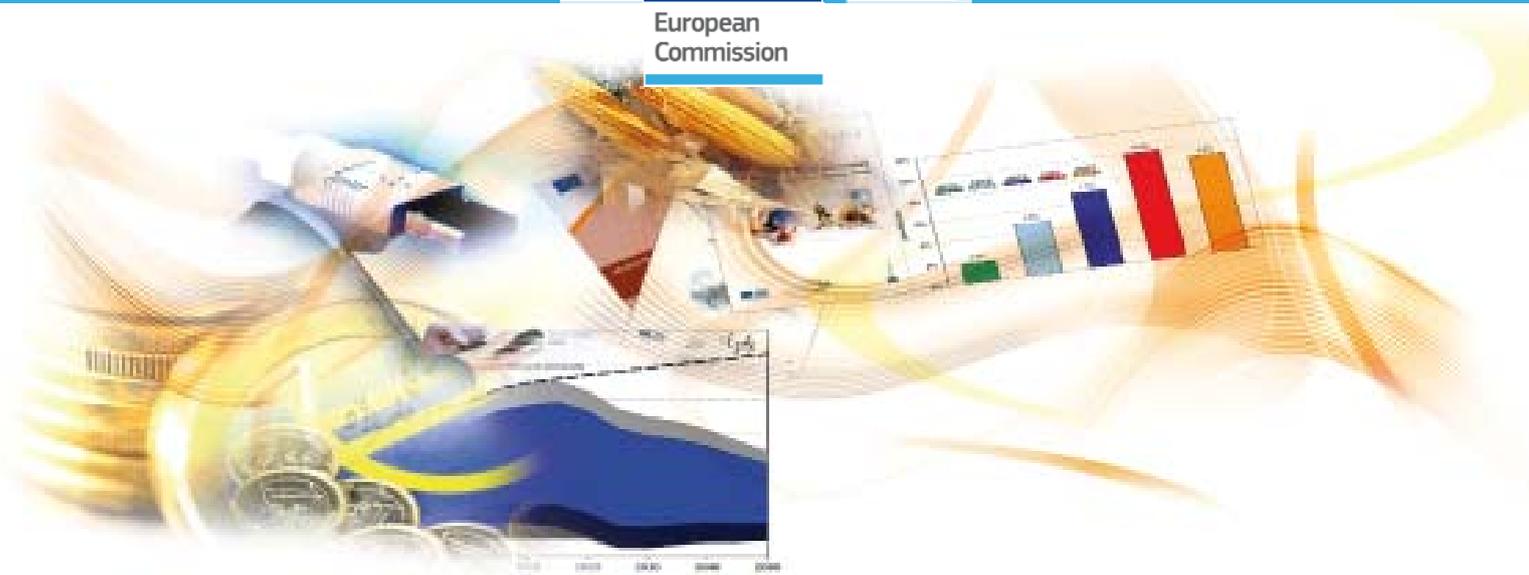




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J R C T E C H N I C A L R E P O R T S

Statistical, Ecosystems and Competitiveness Analysis of the
Media and Content Industries:

The Newspaper Publishing Industry

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Preface

Media and Content Industries (MCI) carry out an array of heterogeneous economic activities, which encompass publishing (including music), sound, motion picture and video/TV production, programming, distribution and broadcasting industries, as well as diverse information services.

The common thread in these activities is that they are all conducted by establishments primarily engaged in the creation and dissemination of information and cultural products. Also, the last decade witnessed a progressive intertwining of these activities amongst themselves and with the ICT sector, which increasingly provides the means for disseminating MCI products. At the same time, there was rapid change in the way these establishments worked and their business models (production and distribution processes, key players, organisation, etc.). Last, but not least, there was a substantial increase in the overall weight of MCI in the EU economy.

While understanding and mastering the descriptive quantitative tools that we have at hand is important, it is even more essential to grasp the current dynamics in the various industries in the Media and Content sector, possibly in relation with those in the ICT sector, in order to adapt our metrics and analysis to the current and emerging transformations of these sectors.

Therefore in 2009, IPTS launched a research project on the "Statistical, ecosystems and competitiveness analysis of the Media and Content Industries". This research initially included the preparation of a statistical report, a historical report and three subsector case studies, each supported by a dataset and technical annex. In 2010, IPTS decided to complement the initial case studies (cinema, music and newspaper) with two additional subsectors (book publishing and broadcasting) in order to provide a comprehensive view of the sector. In 2010, IPTS had already released a case study of the video games industry,¹ a fast growing segment of the sector.

This set of studies has two objectives:

1. To offer a quantitative statistical approach to the Media and Content Industries, including their extension or blurring boundaries due to: offline and online activities; innovative activities deriving from recently developed technological applications (i.e. P2P, WEB 2.0, social computing or other related current or emerging trends and technologies); specific sub-industries, companies or products that would not readily fit existing taxonomies.

The above dynamics were reflected in a wide-ranging revision of both taxonomies and classifications. Indeed, the definition itself of the MCI sector stems from a long standing process of standards revision guided by the OECD. This led to the profiling of the digital economy, and the conceptual identification of the MCI and ICT sectors as the two components of the Information Economy domain (OECD 2007, 2009). Similarly, the recently completed revisions of international classifications of economic activities (UNSD 2006, Eurostat 2008) led to the creation of a specific section (the highest rank in classifications) for Information and Communication activities, which includes both MCI and ICT services.

¹ The report starts by introducing the technologies, their characteristics, market diffusion and barriers to take up, and their potential economic impact, before moving to an analysis of their contribution to the competitiveness of the European ICT industry. It concludes by suggesting policy options. De Prato, G., Feijóo, C., Nepelski, D., Bogdanowicz, M., Simon, J.P (2010) "*Born digital/ Grown digital. Assessing the future competitiveness of the EU video games software industry*", JRC Scientific and Technical Report, 24555 EN. Available online at <http://ipts.jrc.ec.europa.eu/publications/pub.cfm?id=3759>

This represented a significant departure from tradition, in that it brought together industries, previously seen as belonging to very diverse sectors of the economy, in an attempt to better reflect current reality. During the last decade, the industrial environment related to activities such as information archiving, processing or transmission, content creation and exchange, etc. has undergone a series of changes, which make it less and less advisable to analyse the sector, or any of its industries or companies, as a autonomous and separate entity that would simply integrate new technologies for the purposes of straightforward modernisation or expansion. Borders have blurred, roles have changed, and business models have adapted: the ecosystems have evolved radically.

2. To offer an industrial and economic analysis of the Media and Content Industries, and their dynamics. The case studies investigate the past and current ecosystems of these industries, looking beyond value chains or major actors to those aspects that are relevant to the understanding of the transformations themselves: emerging challengers, past and new threats and ways of responding, new business models, major investments, major failures or successes and their causes, technological changes affecting the industry, radical innovations if any, etc.

The analysis in the cinema, music and newspaper case studies follows the framework sketched out by IBBT-SMIT and TNO (2011) in collaboration with IPTS. They consider the interplay between:

- Technological change and innovation, especially ICT and digitisation, as a major driver of industrial and economic change;
- Market developments;
- Industrial structural change, including analyses of concentration and consolidation, integration, diversification and new entries;
- The competitive position of European industry players in a European and global context;
- Impact of digitisation in different parts of the value network (production, aggregation, distribution, consumption of content), new business models, new positions in the value chain, piracy and the role of users;
- The role of policy, i.e. not a full analysis of policy impact on the subsectors, but the main policy issues and trends as important contextual factors.

In the video games, TV and book publishing industry case studies, the framework presents a slightly different pattern, but aims to achieve similar objectives through its analysis.

The video games report documented a series of core insights into the video games industry that allow us to understand the market, its industrial structure including the main actors and activities, the aspects that determine the major tensions and power relations among actors, and also the potential disruptions.

The TV case study follows the same track but explores the relationships between these changes and new TV formats. It adopts a "product" approach to the analysis of the industry, giving special consideration to how European television series, game shows and sports are being produced, distributed and viewed/consumed in the new media ecosystem.

Similarly, the book publishing report considers the redistribution of the components of the book "chain" and the shifting role of various industry players with the development of e-books.

The reports are based on a review and synthesis of the available literature and (official and unofficial) data of the MCI sector, desk research, and several workshops.² The results were reviewed by experts and at dedicated workshops.

The reports aim to offer a reliable set of data and analysis, and also to contribute significantly to the debate about the economic health and development conditions that will support the future competitiveness of the European Media and Content Industries.

Contract title: “Statistical, ecosystems and competitiveness analysis of the Media and Content industries”.

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² First MCI workshop, IPTS Sevilla, 30-31 May, 2011: “The economics of Media and content industry (MCI). Approaches, case study, economic effect of the digital transition”. Second MCI workshop, IPTS Sevilla, 27-28 October, 2011: validation workshop. All the presentations at the two MCI IPTS workshops are available at: <http://is.jrc.ec.europa.eu/pages/ISG/documents/>

Executive summary

The objective of this report is to offer an in-depth analysis of the major economic developments **in the newspaper publishing industry**. The report analyses the transformations of the industry brought about by digitization. It discusses how digitization affects content creation, distribution, aggregation and consumption of news, value networks and business models. It also looks at the competitive position of the European newspaper publishing industry in relation to these transformations, at opportunities and threats for the sector, and at policy implications.

The report focuses on newspaper publishers, and encompasses the production and distribution of printed newspapers, their online distribution and the competition which they face from other online news providers. The analysis integrates data from the statistical report of this project; and includes a database of 10 EU and 10 non-EU companies, plus two company case studies (Sanoma and Huffington Post).

The report is divided into five chapters. Following an introduction (Chapter 1), Chapter 2 introduces the sector and its main economic and technological features. Chapter 3 analyses the value network of the European newspaper publishing industry, identifying the transformations taking place in the value chain and in business models as a result of the on-going digitization process. Chapter 4 assesses the competitiveness of the sector, compared to the US and Asian countries and the potential for a European single market for news publishing. Chapter 5 identifies the main regulatory issues affecting the economic position of newspaper publishers. Chapter 6 concludes the report by weighing the strengths and weaknesses of the European newspaper industry against the opportunities and challenges posed by digitization and the internet.

The study is based on a review and synthesis of the available literature and reports and on official (Eurostat) and unofficial (trade organisations and consultancies) data on the newspaper publishing industry.

Economic characteristics and developments

This study deals with newspaper publishers and how this sector is transforming as a result of digitization and more general economic and social changes. When assessing the state of the news media, other news providers, such as broadcasters, online-only news providers and citizen journalists are also important players. Online, they are increasingly becoming part of the same news market. In this report, these other news providers are taken into account as the competitors of newspaper publishers, but their market position is not described comprehensively in itself. The focus is on how digitization affects the legacy newspaper publishers, and how this particular industry responds to these changes.

Newspaper publishing is characterized by high sunk costs (for investments in printing presses, ink and paper and for labour) and low marginal costs – therefore, market entry barriers are high. Newspaper publishers operate in a two-sided market; selling news to readers and selling readers to advertisers. Many of the large newspaper publishers are part of multinational media companies which produce different media (broadcast, print, digital).

Compared to other media markets, the level of concentration in the newspaper market is relatively low, with a few large publishers which are part of multimedia companies and many medium-sized and small publishers, especially at regional and local levels. Nevertheless, the concentration of newspaper publishers is ongoing, especially as newspaper publishers are increasingly having trouble in sustaining their business as stand-alone, individual businesses.

Between 1995 and 2007, the number of firms increased to 9,006. At the same time, the average number of employees per firm declined steeply - by 15.9%, compared to a decline of 1.4% for the total EU economy. Newspaper publishing also showed a negative growth rate for value added between 1995 and 2007 of -1.1% on average annually for the EU27, compared to an overall growth for the total economy of 2.6%.

The six countries with the largest share in the total value added generated in the European newspaper publishing industry are Germany, the UK, France, Spain, Italy and the Netherlands. All these countries, except Spain, witnessed declining or at best stabilizing figures in the share of value added in the newspaper publishing sector between 1995 and 2007.

