens Gang*, or as a way to offer clients that are more familiar with the benefits of online advertising the opportunity to face one person for a whole multi-platform advertising campaign, as at *20 Minuten* or *Le Temps*.

The niche market of classifieds for specific professional categories seems to remain profitable for newspapers with a strong brand and a strong position in the targeted segment, as is the case for *Die Zeit*; Van der Wurff (2005) argued that newspapers would lose classifieds; we see that they can be kept by newspapers with a strong market position in a certain segment.

The financial model impacts the value proposition inasmuch as the decision to charge readers for online content typically reflects the vision of the quality of editorial content provided. *Le Temps* introduced a paywall to source revenues, but also as an understanding that all their content is high quality journalism, independently of the platform it is provided on; it chose the freemium model rather than the premium model in the understanding that all its articles are of equal quality, while the premium model forces the newspaper to select which articles are free and which are paying, and hence supposedly of higher quality.

Similarly, the decision to introduce a freemium model (value proposition) is based on the financial model: the freemium model is most adapted to gain revenue from users that value the news provision from this newspaper, without putting off occasional readers that increase the audience relevant to advertisers. This is what a newspaper like *Aftenposten* is considering introducing. Considering a news good as an experience good (Shapiro & Varian, 1999) also explains why newspapers would go for a freemium model rather than a strict paywall, as it allows sampling by the reader to make sure he gets the kind of news goods he wants.

Regarding financial models in terms of subscriptions, we have not seen any newspaper using price discrimination online (except for student discounts and deals for new readers, as is already done with print subscriptions), although it is suggested by Kaye and Quinn (2010) as a way to use digital technology to enhance revenues. This would technically be possible online, as the data contained on a browser's memory (cookies) allows to get an idea of a user's willingness to pay.

#### **7.4. Key findings**

Overall, newspaper business models are different, yet the success of a business model is not necessarily measured purely in financial terms. Our empirical sample suggests that the most profitable newspapers are free newspapers, efficient products with a large audience and capable of commanding high advertising revenues. Yet some newspapers do not aim at maximising profits, but at providing the public good of high quality news and information.

We find interdependence in the dimensions of our business model framework for newspapers, as presented by Methlie and Haugland (2012) and Morris et al. (2005).

Table 6 presents an overview of some of the major findings from reviewing elements of the building blocks in the business model framework with the empirical findings from our interviews.

