



There's life in the old dog yet – Print media in the digital age

InfoCom Competence Center
Roland Berger Strategy Consultants
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There's life in the old dog yet – Print media in the digital age

- > Print offerings can hold their own in multimedia competition only if they clearly position themselves toward the target group and concentrate on the inherent strengths of print
- > The premium reader segment is the most attractive: premium readers stay loyal to print media and are willing to pay to read them
- > There is continued growth potential in niches and events; profitability comes from scaling assets such as content and brands
- > Brand investments and the ability to innovate are critical for success

Nine key points on the future of print and how publishers can best position themselves for multimedia competition with Internet and TV

In 2007, people's media consumption rose yet again. Take Germany, for example: the gross time budget for print, online, TV and radio climbed to an impressive 525 minutes a day. Yet print circulations still continue to fall in almost all countries – newspapers find themselves the hardest hit, with circulations going only in one direction since the early 1990s: straight down. Whereas at the end of 2002, the World Association of Newspapers recorded around 98.1 million paid-for daily newspapers sold in Europe every day they were published, the figure was just 94.0 million in 2006 – a steady annual decline of more than one percent per year. The situation is even more dramatic in the major Western markets: newspaper circulation fell 9.3% in Germany, 5.7% in France, 11.1% in the Netherlands and 12.5% in the UK in the same period.

So how is it that some print products have been successfully swimming against the tide for years now? Süddeutsche Zeitung is one such publication. This national, daily quality broadsheet from Germany sold an average of 442,000 copies in 2007, some 33,000 more than a decade ago – and more than the company had ever sold before. In the Netherlands, Het Financieele Dagblad recently returned to growth after heavy circulation losses: the paper now sells 56,000 copies a day, up more than 13% from the low point in 2004. These two shining examples are topped only by the British magazine OK!, which has grown more than 300% since 1998 to sell around 683,000 copies per issue today.

Are these merely niche phenomena or coincidences, due primarily to cultural differences in media consumption? It is certainly true that a strong north-south divide persists in Europe, with the northern nations consuming more print media than their southern neighbors almost since time immemorial. Then there are differences between Eastern and Western Europe, there are free newspaper markets (Switzerland and France, for example), there are big markets and small markets. Each media market has its very own specifics, pure and simple. Nevertheless, the trend of declining print consumption in the face of new media channels, such as online, and people's changing media consumption behavior is very similar in all markets.

In our view, it is anything but coincidence that print offerings in various countries still manage to stem the tide of declining readership and circulation and successfully position themselves against the multimedia competition. What these publications have done is identify the key success factors that help them win customers for their print products in the digital age.

Roland Berger Strategy Consultants has examined many aspects of the print market's future in numerous projects. Based on our experiences working with our clients, coupled with further international examples, we have identified nine success factors for publishers to move forward with their strategic direction.

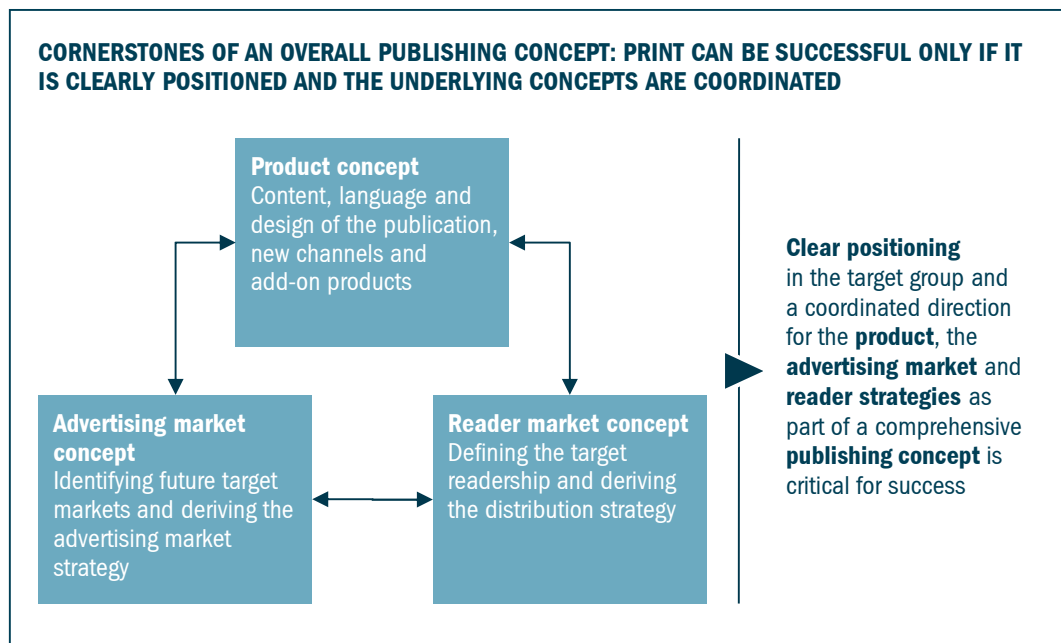
Key point 1: Print can be successful only if it is clearly positioned