In most EU27 Member States, circulation figures have shown a steady decline since the mid 1990s.³ Circulation only rose in some East European countries in the late 90s, notably in Bulgaria and Romania. The total average circulation of newspapers per day in Europe declined from 85 million on average in 2005 to 74 million in 2009. The US and Japanese newspaper circulation figures dropped as well. In contrast, circulation in India and China has shown a steep rise, probably as a result of increasing wealth and literacy and less competition from online news sources than in the US and Europe.

Advertising expenditures in general grew between 1997 and 2007, as did advertising expenditures for newspapers. But after 2007, both experienced a sharp drop. While the advertising expenditures for most media recovered again in 2009, newspaper advertising expenditures remained low, revealing a more structural development. The share of newspapers in overall advertising expenditures had already been declining since 1999, with expenditures shifting to TV and the internet, again with variation in the patterns between individual countries. The internet is the medium with the largest growth in the share of advertising expenditure. In 2010, it ranked third worldwide with 11.9% of total ad spend, after TV and newspapers, and was predicted to grow to 13.6% (Zenith Optimedia, 2009).

Newspaper publishers have to some extent also benefitted from the rise in internet advertising through the revenues from advertising on their online publications. But the losses in print advertising have been far greater than the gains in digital advertising for newspaper publishers, resulting in an overall negative growth in advertising income for newspaper publishers. The decline in advertising revenues for newspapers can to a great extent be attributed to their loss of classified advertising, which shifted to specialized online market places, dating services, job recruitment and real estate websites.

Despite declining newspaper readership, the demand for news has never been higher. In the US, while consumption of news from television, radio and newspapers has declined, consumption of news from the internet has grown. In Europe we see a similar pattern, though television has largely maintained its strong position. For the majority of people between 25 and 65, television is still the most used medium for news consumption, but younger people (between 14-24 years) turn to the internet for news (Slot & Munniks de Jongh Luchsinger, 2011a; Huysmans & de Haan, 2010; Eimeren & Vrees, 2011; Schröder & Kobbernagel, 2010; Schröder & Larsen, 2010).

The legacy broadcaster and newspaper websites are often amongst the most visited news websites, but aggregators such as Google News, Yahoo News, Digg and other online news providers are attracting increasing numbers of news readers.

³ Circulation is the term used to describe unit demand for newspapers from sales on newspaper stands (and other sales points), through subscriptions and – in the case of free newspapers – from handing out units at railway stations, bus stops, universities, etc.

The newspaper publishing crisis has been felt harder in some countries than in others. From the largest European newspaper publishing countries, the newspaper publishing industry in Germany seems to be doing better than it is, for instance, in France and the UK. The French press has been hit harder and is less able to respond to the challenges of new technologies and increasing competition due to its outdated and monopolistic production and distribution systems. In contrast, the German press is doing comparatively well, and Germany is home to a number of well-established global publishing companies. As a whole, the European press is doing better than US newspaper publishers. One explanation for this is that European newspapers are on average less dependent on advertising revenues (on average for 50%). They generate a larger share of their revenues from sales and have a relatively large number of subscribers, whereas the US press relies on advertising for approximately 85% of its revenues.

Technological innovations have accompanied newspapers' history, from the invention of the printing press to the internet. Newspapers benefitted from improvements in printing processes, photography, communication technologies, word processing, publishing software and electronic management systems. At the same time, the introduction of new technologies also brought new competitors, first radio news, later TV news programmes and currently internet news providers, of which the latter seem to have had the most fundamental consequences so far for newspaper publishers. Over the last two decades, newspaper publishers have responded to the changing market environment in a variety of ways: for instance, by:

- Introducing new sections and (weekend) magazines which offer readers light entertainment and lifestyle information and offer advertisers extra, attractive advertising space.
- Changing the newspaper format: from broadsheet to Berliner, or tabloid format.
- Introducing free news papers.
- Launching websites and other online services such as email newsletters, RSS feeds, news apps, etc.
- Exploiting their brand name by offering extra products such as books, DVDs, wine or travels, related to for instance their book, film or lifestyle newspaper sections.
- In general: integrating their journalistic profile more strongly to their commercial potential.

Newspapers have become major internet players. These days most newspapers have websites and offer a number of additional services to their readers. On the internet, newspaper publishers have to compete with broadcasters, citizen journalists and online-only news providers and have lost some of their readers and advertising revenues to these 'new' online news providers.

There are many online-only news services which mainly publish news reports from news agencies and do not provide any original news content. Often this is complemented by user-generated content. Users take on increasingly active roles by producing or disseminating news through blogs and social networks like Facebook and Twitter. User roles vary from simply sharing news with friends through social networks to providing comments on news stories, contributing to stories from professional journalists and uploading pictures, to investigating and producing full news stories on blogs or sites for citizen journalism. In some cases, they share in the revenues, when their content is sold to other news providers or when their stories generate a lot of page views and thus advertising revenues.

Online there are also many services which aggregate news from other sources, offer their users various ways to personalize the ranking and categorization of the news and combine this with linking the service to user's profiles in social networks. Examples of such services, especially developed for use on mobile devices, are Pulse, Flipboard and Zite.

Changes in the value chain and new business models

The internet and digitization have affected the value chain of news production, aggregation, distribution and consumption in fundamental ways. While most newspapers have launched websites, and offer RSS feeds, blogs and apps for mobile devices, they still also need to bear the costs for their physical product. In this respect online-only news providers have a competitive advantage.

At the same time, there are only few companies which have succeeded in developing viable online business models for their news services. Due to the huge quantity of news and information available on the internet, few people are willing to pay for online news services. Revenues from advertising on news sites are growing, but are still low compared to revenues from print advertising. One reason for this is that the prices for online advertising are relatively low. This can be explained by the abundance of advertising space available, the fragmentation of readers and the short time online readers spend on any particular webpage. In addition, established measurements for internet news consumption, which are accepted by all stakeholders, are still lacking.

Successful pay models are scarce as well. Some newspaper publishers have experimented briefly with the pay-wall model and then left, as sales and subscriptions revenues could not compensate the vast loss of advertising revenues due to the loss of readers after the introduction of a pay-wall. Lately new attempts have been made by newspaper publishers to re-introduce pay-walls for premium content, for instance by the New York Times, a number of Murdoch's newspapers, The Berliner Morgenpost, the Hamburger Abendblatt and Le Figaro. Other pay-models combine subscription on print and online editions or offer subscriptions to news offers for news apps on the iPad and other tablet computers. Recently, newspaper publishers have welcomed the iPad, tablet computers and new generations of eReaders as these devices make digital newspapers more attractive to read and could persuade consumers to pay for digital content. There are also providers which offer subscriptions to selections of news and other content from different sources. It is still too early to determine the success of these models.

Most successful so far in business terms are aggregation services like Google News, or services which manage to engage large amounts of readers with low cost user-generated news and blogs, such as the Huffington Post. News aggregators provide links to news headlines from other sources, which can be ranked and categorized according to the users' preferences. This practice has led to much controversy between online news aggregators and legacy news publishers. Legacy news publishers think they should be remunerated by aggregators for deep linking to their websites, while the online news aggregators argue that the news publishers benefit from the traffic they generate to their sites, implying that their aggregation services are mutually beneficial. News services like the Huffington Post have been able to monetize on local versions of the online news service, with active and engaged readerships and clever search engine optimization techniques, generating both traffic and advertising revenues. So far, these models have proven to be successful mainly for the largest players. Though smaller players do manage to generate some revenues, they are often not enough to run a viable news service.

Consumers benefit from the increased availability of 'free' news and the options to tailor news consumption according to their own preferences. There is some concern, however, as to

whether the market can sustain the desired quality of output. Will vulnerable news genres, such as investigative journalism, sustained reporting on local government and local politics, or foreign news reporting in areas which are not of immediate political or economic interest, be able to survive? There are examples of online journalism, where news publishers have experimented with alternative ways of funding, such as, sponsorship and crowd funding. Crowd funding means that journalists ask readers directly to invest, either financially or by offering their time and knowledge, in a particular story. Alternatively, readers can also suggest subjects which they wish to read about and want journalists to go after, and put these up for funding. So far these seem to be more successful in the US than in European countries, possibly due to larger home markets with a longer tradition of private sponsorship than Europe.

Competitiveness and single market

A core element in EU policies is the creation of a single market which would increase the competitiveness of European industries. In its Digital Agenda, the European Commission has indicated that it intends to remove remaining obstacles for digital content to be made available across Europe.

The competitiveness of an industry is often expressed in terms of its relative size and growth potential. The European newspaper publishing industry was the largest in the world in 2009, when compared to Asia and the US in terms of turnover. When looking at the economic health and growth potential of the sector, a bleaker image appears. Circulation is declining in most European countries, as it is in the US where the decline in circulation is even steeper. In Asian countries, it is growing, due to the rising levels of wealth and education. The growth in Asian countries, however, may be a temporary phenomenon though, as the Asian newspaper industry may well face similar problems as the US and European newspaper publishing industries, once internet penetration and computer use grow.

The decline in circulation and employment in the EU27 is not as steep as it is in the US. This can be explained by the fact that European newspapers depend less on advertising revenues, and have higher readerships, especially in the northern countries. In addition, quite a few European newspaper publishers are still family or privately-owned businesses, which are better equipped to survive economic recession than companies listed on the stock market because, amongst other reasons, maximizing profits is not their only or main goal.

Another indicator for competitiveness is the trade balance, which expresses the relation between import and export. Cultural and linguistic differences limit the extent to which a single market for media and content is feasible and this seems especially true for newspapers, which also in their content often cater for national or even regional and local readerships. However, there are a number of international newspapers, or newspapers which publish different language versions or international versions of their newspapers and some newspapers are sold outside their country of origin.

Trade balance figures for the newspaper publishing industry in the EU27 show a lot of fluctuations between 1995 and 2007, but an average negative growth rate of 10.6% (the trade deficit grew by 10.6% annually). Figures on intra- and extra-EU27 trade in newspapers and magazines show that most countries imported and exported mainly from and to other EU27 countries.

Figures on which shares of circulation and revenues come from national newspapers and which from foreign newspapers are lacking, which makes it difficult to provide a quantitative assessment of the market position of European newspapers vis-à-vis foreign newspapers, but

generally speaking newspaper publishing has always been directed predominantly at national or even regional or local readers, rather than at international markets.

The internet might offer new opportunities for newspaper websites and other news providers to offer international news services or to cater for emigrants, expats, business people, diplomats, academics and other travelers. Thus, there may be some potential for cross border news services, which aim to attract readers from outside the country where the publisher is based.

However, there are no overall publicly-available figures of where news website visitors come from or how news services which explicitly target international readers perform. A certain level of internationalization is also taking place because newspapers are increasingly in the hands of multinational media companies, which may outsource some publishing activities to other countries or which may share certain resources across branches located in different countries. To make a proper assessment of the competitiveness of Europe's newspaper industry, the fact that many newspapers have become part of multinational media conglomerates should therefore also be taken into account.

Policy and regulation

Developments in the newspaper market are affected by regulation. EU policies regarding competition, copyrights and advertising are among the policies which can have an impact on newspaper publishers. But media policies generally belong to the competence of Member States. Some countries impose ceilings on market shares and limitations on cross-ownership, out of concerns for media pluralism. Some countries directly subsidize newspapers (France, Sweden) or provide subsidies for innovation in the press (the Netherlands). Other countries support the press through indirect measures, such as tax benefits or reduced postal rates.

The abundance of news and information that has become available these days on the internet, and the increasing competition which newspaper publishers face, have made the need for press ownership regulation debatable. In some countries, this has led to raising or lowering the ceilings on the market share allowed for a single newspaper publisher and the abolishment of limitations on cross-media ownership. At the same time, new concerns have arisen, e.g. about the level of investment in original news production, underserved areas (regions or municipalities that are no longer systematically covered by reporters) and the reliability and quality of citizen journalism, blogs and other forms of user-generated news. These concerns have been translated into government support or subsidies for media or newspaper innovation projects or training for journalists on how to adopt new media tools in their work. Generally, however, the sector is left to itself to adapt to the new digital environment.