**Table 6: Summary of Key Findings in the Analysis**

	<b>Value Creation Processes</b>	<b>Customer Interface</b>	<b>Financial Model</b>
<b>Value Proposition</b>	<p><b>Advertising-driven newspapers biased against expensive reporting</b>            → Partly confirmed            - <i>20 Minuten</i> efficient product with a low number of editors per reader            - Contrary: <i>Mediapart</i> with intensive reporting, or <i>Die Zeit</i> with a strong focus in the weekly print edition on comment</p>	<p><b>Combination of network value with intrinsic and complement network attributes</b>            → Confirmed            - Matching function, for instance at <i>Mediapart</i> with investigative content (intrinsic) and readers input (network value) combined with editing books (complement)            - <i>Verdens Gang</i>'s 'common experience' as a network value of the platform            - Reflects two-sided markets newspapers operate in</p>	<p><b>Online operations have a cost</b>            → Confirmed            - Investments in servers, specialised staff and the editorial team to work on a different time horizon (<i>Le Temps</i>; <i>The Guardian</i>; <i>Aftenposten</i>)            - Costs and revenues often not clearly allocated between the online and print operations (except for <i>Verdens Gang</i> prior to its recent merger, although even there brand recognition intervenes)</p>
	<p><b>Reader participation in content creation reflected in the value proposition</b>            → Confirmed            - <i>Le Temps</i>: limited participation, as value is in editorial content            - <i>Mediapart</i>: participation through self-selection of readers and news provision through blogs linked to subscription-based community            - <i>20 Minuten</i> value proposition of information and entertainment, participation for direct entertainment            - Some newspapers use the Internet for sourcing editorial content (<i>The Guardian</i> with the London riots; <i>Die Zeit</i>; etc.)</p>	<p><b>Use of Internet properties: hypertext; interactivity; multimedia; personalisation</b>            → Partly confirmed            - Personalisation in news provision not yet deliberately pursued by newspapers; they value their whole content, especially in quality papers (<i>Le Temps</i>; <i>Die Zeit</i>)            - Use of hypertext particularly in Internet oriented news providers (<i>Mediapart</i>) and increasing use of multimedia across platforms (<i>The Guardian</i>; <i>Verdens Gang</i>; etc.)            - Interactivity viewed as important by most papers</p>	<p><b>Trend to increasing integration of operations</b>            → Partly confirmed            - For sales of advertising, increasingly integrated            - In fact, most successful part of <i>Verdens Gang</i> merger is its advertising sales team            - Case for editorial teams more complex (no difference in costs of separated or integrated team at <i>20 Minuten</i>); editorial stand on quality of content justifies integration at <i>Le Temps</i></p>
	<p><b>Internet allows to aggregate an audience and create a demand for a new media</b>            → Confirmed            - It is the business model of <i>Mediapart</i>: find 60'000 readers interested in investigative journalism to pay a fixed monthly subscription fee for an all-online access</p>	<p><b>Use of economic tools such as lock-ins and price discrimination</b>            → Not confirmed            - No appropriate solution found for lock-in, other than one subscription across all platforms            - No new price discrimination model disclosed that does not previously exist for print editions (such as for new readers or students)</p>	<p><b>Link between pricing and value proposition</b>            → Mostly confirmed            - <i>Le Temps</i> definition of quality of content explains choice for metered paywall: all content is premium quality across all platforms            - <i>The Guardian</i> aims to be global leader of online news, aiming for audience reach and advertising revenues; as well as app revenues            - Free contents aim for entertainment value, such as <i>Verdens Gang</i> and <i>20 Minuten</i>, with paying added services (<i>VG+</i>)</p>

Source: Author



## 8. Discussion and Implications

We now turn to discussing the analysis and the implications of this thesis, both for academia and for managers, after first reviewing the contents of this thesis.

### Review

Our research question was: “What are the key dimensions of a newspaper’s business model and how do these dimensions interact in a digital age?”. This thesis presented the newspaper industry, and the value chain of a typical print newspaper. We addressed the challenges of the industry, in particular due to digitalisation, changing consumption patterns and diminishing advertising revenues. Economic properties of news goods were presented, and the consequences for news producers such as newspapers addressed. The digital value chain, the issue of media convergence and network economics were considered, as well as current revenue models including online monetisation.

In a review of the literature on business models, we found two streams of literature: taxonomies and dimensions of business models. Focussing on the second, we reviewed the major articles in recent research, as well as previous literature reviews. We discussed the difference between business models and strategy, and presented research on newspaper business models.

This led us to develop a framework to study newspaper business models. Building on the four dimensions of value creation processes, customer interface, financial model and value proposition, we present a systematic approach to research newspaper business models.

Our research design is based on in-depth interviews of European newspaper publishers. The interview guide is structured along the four dimensions of a business model to understand each of the eight newspaper’s business model, its development and the way choices in one dimension impact other dimensions, and in particular the value proposition. The eight newspapers studied are *20 Minuten*, *Aftenposten*, *Die Zeit*, *Le Temps*, *Mediapart*, *Süddeutsche Zeitung*, *The Guardian*, and *Verdens Gang*. The range of newspapers is broad and diverse. The sample represents five European countries: France, Germany, Norway, Switzerland, and the UK. We described why our research findings are reliable and valid, as well as the limitations of our research design.

## Discussion of findings

In our findings chapter, we described in details the results of the in-depth interviews along the four dimensions of our framework. Specifically, we presented the value proposition of all eight newspapers and addressed specific issues such as the importance of print in the newspaper's value proposition, the positioning, and the perceived competition. We find that the value proposition for advertisers may include a niche classified business, the provision of a targeted audience or the importance of a large audience reach. Additionally, newspapers offer value to consumers with merchant activities, hence extending their brand.