Daily newspapers, in particular, often have little more than a fuzzy concept of their readership. This is especially true of regional dailies, which target the entire population of a geographic area en bloc. But many national dailies also distinguish themselves by nothing more than a political standpoint or a reputation as a "quality" paper.

While readership is thoroughly analyzed for the advertising market within the scope of reader research studies, any information gleaned about topic interests, media budgets and reader habits is very rarely translated into a common strategy to guide all of a publisher's actions. The editing, advertising marketing and sales teams still frequently work more or less alone – far beyond the level of separation called for by the code of journalistic ethics. It may sound harsh, but all too often the reality is that the editorial team concentrates on the product, developing content for a vaguely defined readership; sales tries to achieve its own targets, considering what the advertising market wants in terms of readership structure by pure chance, if at all; and the advertising marketing force attempts to retrospectively define the publication's real and potential readers so as to market them as best they can to advertisers.

Our experience confirms that defining and consistently serving and exploiting the target group with respect to topics, language, design and distribution are critical to the success of any publisher, and all the more so in the online age. But this can be achieved only if the product and the reader market and advertising market strategies are harmonized within a comprehensive publishing concept. A reader survey is a good starting point, but it is not enough on its own. A fundamental understanding of the target markets is what's needed: which readers should you target and how attractive are they to advertisers? How much of the defined target readership do you already reach? How much potential is there and, from that, what are the realistic growth targets for the publication?

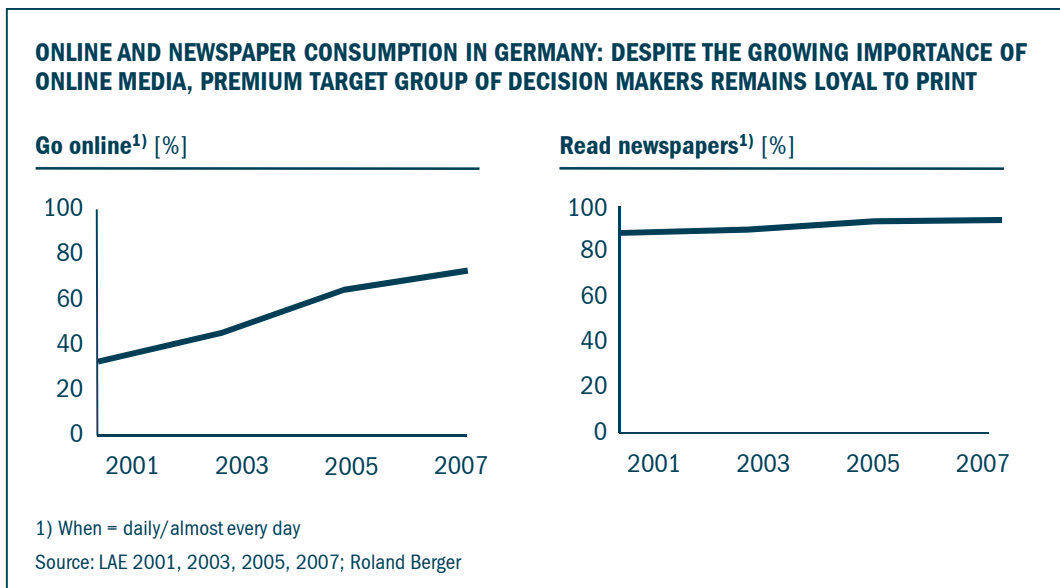
The analysis of the target readership's thematic interests and consumption behavior ultimately guides the editing, sales and marketing teams: what content are the target readers most interested in? What diction and design best fit the content? In which areas can sales activities reach target readers the best? Getting the entire organization on the same path as potential and existing readers, together with an integrated publishing concept, is a major challenge for newspaper publishers.



In Germany, Süddeutsche Zeitung redefined its target readership. The newly defined target was the basis for a focused program directed at potential readers. And in the Netherlands, the business daily Het Financieele Dagblad defined three strategic clusters of target groups: investors, business people and high potentials. Each cluster was analyzed to find out its interests, needs and media preferences and was subsequently targeted by means of specially aligned content in the publisher's print products. Especially given the multimedia competition with TV and Internet, where offerings have long been positioned to appeal to specific customers, publishers today can be successful only if they align their activities closely to the target group and pursue focused strategies in all business activities.