Another area which affects the economic position of newspaper publishers and for which there are also policies at the European level is copyright policy. The practice of news aggregators deeplinking to articles on newspaper websites without paying has stirred up a major controversy between newspaper publishers and news aggregators, which has led to several court cases, so far unresolved. Due to its reliance on advertising revenues, the sector is vulnerable to EU and national restrictions on advertising for cigarettes, alcohol, cars and sweets. It is also affected by stricter regulation concerning marketing and soliciting practices.

Conclusions

The newspaper publishing sector in Europe is in a transition phase. Its legacy business is declining, it is facing increased competition and its new online and mobile services have yet to grow into profitable businesses, in most cases. Newspaper publishers are trying out various new models, none of which has so far compensated the revenue losses of the print

newspapers. Meanwhile the legacy publishers have to bear the double costs of sustaining their offline print newspapers, and investing in new online news services.

In order to adapt to these fundamental changes, newspaper publishers need new products, business models and organizational structures. They also need to invest in a different relationship with their readers. However legacy newspapers are often slow to respond to changes in the environment, especially while they can still make a profit on their print products, even though these profits are declining. Legacy newspaper publishers have some strengths which could help them to maintain a position as major news providers in a digital environment. They can exploit their brand, cross promote their on- and offline products as well as share editorial staff and other resources amongst their different on- and offline products. But the decline in print newspapers is not likely to stop soon, and not all newspapers will be able to achieve this position.

Newspapers have not only lost many of their readers, they have also lost many of their advertisers. These are the advertisers which can reach their audiences at lower cost and more effectively online through online market places, dating sites, coupons, direct marketing and other forms of online advertising. Strong competition for legacy news publishers also comes from online news providers, news aggregators and social networks, which draw readers as well as advertisers away from newspapers and newspaper websites. Most countries have one or more popular online-only news providers, but many of these employ only few professional journalists and editors. Their news offer often consists mainly of news agency reports, in combination with user-generated news, and different tools to share, discuss and organize one's personal news offer, and much less original reporting than in the serious print newspapers. Online, aggregators and social network owners, mostly owned by US companies, seem to benefit most from growing numbers of internet users and advertising revenues. In general, these companies do not invest in original news production. The overall decline in revenues for news publishers is therefore a serious threat to investments in original news production, especially in more vulnerable news genres, such as investigative journalism and sustained reporting on local government. Citizen journalism, bloggers and user-generated news cannot always provide the desired levels of quality, continuity and reliability (which is not to say that professional journalism has always lived up to its own professional standards).

The problem for news publishers seems not so much that there is less interest in news, but that there are less advertising revenues and less willingness to pay. At the same time, some specialist news providers do manage to sell their services, and recently a number of large news publishers (re)introduced pay-walls to parts of their online news content. News consumers also show some interest in paying for flexible, personalized online mobile news services which can be read on smartphones and tablets.

In order to fully assess the current transformations, data collection must become more comprehensive. It must also include data on news broadcasters and all major new online news providers, some of which come from outside the traditional media industries, instead of being restricted to the traditional industry delineations. Only then will we fully understand the competitiveness of European news providers and see whether journalism will be able to continue to fulfil its democratic functions.

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1. Introduction

1.1 Context and objective

In the past ten to fifteen years, media and content markets have changed significantly as a result of digitization and the growth of the internet. These developments have led to growth in some subsectors of the media and content industries, but decline in others. Most importantly they have altered existing value chains and disrupted traditional business models. In this report a study will be presented of how these changes have affected newspaper publishing, as one of the subsectors of the media and content industries. Four other studies will deal with the music, film, TV and book publishing industries.

The underlying hypothesis of this and the other sub sector studies is that digitization and the internet have had a profound effect on the media and content industries and might consequently also affect their competitiveness, in terms of the health and growth potential of a sector and/or its potential to have its products distributed and sold abroad. This is of particular interest in the context of the European Commission's goal to strengthen the EU single market, in order to make Europe more competitive.

The three leading questions in the study will therefore be:

- 1 What are the main economic developments in the newspaper publishing sector?
- 2 How have digitization and the internet affected the value network in the newspaper publishing sector?
- 3 How have the digitization and the internet affected the competitiveness of the European newspaper publishing sector?

It must be noted that competitiveness in relation to newspapers is a difficult concept, as most newspapers are published for national or even regional or local markets, and provide content which is mainly of interest to and tailored for a the inhabitants of a particular country, region or municipality, in the language of this particular area. However, newspapers are also sold abroad; some newspapers have international audiences, some newspapers are published in different languages and newspapers are exported to cater for tourists, expats and business travellers abroad. Online newspapers can even reach international audiences much more easily, and as such digitization could have some impact on the level of newspaper publishers' cross-border trade.

Finally it is important to note that newspapers, like other media and content industries are not just economic goods, but also have cultural value, and in the case of newspapers are considered to be important for democracy. Newspapers have democratic functions in informing citizens, setting the agenda for social debate and serving as a watchdog for political, economic, and social centres of power (Boczkowski, 2005; Picone, 2010). This explains why some member states rely not only on competition and free market policies but sometimes also employ mechanisms for supporting newspapers or innovation in newspaper publishing.

1.2 Methods

The analysis in this report follows the framework sketched by IBBT-SMIT and TNO (2011) in collaboration with IPTS. This means that it will consider the interplay between:

- Technological change and innovation, especially ICT and digitization, as a major driver of industrial and economic change;
- Market developments;

- Industrial structural change, including analyses of concentration and consolidation, integration, diversification and new entries;
- The competitive position of European industry players in a European and global context;
- The effects of digitization in different parts of the value network (production, delivery/distribution, consumption of content), new business models, new positions in the value chain, and the role of users;
- The role of policy; i.e. not a full analysis of policy impact on the subsectors, but the main policy issues and trends as important contextual factors.

This report is based on a review and synthesis of the available literature and reports and (official and unofficial) data on the newspaper publishing industry. The study starts with a compact sketch of key statistical data on the developments in number of firms, number of employees and value added between 1995 and 2007, based on Eurostat data (also published in the Statistical Report of the MCI study, TNO, 2011).

The newspaper publishing industry is the market segment that falls under ‘publishing of newspapers, journals and periodicals’ in the Eurostat databases (category 2212 in Eurostat, ISIC rev 3.1). The category includes:

- Daily/non daily/Sunday newspapers,
- National/regional/local newspapers,
- Paid-for/free newspapers.

These figures illustrate developments in the traditional news publishing industries, but they reveal only part of the story. The reason that the Eurostat statistics provide a limited picture is that Eurostat categorises media companies by their core activities. This means that newspaper publishing activities that take place in companies, which do not have newspaper publishing as their core business, are not visible in the statistics. For instance, the newspaper publishing activities of a multimedia company which has TV production as its core activity will not be counted under newspaper publishing. Similarly, online news services run by ICT companies such as Google do not appear in the Eurostat statistics on the news publishing sector, as these will be listed elsewhere, under ICT or software publishing. These omissions could lead to an underestimation of the size of the news publishing industry. On the other hand, the Eurostat statistics could also lead to an overestimation of the size of the sector, as the non newspaper publishing activities of companies which have news publishing as their core activity are also included in the figures. It is therefore hard to assess to what extent the Eurostat data provide an accurate picture of what is going on in the newspaper publishing industry.

Online news services produced by newspaper publishers are included in the official Eurostat statistics, but are not separately identifiable. Therefore the Eurostat statistics do not allow us to determine for instance which share of the employees or revenues comes from online news publishing and which share from print news publishing.

A final shortcoming is that Eurostat data are always some years behind, so they will not yet reveal the extent of the changes currently taking place in the news publishing sector.

To complement Eurostat data and compensate for some of these omissions we used the most recent data from the international trade organisation, the World Association of Newspapers and News publishers (WAN-IFRA, 2010) and consultancy reports such as the Media & Entertainment Outlook by PwC (2011). These sources include several indicators for size and growth such as circulation, sales, and advertising revenues. However they provide little information on the underlying dynamics. Therefore academic publications and reports from

market consultancies have also been consulted to enable a more in depth understanding of the main markets trends, especially of the fundamental impact of digitization and the internet on the business models in the news publishing market. A recent report published by the Columbian Journalism School (Grueskin, Seave, & Graves, 2011) presents useful data on business and revenue models of a number of the most important US news publishers. Similar overviews of business models employed by news publishing companies in the EU are not available. Here more anecdotal evidence from various academic articles and online business sites covering media markets is used.

In assessing the EU's competitiveness in Chapter 4, newspaper publishing in the EU will be compared to newspaper publishing in the US and Asia. However there is little coherent and comparable statistical information available about international developments in the news sector. For international comparisons mainly OECD and WAN data are used. In the yearly WAN and OECD reports, European countries as well as American and Asian countries are included. In the US, the developments in the news sector are well documented. Institutions like the Pew Research Center's Project for Excellence in Journalism keep track of and report extensively about developments in the US news market.

In order to illustrate the developments a database was compiled, containing some key data on 10 major European and 10 non-European news publishing companies. In addition two company case studies are included. The first company case study on publisher Sanoma illustrates how a traditional newspaper publisher has responded to changes resulting from digitization and the internet and how the changes have affected its business and strategies. The second company case study deals with the Huffington Post as an example of a well known and successful example of online news publishing, which combines user generated news with professional news and news aggregated from other news sources.

1.3 Outline of the report

The outline of this report is as follows: Chapter 2 describes the general technological and economic characteristics of the news publishing sector. It also contains a brief overview of the major technological innovations in the past decades, focussing on the impact of digitization on the production and distribution process in the newspaper publishing sector. In Chapter 3, the transformations taking place in the newspaper publishing industry, its value chain and business models are described, including their position vis-à-vis their online competitors. Chapter 4 attempts to answer how internet and digitization have affected the competitiveness of the European news publishing sector. In Chapter 5, some of the main policy and regulatory issues affecting the economic position of the newspaper publishing sector are identified. The last chapter, Chapter 6, combines the findings of the previous chapters to identify the main strengths, weaknesses, opportunities and threats for the news publishing sector in the EU.

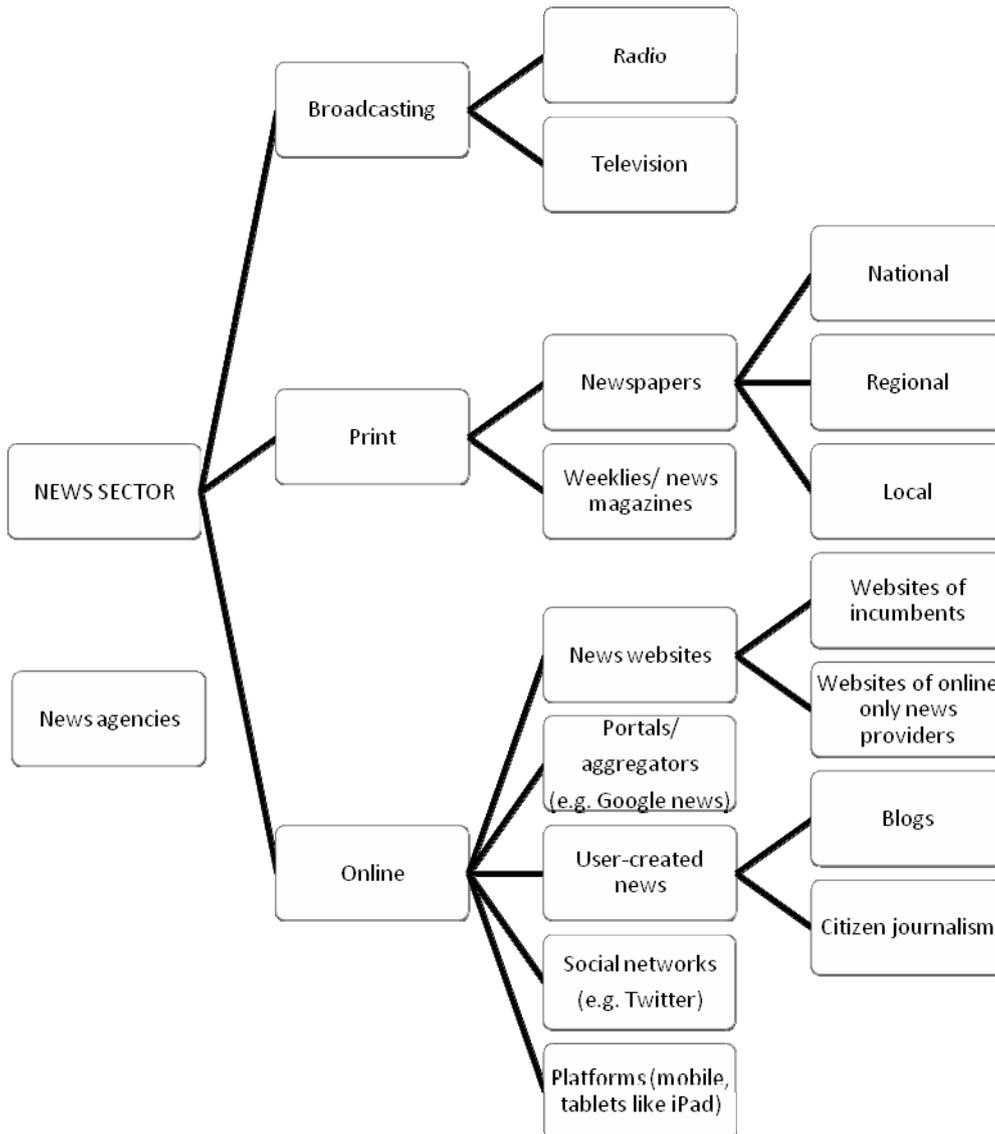
Appendix B and Appendix C contain two company case studies. The database containing key data on 10 major EU and 10 major non-EU news publishing companies is added in Appendix D. Data from the database and the company case studies will be used throughout the report, but mainly in Chapter 3, as illustrations of current developments in newspaper publishers' strategies and business models.