Key issues arising in value creation processes include the choice of integrating or separating editorial teams for print and online, the use of the web to source information by inviting users to submit information, the changes due to online journalism as well as reader involvement in content production by posting comments, videos or articles.

Regarding customer interface, we find that newspapers tend to have slightly different audiences on different platforms, but that the difference can be age, or it can be values. Newspapers tend to have a larger audience online than in print. Newspapers differ largely in the extent to which they use social readers or invite readers to engage with the newspaper in an active dialog, as a community. Regarding the sale of advertising, we find a trend to integrating sales teams as marketing directors increasingly become interested in cross-media campaigns. Personalisation of advertising, or targeting, exists; personalisation in editorial content currently is limited and opens a debate on the role of the newspaper, or the importance of the editorial choices in the value proposition.

Our sample is diverse in its financial model also. With *Verdens Gang* being one of the world's first newspapers to make a profit with its online operation, we see that it is possible to operate a free online news website and have more revenues than costs. We also see with *Mediapart* that it is possible to provide high editorial content on a subscription basis, as this online newspaper broke even financially in 2011. *20 Minuten* is the most efficient product of Swiss media conglomerate Tamedia, suggesting that free dailies financed by advertising allow to limit costs compared to revenues. The introduction of a paywall tends to first lower readership online, but eventually evens out and enhances revenues, as shown by *Le Temps* if the value proposition is right for the readers. We also see that some owners are more willing to accept loss making to support a long-term strategy, such as the Scott Trust, which owns *The Guardian*.

What does this mean? We find several key issues that newspapers in a digital age have to think about. One of them is managing several platforms to provide their news, namely print, online and mobile. Each platform has its own specificities and own requirements. For instance, we find that audiences online are younger, and sometimes have slightly different values than the print audiences. Also, the timeframe print journalists operate in, with one deadline a day, is different to that of online journalists. We see newspapers making the choice to separate editorial teams for these reasons, and because the skills required are slightly different, while some newspapers make the choice to integrate their editorial team to provide one common content across all three platforms.

In terms of managing several channels to provide their news, newspapers also choose how to sell to advertisers, either through a specialised sales force, or cross-platforms teams and a one-stop shop. Here again, the approaches vary, but often are coherent with the newspaper's value proposition.

On the online platform, newspapers face the challenge of monetisation in different ways. Broadly speaking, the two approaches we see are: (1) audience reach, advertising financed with a premium, paying content; and (2) a target audience willing to pay for valuable information plus advertisers looking to target this audience.

We find that newspapers are using most of the tools they can online, including hypertext, multimedia and interactivity. We see some newspapers very attached to print and trying to lure young readers into reading their print version through an attractive, free online content. What we do not find are effective lock-ins or personalisation in news provision.

Social media are often a topic. While information cascades are very discussed, we do not find any numbers or hard evidence. All newspapers surveyed established a presence on social media as a new channel for marketing articles and driving traffic to their website, yet only one newspaper uses its own application on Facebook as a social reader. Hence we do not find a clear trend to the use of social media by newspapers other than as a new promotion outlet.

### **Theoretical implications**

By applying the research on business models to the case of one specific industry, that of newspapers, we tested certain assumptions. The thesis builds on research on business models as well as on research on the economics of media and information goods. The empirical part

of the thesis is based on case studies; we want to stress again here that the findings are not necessarily generalisable to all newspapers, let alone all business models.

Literature on business models has focussed on the elements of a business model in general (for instance Osterwalder, 2004, and Methlie & Haugland, 2012), or in a digital setting specifically (Brousseau & Penard, 2007), without focussing strongly on single industries. We test a model of a specific industry; the choice of relevant building blocks builds on both literature and findings about the news industry. The interdependence of the building blocks is visible in the fact that practitioners do not make the choices in one dimension independently of the effect it will have on the business model and the other dimensions.

Furthermore, we find that practitioners do not separate the business model from the market strategy, and that in fact the business model incorporates elements of market strategy in its building blocks. This shows more support for the views of Methlie and Haugland (2012) than for Zott and Amit (2008), as the model and the empirical findings show the market strategy integrated in the business model. Hence, decisions in the building blocks of the business model lead to a certain strategy and vice-versa; focussing on the business model decisions incorporates the business strategy.