Key point 2: Unbundled media consumption – Premium readers are the most attractive segment

Publishers need to analyze customer segments to identify attractive target groups. Media preferences are always a sign of social background. In fact, we have seen this phenomenon amplified in recent years: The media consumption of specific segments is becoming increasingly fractured. For instance, while print consumption is declining among the wider population, the more educated and higher earners still remain loyal to print – even in spite of rising Internet usage.

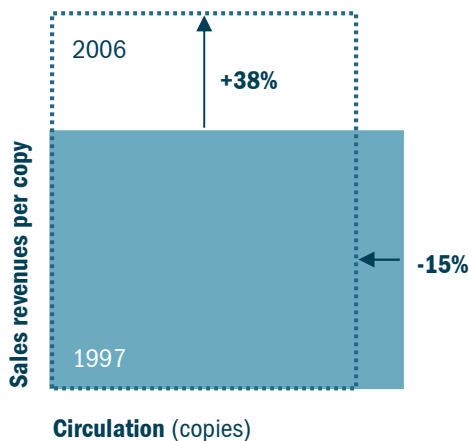


Research by Germany's LAE ("Leseranalyse-Entscheider") survey of decision makers demonstrates increasing consumption of both print and Internet among the elite. According to their findings, the proportion of decision makers who use the Internet almost every day has risen from 33% to 73% since 2001. But the share of people who read a newspaper every day in this target group also rose slightly in the same period, from 84% to 89%. Given their limited time budget, Internet usage is growing probably at the cost of TV viewing rather than eroding print usage in this target group.

For years, the print market has clearly shown that elite readers are prepared to pay for quality media. For instance, Germany's Süddeutsche Zeitung boosted subscription prices by about 65% between 2000 and 2007 and Spiegel magazine's cover price went up by 39% – and subscriber numbers also rose in the same period. As for some of the other national quality dailies, the subscription prices of Die Welt increased by more than 50%, while the cost of the FAZ (Frankfurter Allgemeine Zeitung or Frankfurt Daily Newspaper) rose nearly 40%. These publications were thereby able to offset at least partly the revenues they lost as subscriber numbers declined. The trend is similar in other markets. In the UK, cover prices for The Guardian, The Telegraph and The Times have continually gone up in small increments over recent years. In Ireland, The Irish Times has almost doubled its price since 1998 and now retails at EUR 1.60.

But top decision makers are not the only attractive target group. Special interest segments also continue to represent stable and profitable niches for print offerings. This is because, even if the total readership is down, the remaining readers in these spheres are prepared to pay substantially more for print products. The illustration below clearly shows circulation revenues rising even as the sales base narrows – print is becoming more and more of a premium product.

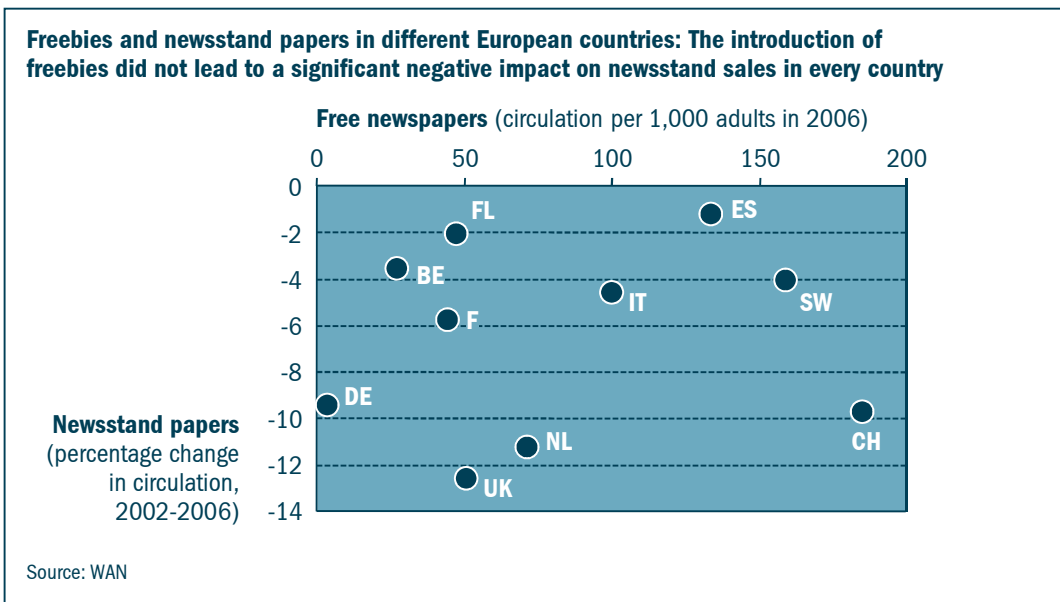
NEWSPAPER CIRCULATION AND SALES REVENUES IN GERMANY, 1997-2006: CIRCULATIONS ARE DOWN, BUT REMAINING READERS PREPARED TO PAY MUCH MORE