2. Market characteristics and trends in the newspaper publishing industry

2.1 Delineation of the newspaper publishing sector

The newspaper publishing industry is part of a larger news publishing market, which also includes news agencies, radio and TV broadcasters and online news publishers. Figure 1 presents an overview of the different actors in the news publishing market.

Figure 1: Actors in the news sector.



Source: TNO (2011).

Traditional print media and radio and TV broadcasters are increasingly active on the internet and on mobile platforms. The online news domain is also populated by ‘new’ news providers, such as portal websites offering news, news aggregation sites, and user-created news sites like

blogs and citizen journalism websites. Online, news agencies, broadcasters, newspaper publishers and ‘new’ news providers meet each other as competitors, but also benefit from linking to each others’ content. The news sector has thus drastically expanded and changed, first radio and TV broadcasters entered as competitors for newspaper publishers, followed during the past two decades by online news providers.

While acknowledging that the news sector is multifaceted, the focus in this sector study is on the newspaper publishing industry and its transformation as a result of digitization and the internet. This focus enables a study of the transformations in the value chain and market structure of a particular subsector resulting from digitization and the internet. In analysing the market developments we will take into account the ways in which newspaper publishers have responded to competition from other news providers such as TV news and ‘native’ online news publishers, but we will not provide a comprehensive analysis of developments in the market position of these other news providers.

This chapter starts in Paragraph 0 with a description of the production process, the main economic characteristics of the traditional newspaper publishing sector and its market structure. In Paragraph 0 the main economic developments are discussed. Paragraph 0 contains a brief overview of the major technological innovations in the past decades, focussing on the impact of digitization on the production and distribution process in the newspaper publishing sector. In Paragraph 0, the main conclusions are summarized.

2.2 The economic characteristics of the newspaper publishing industry

Following the different, subsequent phases in the traditional value chain, the process of news production can be described in the following steps:

Step 1: Content creation

Journalists, foreign correspondents, news editors and photographers select and create news stories and images, based on their network and location in the world and on alerts and agendas supplied by news sources and news agencies. This stream of content is filtered and complemented with content of news agencies and photo agencies. Stories are written, edited, complemented with headlines and sometimes with pictures or infographics and placed in particular sections of the newspaper, according to their subject matter and newsworthiness or importance.

News stories are traditionally offered in print, but increasingly also online or on mobile phones and tablets. Some newspaper publishers are also including moving images (slide shows, video) into their online news services.

In the traditional news sector, before the introduction of online news, the news cycle lasted 24 hours. The complete news organisation used to be and, in case of print newspapers, still is directed at delivering the news for the morning or evening paper. Online the news cycle is no longer bound to this 24-hours news cycle, because news can be updated continuously.

Step 2: Aggregation

Newspapers typically bundle stories from a variety of subject categories (domestic news, foreign news, economic and financial news, culture, sports, entertainment, weather, etc.) and in different formats (news items, background stories, editorials, pictures, cartoons, infographics, etc.) and for different sections (domestic news, foreign news, economic and financial news, life style etc.) of the newspaper or newspaper’s website. Advertisements, personals and other non-editorial content is also added to the newspaper or to the online news site. By bundling content from different subject categories, in different formats and sections, newspapers have a role as the aggregators of news and information. Online the roles of news

creation, production and aggregation can be performed by separate entities, whereas in print newspapers these roles are in the hands of the same newspaper publisher.

Step 3: Production

In the production process, the newspaper is printed. Printing is done in-house at the publisher's own printing plant, or is outsourced to another publisher or printer.

Step 4: Distribution

Newspapers are subsequently transported to a wholesaler or distribution facility which handles further distribution to consumers. Newspaper copies are sold (or in case of free newspapers, handed out for free) at newsstands, in stores, at railway stations and café's or directly delivered to consumers who subscribe to newspapers, by postal or home delivery.

For online news services, once the news is uploaded to a website (hosted on the newspapers' own or rented servers), it is published and users can access the news. Distribution costs are close to zero because no physical transport is required.

Step 5: Consumption

In the final stage of the value chain for the news industry, the news is read by news consumers/citizens. Users can subscribe to a newspaper, buy one at a news stand, collect a free newspaper, access online news for free or behind a paywall, or download free or paid-for news apps.

2.2.1 Economic characteristics

The newspaper sector is a mature sector, strongly linked to geographical location. Newspapers are rooted in national, regional and local settings and are mostly printed in the language of that region. Many European countries have a strong regional newspaper sector. In a 2004 study on media concentration in 10 European countries Ward (2004) showed this to be the case for Germany, France, Italy, Spain and Sweden. In Germany for instance 75% of the national newspaper market is covered by the regional press, and some of the national newspapers have a strong regional base (Esser & Brüggemann, 2010). In multilingual countries such as Belgium, Luxembourg and Switzerland newspaper markets are divided along linguistic lines. The UK and the Netherlands have developed national markets.

Costs

Newspaper publishing is characterized by high fixed and sunk costs and low marginal costs (Picard R. , 2002; Grisold, 1996). Data on the exact costs and their distribution over different activities in the newspaper publishing process are not publicly available. But it is generally acknowledged that the newspaper publishing costs depend heavily on the labour needed for content creation, production (printing) and distribution, as well as on the investments in printing plants and the costs for raw materials like ink and paper.

he costs for the editorial department are estimated to be between 14 to 30% of overall costs, while production (printing and distribution) vary between 20 to 50% of overall costs, depending on which distribution methods are used (home delivery, postal delivery or the sales of single copies) (Vogel, 2011) (TCITP, 2009; OECD, 2010).

The 'first copy' costs are high, therefore the sector depends on economies of scale. The more people buy the newspaper, the lower the average costs per copy and the more profit the newspaper publisher can generate. The high fixed costs lead to high entry barriers to the newspaper market. The introduction of ICT has led to cost reductions in production and printing of news, as well as in many back-office activities such as customer management and sales of advertising etc. At the same time, due to declining subscriptions to newspapers, the costs for printing and delivery and the average costs per copy have increased. Figures on the

changing cost base are likely to vary with the size and location of the newspaper publishing company, but concrete data on costs and changes in costs are not publicly available.

Digital publishing and distribution costs are substantially lower. A lot of initial costs, for example for investing in printing plants, are eliminated or decline to zero (Grueskin, Seave, & Graves, 2011). This has lowered the barriers for market entry, enabling many new competitors to enter the market. Due to the economic decline, a number of newspapers have also decided (or were forced) to stop printing their newspaper and transferred their news publishing to online-only. Examples are the Christian Science Monitor in the United States (the first national daily to take this step) and a number of regional/local newspapers in the US like the Seattle Post-Intelligencer.

The step from printed news to online-only news saves publishers significant investments in paper and printing plants. But recent research shows that this switch is not necessarily a solution for newspaper publishers. Thurman and Myllylahti (2009) for example have shown that the Finnish financial newspaper *Talouselämä* managed to cut costs by 50% by going online. At the same time, revenues dropped by 75%. Especially advertising and subscription income showed considerable decline.

Revenues

Newspaper publishers are active on a two sided market (Doyle, 2002; Hesmondhalgh, 2007; Albarran, 2002). Newspaper publishers generate revenues by selling newspapers (in print or digital form, as single copies or via subscriptions) directly to newspaper readers. They also generate income by selling the audience's attention to advertisers, both in print and in online editions.⁴ Up until today, global newspaper revenue depends for more than half (57%) on advertising and for 43% on direct income from readers who have a subscription or buy single copies (PwC, 2009; OECD, 2010). Online advertising revenue is only slowly increasing and worldwide accounted in 2009 for approximately 4% of newspaper publishers' revenues and 6% of total advertising revenue (OECD, 2010).

The dependency on advertising revenue differs greatly in various European countries. In Luxembourg, for example, advertising contributes 77% to paid-for daily newspaper revenues, while in the UK this percentage is 50% and in Denmark only 38%. In the United States, newspapers are most dependent on advertising – 87% of newspaper income is derived from advertisements. In Japan, on the contrary, newspapers are the least dependent on advertising, 35% of their income is derived from selling advertisements (OECD, 2010).

Newspaper prices are relatively inelastic. When the prices of newspapers are lowered, the demand for circulation will not increase and the same holds for higher prices.

Increasingly, newspapers are generating additional income through the sales of other products like movies, wine or travel arrangements, a development which is spurred by declining revenues from sales and advertising and attempts to build more loyal communities of readers.

Revenues from digital news publications mainly come from advertising, but some newspaper publishers also have paid online products. Compared to revenues from the print newspapers, revenues from digital products are still low. The developments in online revenues will be further elaborated in Chapter 3.

2.2.2 Market Structure

In the late nineteenth and beginning of the twentieth century, the newspaper market was dominated by a number of influential individual proprietors like Lord Northcliffe in the

⁴ Some authors have shown how content tends to neutralize when newspapers rely to a large extent on advertising, as extreme position will reduce the audience (Gabszewicz et al. 2001).

United Kingdom and William Randolph Hearst in the United States (Hirst & Harrison, 2007). These owners used newspapers as vehicles for political opinion and propaganda. No single newspaper was able to dominate the market. In the 1920s, the market concentrated. Fewer titles were published and advertising developed as the main source of income for newspaper publishers (Hirst & Harrison, 2007). Newspapers started to cater to general interests and broad audiences in order to drive advertising income (Grueskin, Seave, & Graves, 2011). Throughout the twentieth century, the newspaper market was dominated by media conglomerates owning newspaper chains. In the second half of the twentieth century, a process of increased concentration and consolidation in the international newspaper industry took place (Grisold, 1996). In the US around 1980, most cities had only one to two newspapers (Grueskin, Seave, & Graves, 2011). Because of the monopoly or oligopoly position of many newspaper publishers, they were able to charge advertisers high prices.

Concentration also took place in Europe, partly in response to increasing competition from broadcasters. When some public service broadcasters were allowed to include advertising into their programme schedules (albeit with much more restrictions than commercial broadcasters), and especially after the spread of commercial television in the nineteen eighties and nineties many newspaper publishers started to diversify their portfolio and some got involved in the launch of commercial television channels (Humphreys, 1996). The industry witnessed a process of diversification within media companies and a simultaneous growth, concentration and globalisation.

Some Scandinavian, German and Austrian publishers took advantage of the liberalisation of the media market in Central and Eastern Europe after the fall of communism, when most State-owned media were privatised, to extend their business in this sector - the Orkla media group, based in Norway, and the Egmont group from Denmark for instance, have significant publishing interests in Eastern Europe. (KEA, 2006).