Considering specific elements of the literature, we see that Amit and Zott's (2001) explanation of business models as either focussed on novelty or efficiency linked to a certain market strategy (differentiation versus low cost, and entry timing considerations) is of limited relevance for the newspaper industry; rather, we find that a business model for newspapers focuses on a range of choices in value creation processes, customer interface, the financial model, and the value proposition, which are interdependent. Additionally, Amit and Zott (2001) choose to exclude the financial model of their considerations; we find rather that the financial model is key to the rest of the business model for a newspaper today, especially in the stressed financial situation most newspapers are.

Regarding the theoretical impact of digitalisation on costs, the case is not closed as different case studies suggested diverging trends; arguments by both Daripa and Kapur (2001) and Teece (2010) seem to hold to a certain extent.

We suggest below topics relevant for further research on newspaper business models.

### **Managerial implications**

This thesis highlights the interdependence of building blocks of a business model. We have shown that pricing decisions, for instance, have an impact on the value proposition as well as

on the financial model. Being aware of the interdependence of decisions between the single building blocks helps managers make decisions appropriate for their organisation. We have shown that different newspapers have different approaches to, for instance, the issue of integrating or separating editorial teams for the different platforms, or to reader involvement in the content production and commenting.

The newspaper remains to be defined in a new way, possibly away from paper; the positioning of the newspaper and the value it brings through paper to its target audience will be crucial in this regard. In the shorter term, newspaper managers see more willingness to pay for mobile content (via apps) than online, although this is changing fast.

Newspapers are increasingly competing online for attention and time from readers with a wider range of competitors providing entertainment, in a context in which advertising effectiveness is easier to monitor. Newspaper managers can choose between two broad strategies: audience reach; and focus on a targeted audience. These two strategies call for different pricing and content policies, but they appear to be the two successful models in terms of advertising revenues. *Le Temps* commands high fees for advertising across platforms because it provides access to a valuable audience for advertisers; *20 Minuten* commands high fees on the same market, because it reaches the broadest audience across platforms.

We find a range of creative ways of extending the brand of a newspaper to provide unrelated services and products, including cruises, dating services and weight loss programmes. These brand extensions allow to diversify revenue at relatively low costs, while using in some cases the network properties of online newspapers.

### **Limitations and suggestions for further research**

The newspaper industry is changing at a very fast pace, as new players enter, the barriers of the industry are redefined and start-ups regularly come up with creative ways of doing business. For instance, we have not found any evidence of successful, innovative lock-ups for digital newspapers that did not exist already in print. Managers are looking into creative models, and academics are following with research on networks, for instance.

Literature on business model taxonomies has been growing. Further research would allow to propose a taxonomy of newspaper or news providers along certain criteria developed in this thesis, such as the degree of editorial content added to an information, and the degree of interaction with the users. This would allow to measure the performance of different kinds of

models, as was done by Malone et al. (2006), who did not focus specifically on a single industry. Such a research would provide interesting insights, not least in how to measure the success of a newspaper, be it in financial terms or other.

Many of the newspaper organisations studied are going through strong organisational change. It would be valuable, were more time available, to study the organisational change going on. Indeed, while younger players in the news provision industry are more flexible, newspaper organisations have a history and, for instance, heavy pension duties, which they have to adapt to.

The opportunities offered by digital technologies in terms of personalisation are the object of important debates within news organisations and journalism academics: May a news organisation allow its readers to go into a news bubble? This debate will be very interesting to follow going forward, and will have important implications for the news industry.

Additionally, one trend discussed in some interviews but which does not fit in this thesis is the issue of localisation. Indeed, some newspapers are attempting the extremely local by providing global news in a very standardised manner and some very local news, while gaining revenue through very local advertisers such as hairdressers and local restaurants.