- > Newspaper **circulation fell about 15%** between 1997 and 2006
- > However, the remaining readers are prepared to pay much higher prices for newspapers: **sales revenues per copy rose by 38%**
- > This more than offsets falling circulation – **sales revenues were up 17%** overall in spite of declining readership
- > **Print is becoming a premium product:** the sales base is narrowing, but revenues per copy are increasing

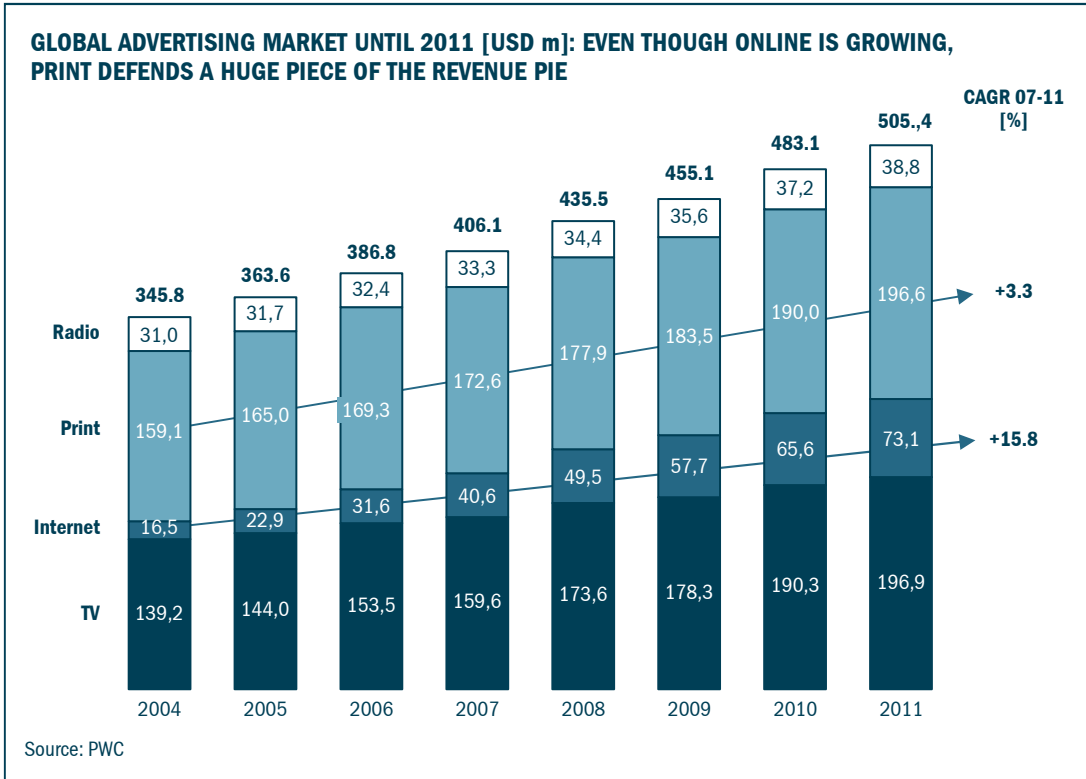
Source: IWW, BDZV

Publishers can expect an even more dramatic shift between the individual customer segments in the future. Products like national, quality dailies or high-quality, general interest magazines for the premium segment will experience stable demand. Conversely, products for other target groups, such as tabloids and regional newspapers, will find things more difficult in the future. However, markets such as France, the UK and Switzerland could see more readers being reached through the introduction of free publications. And since these "freebies" allow publishers to reach target groups that haven't been reading traditional newspapers before, introducing free newspapers doesn't necessarily mean a significant negative impact on newsstand sales.