Currently some of the largest European newspaper publishers are integrated into media groups active in areas other than press and publishing. Table 1 shows the main EU newspaper publishing companies, which all have operations in more than one country and do not only publish newspapers, but are also active in other media. Appendix D contains a datasheet with more detailed information about these companies.

Table 1: Major Publishing companies in EU

Company	Headquarters based in	Revenues / employees in 2010 (unless indicated differently)	Other activities
WAZ	Germany	1,98 bln €/ 17,000	Magazines, Online, Radio
Ringier	Switzerland	858,4 mln €(2009) / 8,129 (2008)	Magazines, Online
Schibsted	Norway	13,79 bln NOK (1,799 bln €) / 7,500 (2011)	Online, TV, Film
Axel Springer	Germany	2,893,9 bln €/ 11,500	Magazines, Online, Radio, TV
Bonnier AB	Sweden	4.24 bln USD (3.25 bln €) / 10,820 (2011)	Books, Online, Radio, TV, Film
Sanoma	Finland	2.761.2 bln €/ 20,000	Magazines, Books, Online, Radio, TV
Mecom	UK	1.414.8 mln €/ n.a.	Online
Lagardère	France	7.966 bln € / 28.510	Magazines, Online, Radio, TV, Books

Sources: Annual Company Reports, Wikipedia, inline industry publications, Financial Times.

Still, the newspaper publishing industry is less concentrated than some of the other media and content industries, with a small number of very large players (in some cases, world leaders in publishing) and a large number of medium-sized and small players (KEA, 2006). The latter is especially due to the variety of regional and local press in some European countries. However a 2004 study showed how the concentration tendency had been continuing, also on the local and regional level (Ward, 2004). There are no more recent studies which provide exact figures on the level of concentration in EU27 countries.

An indicator for concentration can be found in the market shares of the top 3 or top 5 newspapers. A study run by David Ward in 2004 showed that the national newspaper markets in the UK, Germany, France and the Netherlands were all very concentrated with the top three newspaper publishers holding 70% or more (in the Netherlands even 98%) market share. Also regional markets in most of these countries showed high levels of concentration, due to horizontal integration of newspapers into larger chains of newspapers owned by a select number of press companies. Newspaper markets tend to be more concentrated in small countries than in big countries, as the volume of the advertising market in small countries can not sustain a large number of (independent) newspaper titles (ICRI a.o., 2009).

Concentration in the news sector is a complex subject. Picard (1988) explains that there are several ways for measuring concentration (or its counterpart competitiveness) in a market. In economics, the traditional threshold for oligopolistic concentration is when the top four firms own more than 50% of a market or the top eight owns 70% or more. Analysis of concentration in the newspaper market needs to take geographical reach into account and therefore needs to differentiate between national, regional and local markets (Picard R. , 1988; Iosifides, 1997). Picard concludes that, in 1988, there was significant economic concentration in the newspaper sector in the United States and the smaller the newspaper market, the more concentrated the market was. This conclusion also holds for the newspaper sector in many European countries (Ward, 2004).

Another development influencing the structure and developments in newspaper publishing markets is the increase of private equity funds which are buying shares in newspaper publishers. This has caused more pressure on profit margins and cost-cutting operations, at the cost of editorial staff and investments in content. This has been the case for instance in Germany. In the Netherlands equity fund Apax gained a majority share in the largest Dutch newspaper publisher PCM in 2004 and left the publisher again in 2007 with slightly better revenues, but huge debts.⁵

From a policy perspective the market structure of the newspaper sector is of great importance, because newspaper publishers do not only operate on the market for supply and demand of goods, but also on the marketplace for ideas (information products) (Picard R. , 1988; Iosifides, 1997). Too much concentration might disadvantage consumers in terms of the number of viewpoints and channels they have access to. This is one of the main reasons for government regulation of media ownership in European countries (see Paragraph 2.4 for more detail).

2.3 Market developments

In this section, a number of indicators for market developments are discussed. First, based on Eurostat data, the developments in the number of firms and employees are described, as well as the developments in value added (2.3.1)⁶. Due to the way Eurostat categorizes economic

⁵ In 2009 PCM was bought by the Belgian publisher De Persgroep.

⁶ These figures come from the statistical report that is also part of this study and is published as a separate report, containing figures on developments in the Media and Content Industries.

activities, the figures provide a partial picture; they express all economic activities of companies whose main activity is the publishing of print newspapers, including their online and other (media) activities. It excludes online only news providers or news(paper) activities in companies whose main activity is something else.

Secondly these data are complemented with data on developments in circulation (0), sales (0) and advertising revenue (0). These are figures used by the industry as indicators of their economic health. The figures presented span a different and in some cases more recent period (mostly between 2005 and 2009) than those presented in the previous section, so they can not be directly compared to the more general economic statistics. The figures seem to show similar long term patterns though.

Thirdly some trends in news consumption are discussed (0). Fourthly a number of new news products, developed by newspaper publishers to innovate, to reach new audiences and to counter increasing competition, are discussed (0).

2.3.1 Developments in number of firms, employees and value added

Table 2 and Table 3 show the developments in the number of employees, the number of firms and their average annual growth rate between 1995 and 2007. Table 3 also shows the average firm size in 2007.

Table 2: Number of employees and annual average growth rate for the EU27 newspaper publishing industry⁷

		Number of employees	Annual average growth rate in %
	1995	2007	1995-2007
Publishing of newspapers	358,716	302.300	-1.4
Total EU economy		226.604.600	1.1

Source: Eurostat.

Table 3: Number of firms, annual average growth rate, average firm size and growth in firm size for the EU27 newspaper publishing industry 2007

	Number of firms	Number of firms	As share of total publishing in %	Annual average growth rate between	Average firm size	Annual average growth firm size, in %
	1995	2007	2007	1995-2007	2007	1995-2007
Publishing news-papers	7,251	9,006	10.8	1.8	33.6	-15.9
Total publishing sector	58,219	83,472	100	1.9	10.7	-2.6
Total EU economy	16,175,213	20,865,302		2.1	10.9	-1.4

Source: Eurostat.

⁷ The number of employees does not take into account individual journalists working freelance: these are included in NACE category 92.31 rather than in category 22.1.

In 2007, the newspaper publishing industry in the EU27 consisted of approximately 9,000 companies that employed slightly more than 300,000 people, with an average firm size of 33.6 employees. Between 1995 and 2007, the newspaper publishing sector witnessed an average annual growth of 1.8% in the number of firms. The average firm in 1995 had about 125 employees, which declined between 1995 and 2007 to an average of almost 33.6 employees in 2007. The data show a simultaneous annual average decline in the average firm size (-15.9%) and in the number of employees (-1.4%).

The small overall growth in the number of firms in combination with the decline in the total number of employees and the rather steep decline in the average firm size could indicate that especially the smaller firms survived as independent news paper publishers. Another explanation for these figures might be that some of the bigger newspaper publishers are no longer represented in these figures as they merged with multimedia companies that fall in a different statistical category. There are no more recent figures available in Eurostat, but given the economic crisis and the fact that many newspaper publishers needed to cut their costs, it is to be expected that the annual growth rate of the number of employees in 2011 is still negative. In the US for instance, between 2007 and 2009, approximately 12,000 journalists lost their jobs (Tucker, 2009) and between 2009 and 2010, an estimate of 17,588 jobs were lost in the newspaper sector in the US (Jensen, 2010).

Table 4 shows some variation between the different EU countries. A distinction is made between first two groups of EU Member States (EU6 and EU9, together EU15) and the new Member States that joined in 2004 and after. The differences between these groups of Member States express different stages in economic development and market maturity of the newspaper publishing industry. The assumption is that newspapers are a luxury good, of which consumption rises with growing economic wealth. This explains the growth visible in the new EU Member States, whose GDP and newspaper consumption are catching up. Another explanation could be that newspapers became more popular due to the liberalisation of the market, with less state control compared to the time of the communist regime.

In most of the old Member States the newspaper publishing market seems to be over its top and employment in the newspaper industry suffers from the shift from print to online news production and consumption, as well as possibly from a decline in readership amongst younger generations. Table 4 shows average annual growth rate in employment for different categories of EU member states. This table shows how employment numbers in the sector show decline in all European member states, except for the new accession countries, where employment increased with on average 1.2%. The largest average decline in employment is visible in the EU6; it decreased by 2.7% annually.

Table 4: Employment, average annual growth, rate in publishing of newspapers, 1995-2007

	EU27	EU6	EU9	EU15	EU new
Publishing of newspapers	-1.4	-2.7	-0.5	-1.7	1.2
Total employment (x billion)	1.1	0.9	1.7	1.2	0.7

Table 5 shows the value added for the publishing of newspapers and the annual average growth rate between 1995 and 2007.⁸

⁸ In this report the following definition of value added is used: "Value added takes as its starting point the Gross Domestic Product (GDP). This measures the total annual output of goods and services produced by residents of a particular country. It includes exports but excludes income from abroad. When this income is added to

Table 5: Value added and annual average growth rate for publishing of newspapers in the EU27

	Value added	Annual average growth rate
	million EUR	%
	2007	1995-2007
Publishing of newspapers	15,898	-1.1
Total EU economy	9,312,928	2.6

Source: Eurostat.

The value added of the publishing of newspapers amounts to 15,898 million Euro's in 2007. Whereas the EU economy in general showed a positive growth for value added, the value added of the newspaper publishing decreased with an annual average of -1.1 % between 1995 and 2007.

Table 6 shows that the decline is again sharpest in the EU6, but that also the new EU member states show negative growth in value added of -0.5% for newspaper publishing.

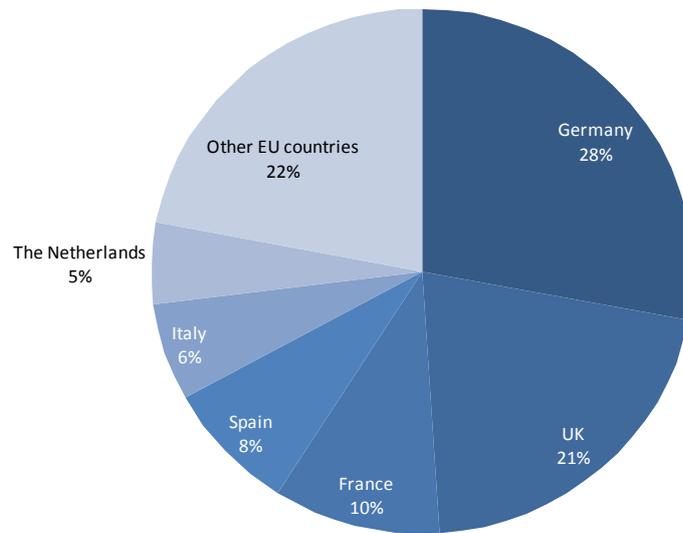
Table 6: Average annual growth rate in value added for the overall economy and newspaper publishing, 1995-2007

	EU27	EU6	EU9	EU15	EU new
Publishing of newspapers	-1.1	-2.0	0.1	-1.1	-0.5
Total economy	2.6	1.9	3.8	2.6	3.1

The six countries with the largest share in the total value added generated in the European newspaper publishing industry are Germany, the UK, France, Spain, Italy and the Netherlands (see Figure 2). Germany is the largest publisher of newspapers with a share of nearly 28% in 2007, followed by the United Kingdom (21%) and France (10%). Other countries with a relatively high share in the European publishing of newspapers industry are Spain, Italy and the Netherlands. The table below the figure provides the absolute numbers.

GDP, the result is Gross National Product (GNP). GNP and GDP measure the economy's output. The gross output of an industry measures the industry's value of sales in a particular year. However, gross output of an industry overestimates an industry's contribution to national income because it also includes the value of inputs produced by other industries. Gross Value Added is therefore usually taken to represent the true contribution that an industry makes to the national economy. This is the value of gross outputs minus the value of inputs from other industries. This added value of a particular industry is equivalent to the total staff costs plus profits before tax." KEA (2006).