This study builds on a limited number of newspapers. Each newspaper operates in its own market, and each market has its specificities; trends in many emerging countries are very different to trends in the Western world, and the US newspapers were harder struck by reduced advertising revenue because they were more heavily relying on them. The case studies allow to test certain assumptions, to show what is possible and what is not commonly done. The results are produced at a certain point in time in a fast-moving environment; for instance, it remains to be seen how young audience will behave in the future, whether they will be willing to pay for online content and whether they will be interested in print newspapers or not.

Further research is still required in the success of transition from free to fee, as already called for by Pauwels and Weiss (2008). While this is currently difficult to do due to the confidentiality of this data for the firms involved, an extensive study may be feasible in a near future when and if those newspapers have found a financially sustainable formula.

Finally, as newspapers are still the locus of journalism in the Western world, political scientists are conducting research on the impact the crisis of newspapers have on the media as responsible of holding government accountable in a democracy.

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# Appendices

## Appendix 1: Interview Guidelines

### Introduction

- Who I am
- What this thesis is about
- How this interview is going to go and how it will be used

### About the interview respondent

- Role/Position
- Involvement in digital transition
- Brand of the newspaper
- Ownership structure of the newspaper

### Internet

- How exactly did the Internet and digitalisation impact your firm:
  - As a new distribution channel?
  - As a new way of communicating two ways with readers?
  - As a means of producing news?
- Who are your competitors (now and prior to the Internet)?
- Which firm/news provider do you follow for trends in news provision online?

### Customer interface

- Who are your customers (readers, advertisers, consumers, other)?
- How do you acquire and retain readers (online & offline)? Any comment about social readers (apps on social networks)?
- What does your brand stand for?
- Is the brand as important online (compared to offline)?
- Is the way you communicate with customers and service them online different to that of another, non-newspaper news provider?

### Financial model

- How has digitalisation impacted your bottom line?
- What effect did it have on costs?
- And on revenues in general?
- Specifically, what do you experience regarding advertisers? Which model do you use?
- Do you have a paying section of articles? If so, how did the introduction work? Which other online monetisation models do you see?

- Do you observe a willingness to pay online and digital?
- Do you have revenue sources not directly linked to news provision (merchant activities for instance)?
- Do you see potential areas of savings? Cooperation or strategic alliance opportunities to reduce costs?
- How do you see the industry coming out of the reduction in advertising revenues and circulation numbers, overall?

#### **Value creation processes**

- How do you create value for your clients (readers, advertisers, consumers)?
- How does the Internet and digitalisation impact the way you create value?
- Do you involve your readers in the creation of news or information? And advertisers?

#### **Value proposition**

- What is your value proposition for your customers?
- What products and services do you offer?
- How has the Internet changed your value proposition?
- Is print essential to your business?
- How does your pricing impact your offering online?
- Which types of positioning in value proposition/pricing do you see, and which do you consider to be most sustainable?
- Do you include the value creation process in your value proposition, i.e. is the way you create news part of your product?
- How far do you go in personalisation in news provision?
- How central is the need of the target customer group in developing your value proposition?

#### **Conclusion**

- Is there anything you would like to add about this research project?



## Appendix 2: List of Interview Respondents

- Mr Steven Goodman, Head of business development, *20 Minuten*, Switzerland. Interview on 04.07.2012.
- Mr Sondre Gravir, CEO, *Aftenposten*, Norway. Interview on 27.06.2012.
- Mr Christian Röpke, Managing Director of *Zeit Online, Die Zeit*, Germany. Interview on 31.07.2012.
- Ms Virginie Fortun, Member of Management, Head of Strategic Development, *Le Temps*, Switzerland. Interview on 03.07.2012.
- Ms Marie-Hélène Smiéjan, Co-founder, Financial and Administrative Director, *Mediapart*, France. Interview on 02.08.2012.
- Mr Ulrich Bensel, Director Süddeutsche Medien Holding Human Resources, *Süddeutsche Zeitung*, Germany. Interview on 29.07.2012.
- Mr Stephen Folwell, Director of Business Development and Brand Extensions, *The Guardian*, United Kingdom. Interview on 02.07.2012.
- Mr Jo Christian Oterhals, Digital Director, *Verdens Gang*, Norway. Interview on 01.08.2012.