Key point 3: Print media continue to be attractive in the advertising market

The forecast growth rates for online advertising are impressive. In a long-term study of the global advertising market until 2011, PWC predicts that online advertising will grow at an average of 15.8% per year; this would put the total volume of online advertising at almost USD 73 billion in 2011. And in the same study, PWC forecasts a market volume of USD 197 billion for print advertising, as well – still the second-largest piece of the revenue pie after TV. So it appears that print advertising has emerged from the online boom unscathed – doing far better than many had expected.



Consequently, online advertising cannibalizes only a part of the traditional print advertising market – predominantly the classifieds market. Among the main growth drivers of the online market these days are the kinds of search-term and affiliate advertisements we know from Google and Yahoo. The market for these ads is either fed by the sales budget – and not out of a company's traditional advertising budget – or is indeed only the result of the Internet. Since the Internet allows the targeting of precise groups, even very small companies can now market efficiently. If you look up "wedding" in Google, you get adverts from companies that hire out wedding dresses, from event agencies and from professional fireworks companies – all of whom would never have advertised on the same scale in print titles. These advertisements alone will make up almost 40-50% of the total online advertising market, according to the findings of various research institutes.

Expect some deconstruction in the traditional advertising markets as well. While it can be assumed that the majority of sales-oriented ads will appear on the Internet as context-sensitive advertising, image advertisements will still flock to print. For image advertising in particular, print has a clear competitive edge over online media due to the high-quality visuals and safe editorial environment it provides. Image campaigns on the Internet, on the other hand, will tend to develop more in the direction of TV advertising through the use of animation and sound – perhaps being financed by TV budgets as a result. Print will also continue to be an attractive place for high-quality classified advertising, such as real estate and job vacancies. However, high-quality classifieds will see a move away from the many individual job vacancies and homes for sale that are currently advertised. These will be replaced by image-heavy single ads directing readers to a website. In view of this change, publishers should think about removing high-quality classified ads from the traditional classified sections.

Key point 4: Focus on the inherent strengths of print

In the race to deliver the latest news, print can only lose to the Internet. Consequently, successful print offerings focus on the competitive advantages of the print medium in order to clearly differentiate themselves from other media. One of the primary means is quality. But it can also mean transforming apparent weaknesses into strengths: print can counter the interactive nature of the Internet by providing an individual experience and the opportunity for readers to consciously slow down – setting aside quality time in their busy schedules. In terms of editorial approach, this means more agenda setting, opinion, background information and orientation instead of pure news. On the product side, people's visual and tactile reading pleasure will be enhanced through the use of high-quality paper and gripping visualization through illustrations and photos.

Magazines were the first to see the signs of the times, but newspapers like The Guardian in the UK and Germany's FAS have also pursued this strategy successfully in the past. Take the Frankfurter Allgemeine Sonntagszeitung, for instance: in 2007, the weekend edition of the quality German paper FAZ was again picked as one of the "world's best-designed newspapers" by the Society of News Design. And in the same year, the FAS saw its circulation boosted by around 8%. A focus on high-quality content and a sophisticated look also creates a strong advertising environment for image ads and high-quality classifieds, which can help compensate for the decline in small classified ads.

Key point 5: Growth primarily in niches

The mass market for print has largely been carved up in most countries. However, growth potential continues to exist in niches, especially in the magazine and special interest segments. Positive examples in Germany, like the modern business magazine Brand Eins (13% circulation growth since 2001, subscription figures tripled) and Neon, Stern's new spinoff magazine for 20- to 30-year-olds (68% circulation growth since 2004, four-fold rise in subscription figures) provide proof that growth is also possible with the so-called online generation. Die Welt Kompakt, the tabloid version of Germany's national quality daily Die Welt, is another example of how to develop a product to round out your print offering for readers on the go who need a compact overview of what's happening in the world. (Die Welt and Die Welt Kompakt have enjoyed accumulated circulation growth of more than 30% since 2004). Some newspaper publishers, however, still have to learn how to fill niches successfully. The challenge is to position products with ever-smaller future circulations profitably.

Key point 6: Profitability through content scaling

While there is still some potential to cut incremental costs, most publishers have done their homework on the cost side in recent years. The biggest challenge for the future will therefore be to scale existing assets like brands and content in an effort to boost profitability.

One way of doing this is through multi-format editing. This means that an editorial team publishes several formats, thereby achieving economies of scale, mostly as a result of content syndication. In the Netherlands, for example, PCM Uitgevers publishes two successful formats from the same editorial team: the national broadsheet NRC Handelsblad, with a circulation of around 230,000, and nrc.next, a format for a younger target group, with a daily circulation of 75,000.