Figure 2: Share of EU member states in the total value added of the publishing of newspapers in 2007

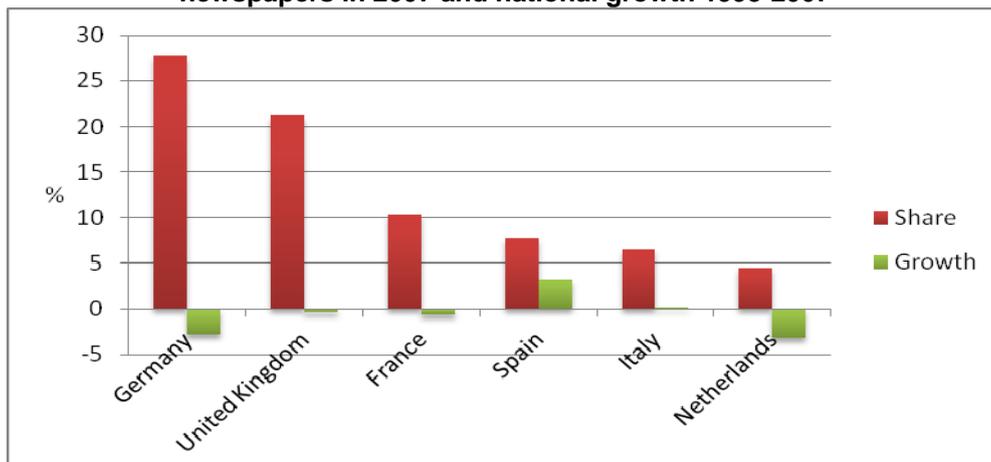


	Germany	UK	France	Spain	Italy	The Netherlands	Other countries	EU Total
Absolute figures x billion	4.41	3.37	1.65	1.23	1.04	0.72	3.45	15.898

Source: TNO, 2010, based on Eurostat data.

Figure 3 shows how five of these six countries witnessed a decline or at best stabilizing figures in the share of value added between 1995 and 2007. Only in Spain the share in the total value added increased. The sharpest decline is visible in the German and Dutch market.

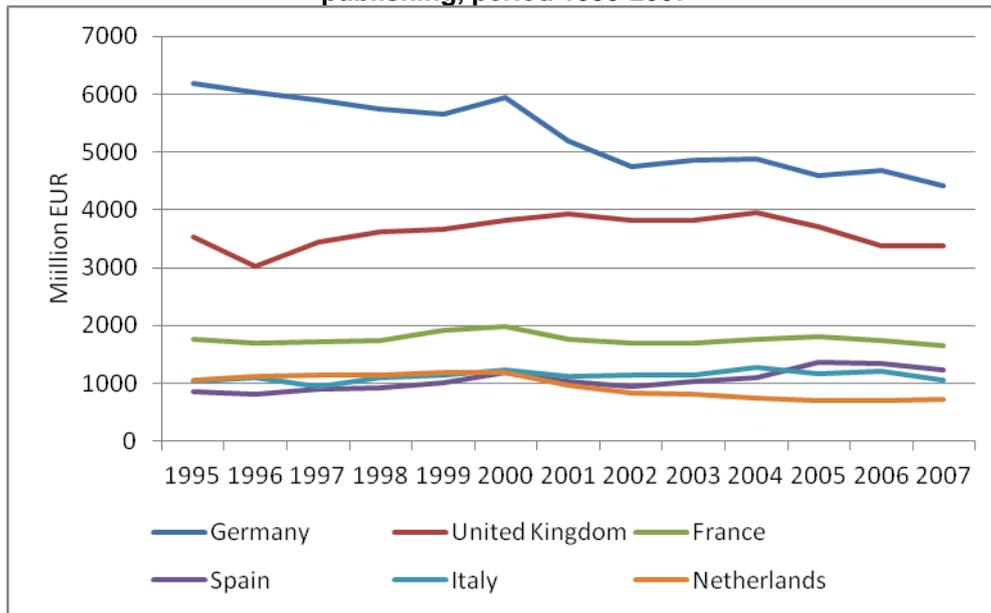
Figure 3: Share of six largest EU Member States in the total value added of the publishing of newspapers in 2007 and national growth 1995-2007



Source: Eurostat.

Figure 4 shows how the total valued added of the six EU Member States with the largest share in value added in the publishing of newspapers developed between 1995 and 2007. After 2000, the value added of the German and Dutch newspaper publishing industries decreased with respectively 1.5 billion and 467 million EUR to a total value added of 4.4 billion and 720 million EUR respectively in 2007.

Figure 4: Six largest EU Member States in terms of share in total EU value added in newspaper publishing, period 1995-2007



Source: TNO, 2011, based on Eurostat.

Calculations based on Eurostat data also show that the relative share of the newspaper publishing industry in the economy as a whole is declining in the EU9 but still growing in a number of new member states, in particular in Poland, Estonia, Czech Republic, Bulgaria and Hungary.⁹

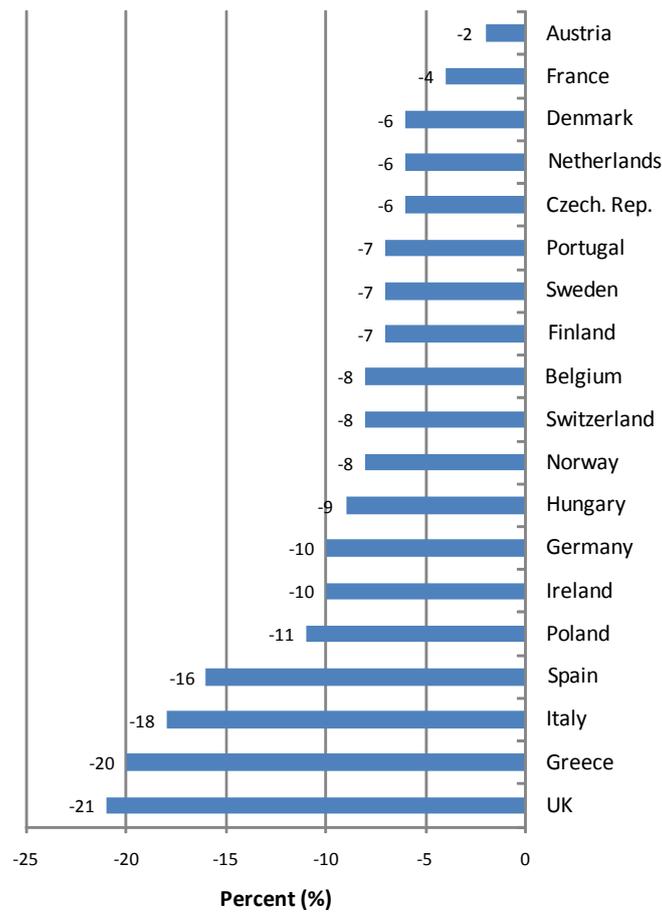
2.3.2 Circulation

Shifting from the company level to the level of the actual product, circulation, sales and advertising revenues provide additional indicators of economic health of the sector. Figure 5 shows the estimated decline in newspaper circulation in a number of European countries between 2007 and 2008 (OECD, 2010). The United Kingdom, Greece, Italy and Spain are most affected by the declining market.¹⁰

⁹ This is expressed in a specialisation index that compares the share of the publishing of newspapers as percentage of the overall economy in member states with the share of this sector in the overall EU economy. The share of the newspaper publishing sector in the total EU economy is put on 100, individual member states can deviate from this average. See the statistical report, part of the overall study, for more details (TNO, 2011).

¹⁰ As measured between 2002 and 2008, these figures are even more negative; Denmark (-21%), the United Kingdom (-19%), The Netherlands (-18%), Switzerland (17%) and Germany (-16%) are examples (OECD, 2010).

Figure 5: Estimated newspaper market decline in European countries (circulation), 2007-2008

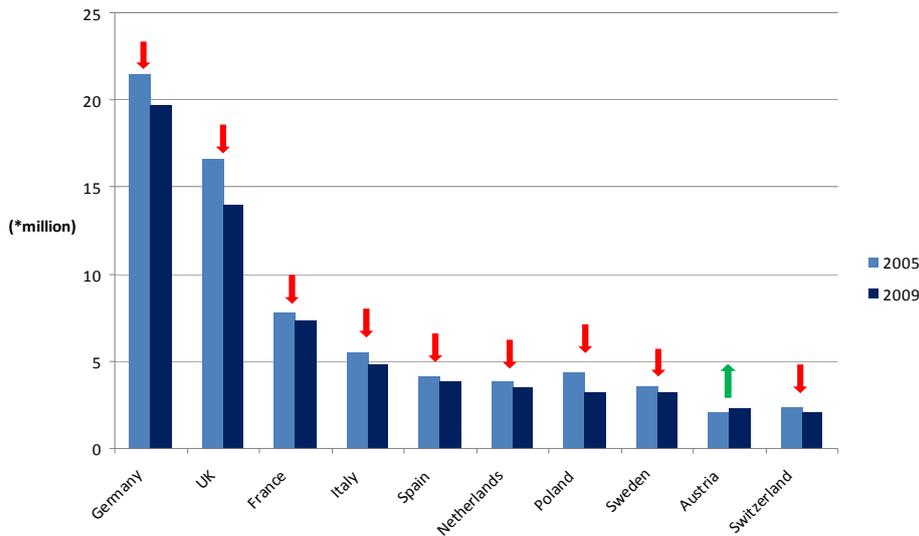


Source: OECD, 2010.

Figure 6 shows the changes between 2005 and 2009 in average circulation in the 10 European countries with the largest paid-for newspaper circulation in Europe.¹¹ In Germany, the largest newspaper producer in the European market, every day approximately 20 million paid-for newspapers are printed. Germany is followed by the United Kingdom (14 million copies) and France (7.4 million copies). As Figure 7 shows, most of these 10 European countries, except for Austria, have witnessed a drop in circulation between 2005 and 2009.

¹¹ Total average circulation is the number of copies of all titles sold or distributed in a country/geographical area per issue.

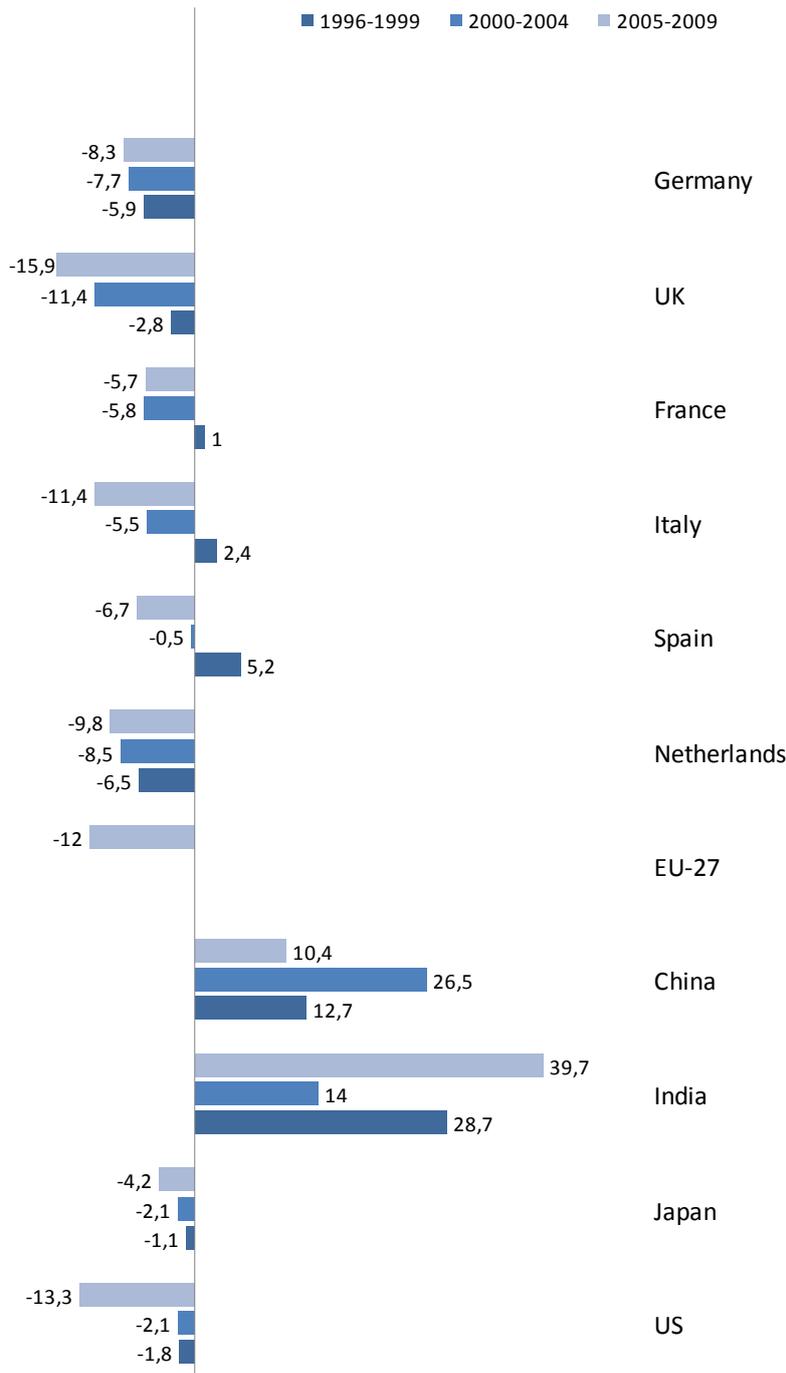
Figure 6: Total average circulation paid-for-dailies (in millions) 2005-2009 top-10 EU countries



Source: TNO, based on WAN-IFRA, 2010.