About 60% of the content from the main paper, NRC Handelsblad, is used in nrc.next, with the diction and the graphic design adjusted to suit the young target readership. NRC proves how existing assets can be successfully scaled across several formats, thereby enabling a paper to exploit a niche profitably. Editing pools in the magazine segment or cross-regional editorial teams for regional newspapers are further examples of profitable content syndication. This model can be developed in different ways and even established internationally. Take Breaking Views, for instance: this editing team, specializing in financial information, supplies articles about the financial markets to many of the big international newspapers (including Handelsblatt in Germany, Le Monde in France and The Wall Street Journal in the USA).

At the opposite end of the spectrum from multi-format editing is network editing. This principle is already applied by many magazines: very lean editorial teams establish new formats by dipping into a network of freelance writers and also reusing content from national and international publications. The political magazine Cicero in Germany is an example of this model: besides using content from their own office, the editorial team also selects interesting articles from a range of media and formats them specifically for their readership – sourcing equally from publications such as high-brow Le Monde and online blogs.

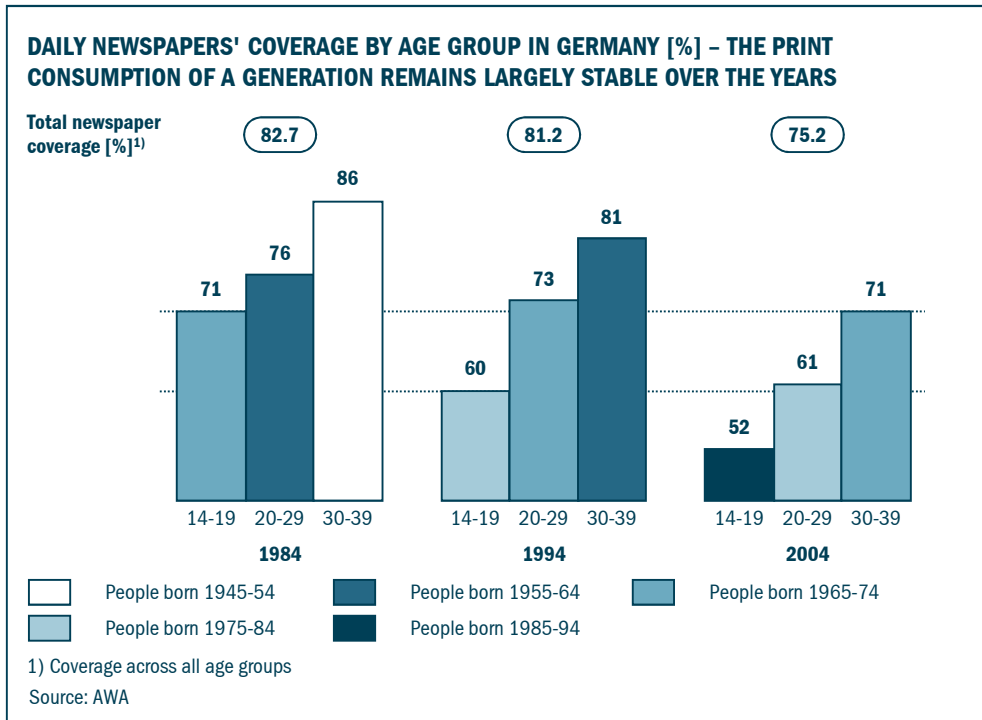
Using content once and in one object will become less and less financially viable for publishers in the future. It is likely to become standard practice for them to adapt articles for publishing in different formats, channels and regions and to swap content with others. This may be tantamount to cultural change for many publishing houses – the mere mention of the phrase "agency paper" still conjures up widespread horror at the practice of using content from third parties. However, self-researched material is not necessarily better – what counts is whom the content is drawn from. The use of syndicated content does not necessarily mean compromising on quality. On the contrary, it can provide an economically sound footing for high-quality journalism.

Key point 7: Brand investments pay dividends

Nowadays, brand is an important lever for all media to use in distinguishing themselves from the competition and establishing new business segments. This is all the more relevant for print: more so than with TV and online media, people's entire view of the world and the way they feel about life are inextricably bound up with print titles – this goes for regional papers and for national broadsheets and magazines in equal measure. The strength of print brands was therefore one of the reasons behind publishers' many successful diversification attempts and product overhauls in recent years.

The local paper Rheinische Post in Germany's North Rhine-Westphalia region is a telling example here. The paper's Düsseldorf-based owners did more than simply cut costs, even though the newspaper was in a crisis. They relaunched the content concept and renewed the graphic design, brought in advertising specialists to inject professionalism into the communication strategy and invested proactively in developing the brand to appeal to the region's conservative readership. And they did so successfully: whereas the other papers in the same area had to stomach continued losses, Rheinische Post was able to stabilize its circulation and even increase reader numbers. Reinforcing the brand also pays off in the advertising market: in spite of sophisticated readership analyses and advertising effectiveness checks, environment perceptions are still incredibly important for media planners. Precisely when planners face a fragmenting media landscape, brand value helps with orientation. The development of an individual profile is therefore crucial for print products.

But brand investments pay dividends in more areas than merely achieving a clear positioning in the advertising market and ensuring the loyalty of the active readership. Publishers need to start investing early in young, potential customers now if they want to protect their readership for the future.



Declining numbers of young readers is well documented. Whereas optimistic publishers still hope these target groups will eventually turn into loyal newspaper readers as they get older, long-term studies provide unmistakable evidence that the newspaper and magazine consumption of a generation remains relatively constant over time. Take people born in Germany between 1965-1974, for example: among this target group, newspapers enjoyed 71% coverage in 1984; ten years later the coverage was 73%, and in 2004 it was back to 71%. Although the readers aged twenty years in that time, their newspaper consumption remained more or less constant throughout the period. Publishers need to realize that only people whom they manage to turn into newspaper readers in their younger years will buy newspapers as they get older. The fact that newspaper readership is only 60% in the subsequent generation is thus all the more alarming.

As a result of this, print media need to engage in targeted marketing to win even greater, early loyalty among the young target groups than they did before. The fact that TV and Internet are an almost permanent, free presence for the young target group nowadays means that publishers need to "train" the young generations to become readers. Strategists at German broadsheet Die ZEIT took this to heart more than ten years ago, developing a program for young target groups called "ZEIT für die Schule" ("Time [Zeit] for the School"). Germany's Spiegel magazine regularly runs awards for the school newspaper of the year. Even regional newspapers are active, with a paper in Germany's Ruhr Valley taking things even further: the Recklinghäuser Zeitung developed a program for local preschool children. Given the urgency of the situation, publishers should leave no stone unturned.

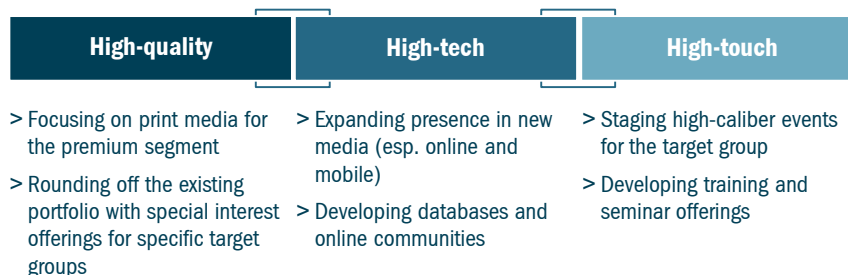
Key point 8: Print as a platform for brand worlds

Brand investments pay dividends beyond merely protecting a publisher's core markets. Strong brands are necessary to establish new media channels and successfully diversify.

As a first step, publishers have extended their brands in recent years. Papers like Italy's La Repubblica, Spain's El País and Britain's The Times are now selling branded book, CD and DVD series and even wine. The new product business has enabled publishers to expand their sales base permanently – line extensions can now account for some 10-15% of a publisher's sales revenues. However, since the business line extensions is finite and expanding a brand on the product side always comes with a risk of overstretching the brand, publishers are now going beyond the new product business and are building communities around their brands. Events like discussion circles, congresses, seminars, trade fairs, concerts, festivals and travel constitute a particularly attractive growth segment. With events for corporate customers, the industry can even achieve unusually high margins of up to 80%. Many publishers exploit the coverage and popularity of their titles to enter the attractive events business. They have done so in a variety of forms, from trade fairs such as eat'n STYLE staged by the food magazine of German publisher Gruner + Jahr (essen & trinken, Living at home) to the exclusive industry circles set up by German daily business paper Handelsblatt and more than 100 forums, conferences and matinees offered by Die ZEIT.

As a result, Die ZEIT now has more than double the number of events than published newspaper editions per year. As part of our strategy projects for a publishing house, we defined the events segment as a fundamental element in the future strategy. Besides print media for the premium segment and activities in the new media, events and seminars are an attractive means of extending a publisher's activities to penetrate the target group even further: a highly synergistic mix of quality media, digital offerings and live events. Because they are strongly rooted in the regions in which they take place, events are a particularly good opportunity for regional newspapers to compensate for the declines in their core business with offers that round off their portfolio.