In Figure 7, the development in circulation is given in three time periods; 1996-1999, 2000-2004 and 2005-2009. The six European countries with the largest newspaper circulations and also the US and Japan show a steady decline. The decline started later in Spain, Italy and France as these countries still showed some growth in circulation in the earliest period between 1996 and 1999. After 2000 all countries show negative growth. This indicates a fairly structural overall decline in this sector. In contrast the circulation in India and China over these years has shown substantial growth, even though the growth in China with 10.4% between 2005 and 2009 was less than in the previous period when the average newspaper circulation grew with 26.5%.

Figure 7: Circulation in % in largest EU publishing markets, China, India, Japan and US in three time periods



Source: TNO based on WAN-IFRA, 2010.

The total average circulation per day of paid-for-dailies in the EU27 has declined sharply between 2005 and 2009. In 2009, total average circulation counted for more than 74 million newspapers per day. Compared to 2005 (almost 85 million newspapers), this is a decline of approximately 12%. The differences within Europe are large. In Bulgaria, total average circulation of paid-for-dailies grew from 558,000 in 2005 to 870,000 newspapers in 2009 – an increase of approximately 56%. In Denmark, total average circulation of paid-for-dailies declined by approximately 18% (from 1.3 million newspapers in 2005 to 1.1 million

newspapers in 2009). Slovenia lost 31% (430 to 297 thousand) and Romania gained 14% (1.09 to 1.24 million) (WAN IFRA, 2010).

A more specific assessment of declining circulation by the OECD has revealed that in general newspapers with a focus on general news show higher circulation losses than more specialised newspapers, and local/regional newspapers show higher losses than national newspapers (OECD, 2010). In the Slovak Republic, the Czech Republic, Slovenia, The Netherlands, Denmark and Poland, the decline in circulation of regional/local newspapers has been the strongest.

2.3.3 Sales revenues

The statistics on sales revenues of paid-for-dailies are fragmented and incomplete (WAN IFRA, 2010, p. 60) In the EU27, of only nine countries¹² the sales revenues are available for 2005, 2008 and 2009. If we compare these statistics, it shows that between 2005 and 2008, sales revenues for paid-for-dailies in those nine countries rose almost 21% from approximately 6.309 to 7.639 million USD. Between 2008 and 2009, sales revenues decreased with more than 10% to approximately 6,846 million USD, resulting in an overall increase of 8% between 2005 and 2009. As these figures are incomplete they do not present a very insightful picture for the developments in the EU27 as a whole, only for a number of specific countries.

2.3.4 Advertising revenues

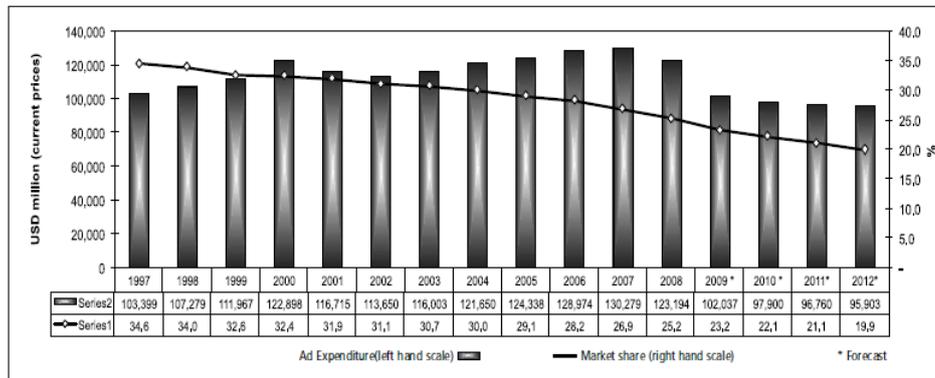
Advertising is a major and in some countries the most important source of revenues for newspapers. Over the past decades the number of channels available for advertising have increased substantially and advertising and marketing budgets have been (partly) re-allocated to TV, interactive and online advertising channels (Berte & De Bens, 2008). Especially search engines attract high volumes of advertising money. It is estimated that they have a share of approximately 50 of the total internet advertising revenues. New competitors like Google News also challenge newspapers by aggregating their online headlines and attracting large audiences and, subsequently, advertising income.

According to the European Newspaper Publishers Association, advertisements have remained a crucial source of financing for European newspapers (ENPA, 2010/2011). On average, approximately 50% of the income for the press in Europe consists of advertising income.

Figure 8 shows newspaper advertising expenditure and newspapers' share in the advertising market from 1997 to 2012, worldwide (the last four years are based on a WAN-IFRA forecast). Advertising expenditure on newspapers rose from 103.399 million USD in 1997 to 122.898 million USD in 2000. After 2000 advertising expenditure on newspapers worldwide declined, but in 2005 surpassed the expenditure of 2000 again. Newspaper advertising expenditure rose to 130.194 million USD in 2007. Nonetheless, the newspapers' share of the advertising market has shown a steady decline over the years, from covering almost 35% of the advertising market in 1997 to less than 20% in 2012 (estimated).

¹² Belgium, Czech Republic, Denmark, Estonia, Ireland, Italy, Luxembourg, the Netherlands and Spain.

Figure 8: Newspaper advertising expenditure and share of the advertising market
NEWSPAPER ADVERTISING EXPENDITURE AND NEWSPAPERS' SHARE
OF THE ADVERTISING MARKET



Source: WAN-IFRA, 2011.

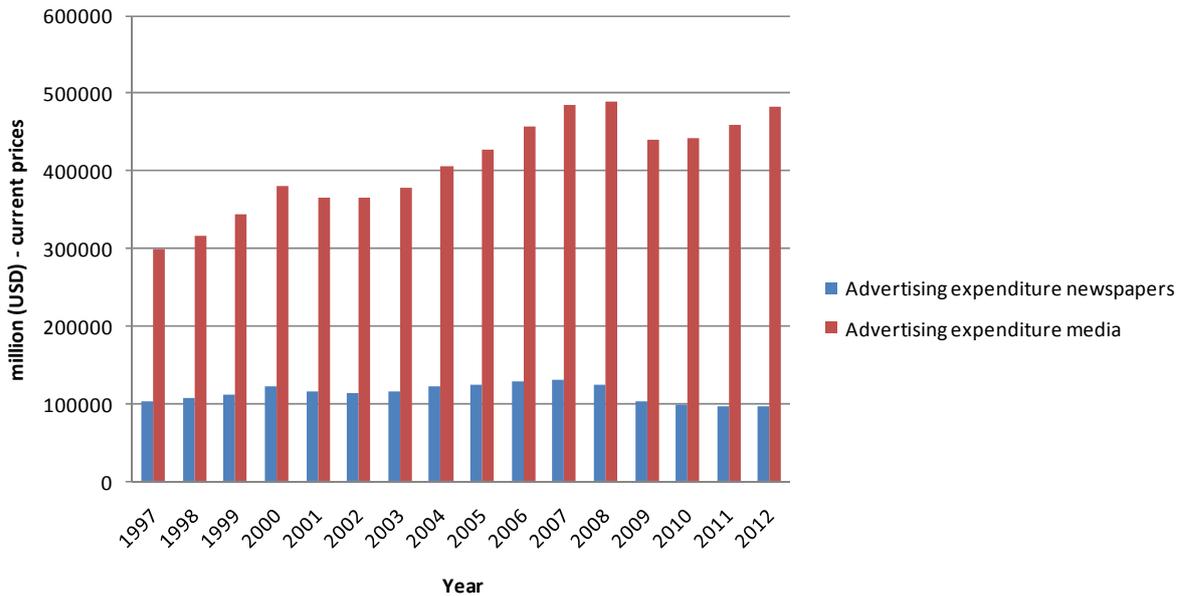
Figure 9 shows that worldwide advertising expenditures, just like expenditures on newspapers, witnessed a small decline after 2000, rose again between 2002 and 2008 and witnessed a significant decline after 2008, due to the economic crisis. While the general expenditures between 1997 and 2012 on advertising show an average growth of approximately 37% (from almost 300 billion USD in 1997 to an estimate of more than 480 billion USD in 2012), the newspaper advertising expenditure shows an average negative growth of -7.8%. This indicates that the newspaper sector is witnessing a more structural and serious decline in advertising income, whereas the decline in TV and internet advertising revenues is probably mainly a result of shrinking advertising budgets due to the economic crisis, and not of decreasing audiences or shifts in advertising budgets to other media.

The available WAN-IFRA statistics for the EU are incomplete, but still provide a good overview of the general trend in the EU.¹³ Between 2005 and 2008, advertising revenue in European paid-for-dailies rose approximately 11%, from 20.708.51 million USD in 2005 to 23.007.33 million USD in 2008. From 2008 and 2009 on, data show advertising income decline in most countries. Advertising revenue fell 19.5%.

¹³ This means that Austria, Belgium, Cyprus, Malta, Poland, Slovakia, Portugal and Slovenia are not included in this analysis. Germany, Greece, Ireland and Romania are only included for the years 2005 and 2008.

Figure 9: Developments in advertising expenditures

Developments in advertising expenditures

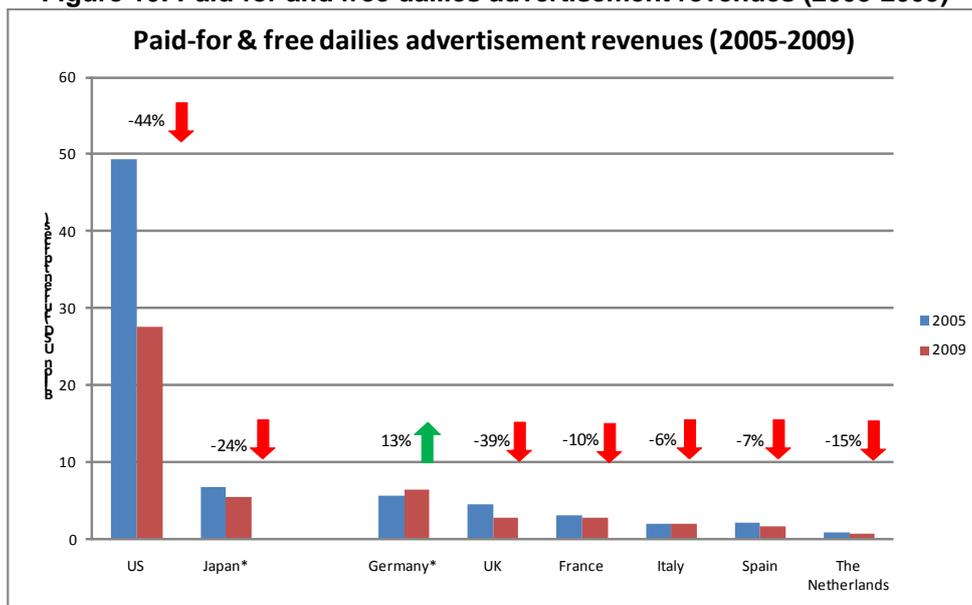


Source: PwC, 2009.