CASE STUDY: OUR GROWTH STRATEGY FOR A PUBLISHING HOUSE – EVENTS AS A FUNDAMENTAL ELEMENT IN THE FUTURE STRATEGY



Key point 9: The ability to innovate as a success factor

Even the best strategy and the most extensive product range have no chance of success if publishers fail to surprise people with their products or catch the spirit of the target group. Online products have an almost natural competitive advantage here, in that they have far greater technical possibilities. In particular, startups are frequently established within target groups "by insiders for insiders".

However, due to relatively low launch costs, print is also predestined for innovative experiments. Among our clients, we have noticed that small innovation labs are a good breeding ground for innovative products. Editorial units for certain parts of the newspaper, magazine or supplements, for instance, can be used as innovation labs. It is important to give the innovation units the necessary resources in the form of a dedicated team, and grant them the freedom and encouragement to launch new products.

The previous examples demonstrate the pay-offs in nurturing innovation and an experimental attitude: Germany's Süddeutsche Zeitung and Die ZEIT have successfully reworked their offerings and are enjoying sustainable growth – despite the general crisis in the print market.

Conclusion

In spite of the many swan songs, the market for print media is very much alive – but competition with Internet and TV is heating up considerably. The massive change in people's time budgets, willingness to pay for publications and declining loyalty to some titles means that not every offering will survive. Daily newspapers, in particular, are faced with the challenge of positioning a product that is largely inflexible in terms of time and place (daily deliveries to a defined location) within an increasingly flexible society. Weekly papers and magazines will have to find a way to manage the fragmenting readership and ever-shorter product lifecycles. Consequently, publishers need to take action now so that print media will be fit for the future. Now that many business operations have been optimized, the main task for publishers is to set the strategic course for the next 5-10 years. Through our many projects in the publishing industry, we see nine key points concerning the future of the print market:

1. Consistent **target group orientation** and aligning publication as well as reader market and advertising market strategies within a **comprehensive publishing concept** have become a critical success factor for all publishers – print media can successfully compete with other media only if they are clearly positioned
2. Media consumption between the individual customer segments is increasingly deconstructed – **premium readers** are attractive targets for the publishers, as these readers will continue to use print media in the future, are prepared to pay for them and are attractive targets in the advertising markets
3. **Online advertising** is the fastest growing advertising segment – but print media are losing far less ground to the online boom than many had anticipated. Print media continues to be an attractive platform for display advertisements and premium classifieds, thus remaining one of the biggest slices of the advertising pie
4. In multimedia competition, **print media** need to **focus on their inherent strengths** – beyond quality, these include providing readers with high involvement content and the deliberate choice to set aside quality time in their busy schedules. For publishers, this means focusing more on agenda setting, background information and opinion pieces as well as improving visual and tactile reading pleasure
5. The mass market has been carved up, but niches still hold growth potential – however, some publishers still have to learn how to **successfully fill niches**
6. Many publishers are faced with limited cost cutting potential across all functions – but **scaling content** can still improve profitability
7. **Brand investments pay dividends**, because a strong brand is becoming more and more important in an increasingly fragmented media landscape. Younger generations need to be "trained" to become readers and develop a loyalty to print media at an early stage
8. **Brand worlds and events** such as congresses and seminars, entertainment events and travel are the next step for profitable diversification after the business with line extensions – and due to the coverage and brand awareness they enjoy, print media provide an optimal platform for tapping these new growth areas
9. Since the media market remains dynamic, the **ability to innovate and develop new products** will become a critical success factor – publishers will have to be more creative and show that they have the courage to reform and to experiment with new ideas by launching new offerings

How can we help you?

The InfoCom Competence Center at Roland Berger Strategy Consultants provides the media industry with the benefit of its extensive strategic and operational expertise in numerous projects conducted in recent years – in the print sphere as well as in TV, online and radio.

We support our clients in the following issues:

Overall strategy: From finding the right strategy for the core market and tapping neighboring segments and media channels to formulating "new game" strategies, or diversifying into new markets – we help our clients develop an overall strategy to ensure that they are properly equipped for the future.

Implementation: From translating the overall strategy into strategies for the business divisions and ensuring the optimal setup for individual titles, to controlled strategy implementation using our program management system – we help our clients with implementation to take things beyond the conceptual stage, ensuring that tangible results are achieved quickly.

Operational excellence: From sales-up programs and process improvement to cost optimization in corporate center functions and the divisions – we help our clients protect their profitability for the long term.

We look forward to hearing from you and would be happy to discuss any of the issues raised here or answer any questions you may have. You can reach us at +49 (0) 89 9230 8649



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