In Europe, newspaper advertising revenues are down in many countries. Of the available WAN-IFRA data for European countries, twelve countries show a negative growth in advertisement income between 2005 and 2009. Again, it needs to be underlined that the developments vary greatly between countries; the decline in advertisement income ranges from -5.8% to -38.8%. Four countries show a positive growth in advertisement income between 2005 and 2009.

Figure 10 shows an overview of the developments in the six largest newspaper countries in Europe, and compares these to the developments in the US and Japan.

Figure 10: Paid-for and free dailies advertisement revenues (2005-2009)



*Most recent data = 2008.

Source: TNO based on WAN-IFRA data, 2010.

Except Germany, all countries witness a decline in print advertising income. The US, the UK and Japan are most affected. It is not immediately clear how to explain the exceptional trend in Germany, apart from the fact that Germany is known for its relatively strong newspaper publishing market where readership has proven relatively loyal and resilient against price increases (Esser & Brüggemann, 2010)

Table 7 shows the share of advertisement spending in different media channels. Compared to other media sectors, the printed newspaper sector lost the largest share of total worldwide ad spend by medium over the years. Although the market shares in Table 7 are (at least for the newspaper sector) a bit more positive than WAN-IFRA shares presented in Table 8, it clearly shows the shifts in share of worldwide advertising expenditures between 2006 and 2009. While newspapers (-14.9%), magazines (-9.6%) and radio (-7.9%) show a significant decline, television was largely able to retain its market share in advertising. Between 2006 and 2009, television lost a half per cent of market share. Outdoor advertising has gained 6.1% of market share between 2006 and 2009. The internet is responsible for the largest increase in worldwide ad spend. Between 2006 and 2009, the share of advertising expenditure on the internet has increased with almost 43%. In 2009 it ranks third with 11.9% of total advertising spend, after TV and newspapers and was predicted to grow to 13.6% in 2010 (Zenith Optimedia, 2009).

Table 7: Share of total worldwide ad spend by medium 2006-2010 (%)

	2006	2007	2008	2009	2010	Average growth 2006-2009 (%)
Newspapers	28.4	27.2	25.9	24.7	23.7	-14.9
Magazines	12.5	12.1	11.6	11.4	11.0	-9.6
Television	37.3	37.3	37.6	37.4	37.1	-0.5
Radio	8.2	8.0	7.8	7.6	7.4	-7.9
Cinema	0.4	0.5	0.5	0.5	0.5	20
Outdoor	6.2	6.2	6.4	6.6	6.7	6.1
Internet	6.8	8.6	10.2	11.9	13.6	42.9

Source: Zenith Optimedia, 2009.

Theoretically, newspaper publishers could be able to compensate for their loss in advertising income by increased advertising income from their digital outlets. However, so far this does not seem to have been the case. Table 8 shows how advertising income within the global newspaper publishing sector is divided between advertising in the newspapers' print and online editions. Again the figures show an decline in print advertising and an increase in digital advertising, except in 2009 when digital advertising income decreased as well. It is also clear that the losses in print advertising are far bigger than the gains in digital advertising, leading to an overall negative growth in advertising income for newspaper publishers.

Table 8: Advertising and circulation in global newspaper publishing market (US-\$ millions)

	2006	2007	2008	2009	2010
Print advertising newspapers	111962	109732	100341	81525	80885
% Change		-2,0	-8,6	-18,8	-0,8
Digital advertising newspapers	4127	5369	5842	5634	6404
% Change		30,1	8,8	-3,6	13,7
Circulation newspapers	69503	71756	73137	72534	72457
% Change		3,2	1,9	-0,8	-0,1
Total newspapers	185592	186857	179320	159693	159746
% Change		0,7	-4,0	-10,9	0,0

Source: PwC, 2011.

In the first decade of the 21st century, print remains the main revenue driver for newspaper publishers.¹⁴ Digital advertising accounted for 2% of the spending on newspapers in 2005, rising only to 4% in 2009 (calculated from Table 8).

Until now, the increase in online advertising and spending has not made up for loss in advertising and sales revenues from print for newspaper publishers. This issue has been referred to as the *10% problem* (Karp, 2007). Karp illustrates this by comparing the readership of print newspapers (in circulation) with the online reach of their website (in unique visitors). The reach of its print newspaper represents roughly about 10% of the total audience reach, the other 90% comes from online reach of news (in unique visitors). With advertising income, the opposite is the case; online advertising revenue is worth 10% of total advertising revenue, the other 90% comes from print advertising. Karp (2007) offers an example based on New York Times statistics: on an average weekday in 2007, 1.1 million people read a paper copy of the New York Times. At the same time, the website of the newspaper is visited by 13.3 million people each day, i.e. 12 times as many. Analysing the advertising income, the opposite trend is visible. Karp states that total advertising revenue is approximately 484 million USD, and online advertising accounts for 51 million USD (10.5%) for the New York Times in 2007.

The decline in print advertising can, for an important part, be attributed to the decline in classified advertising. In the United States in 2000, classifieds counted for almost 20 billion USD and 40% of total advertising revenues for newspapers (WAN IFRA, 2011). In 2009, the income from classifieds had fallen to just 6.2 billion USD. On the one hand, the companies publishing classifieds in newspapers experienced the effects of the economic crisis and thus spent less on advertising, and on the other hand, a large number of online substitutes for classified advertising (e.g. Craigslist) have been launched since approximately 2000 (Grueskin, Seave, & Graves, 2011). American research showed that in 2009 the number of adults with internet access who used online classified ads has more than doubled since 2005. Almost half (49%) of all American internet users say they have ever used online classified sites in 2009 (Jones, 2009). WAN-IFRA reports similar developments in European countries; in the UK classified ad revenue fell 45% year on year by 2009 and countries such as Switzerland and The Netherlands also reported half their classified revenues had migrated to online players (WAN IFRA, 2011). In response, a number of newspaper publishers have bought online services that offer classified ads; Norwegian publisher Schibsted for example has bought LeBonCoin, a French classifieds portal (<http://www.leboncoin.fr/>) and Sanoma bought Autotrader, a Dutch website for buying and selling cars (www.autotrader.nl).

2.3.5 News consumption¹⁵

Another indicator of the state of newspaper publishing are developments in newspaper readership. Table 9 shows the time spend on newspaper reading in minutes for European countries in 2004/2005. Ireland, Norway, Finland, Iceland and the UK top the list. In Ireland, people spent more than 53 minutes on reading the newspaper. In Southern European countries, people spent less time reading the news; in Greece, people read a newspaper during 16 minutes on average per day.

¹⁴ PwC (2009) Newspaper publishing in the digital age moving-into-multiple-business-models.

¹⁵ In this paragraph different indicators for news consumption are used. 1) daily reach = share of inhabitants that read a newspaper 2) readership density = circulation of newspapers per 1000 inhabitants 3) time spend reading newspapers (or other news sources, when indicated). Note also that readership and circulation are not equal measures as often a single newspaper copy is read by more than one person (e.g. other household members). The average readership per copy varies for different newspaper titles and is higher for free than for paid-for dailies.

Table 9: Average time spent reading newspapers in minutes Europe and share of non-readers on an average day N = 32.765 (2004/2005) (Elvestad & Blekesaune, 2008)

Country	Newspaper reading (minutes)*	Non-readers (percentage)
Ireland	53.4	12.8
Norway	43.5	4.4
Finland	40.3	6.4
Iceland	38.7	5.4
UK	38.4	26.2
Estonia	38.1	17.1
Sweden	36.9	8.1
Austria	36.8	15.6
Switzerland	35.5	9.0
Netherlands	35.0	19.9
Germany	33.3	19.4
Slovenia	32.1	14.9
Czech Republic	31.9	22.1
Hungary	31.2	21.4
Denmark	31.0	21.7
Luxembourg	30.9	22.5
Slovakia	29.3	25.5
Poland	26.2	30.6
France	22.5	39.4
Belgium	22.8	45.7
Portugal	19.8	41.5
Spain	17.7	49.2
Greece	16.2	66.3

*Respondents who do not read a newspaper on 'an average day' are included with the value of 0 minutes.

Note: Italy does not participate in the ESS.

Source: European Social Survey, 2004.

Data from the European Social Survey (2008) show that in 2008 almost half the population in Spain and Belgium, and 40% of residents in France spend no time at all reading a newspaper on an average day (Table 10). In contrast, in Sweden more than half of the residents read a newspaper for longer than half an hour per day and almost everyone reads newspapers. The UK stands out with almost one in five residents spending more than an hour per day reading a newspaper.

Table 10: Time spent on newspaper reading

	BE	DE	ES	FR	NL	SE	UK
No time at all	42.4	20.0	48.2	39.1	20.8	9.0	32.3
Less than 0,5 hour	23.9	32.3	28.9	31.2	32.7	34.5	23.0
0,5 hour to 1 hour	22.2	36.4	17.4	20.9	29.7	42.4	26.3
More than 1 hour	11.5	11.3	5.5	8.8	16.9	14.1	18.3
Total	100	100	100	100	100	100	100

Source: European Social Survey, 2008 (age 15+).

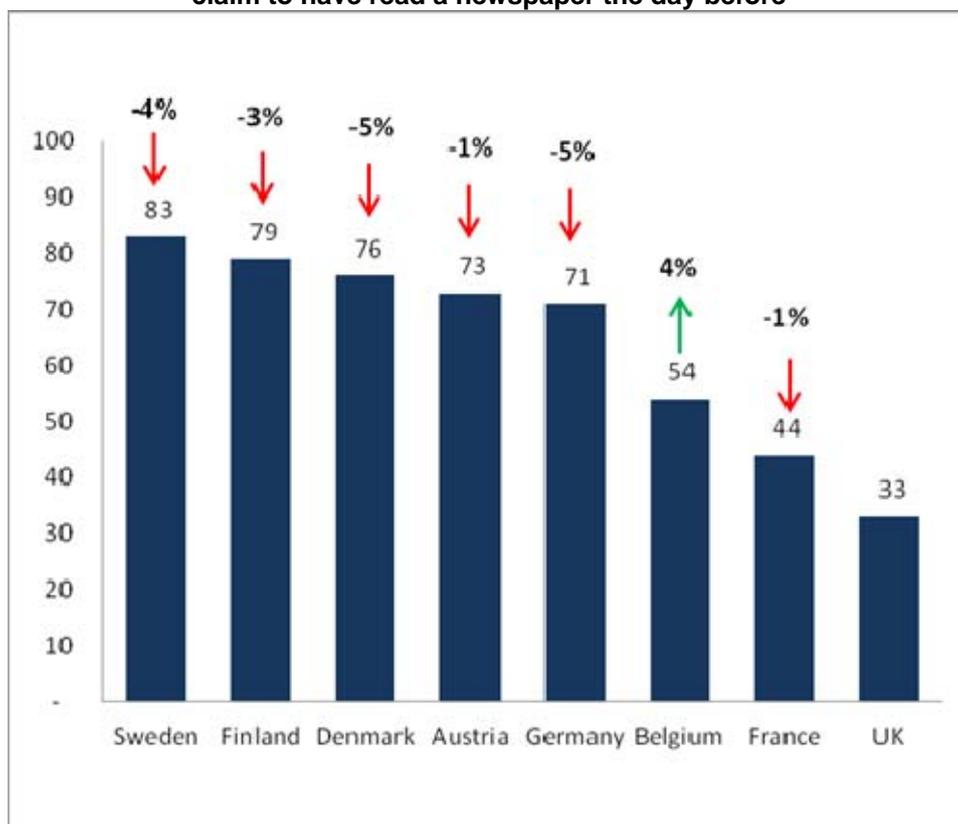
Elvestad and Blekesaune (2008) offer a multilevel analysis of newspaper readers in Europe. They show that European men spent on average 5 minutes more per day on reading newspapers than women, and time spent on newspaper reading increases with age.

The large differences between European countries can be explained by both characteristics of the population and by the characteristics of the national, political context.

In Europe, especially the Nordic countries are known for their high readership density (OECD, 2010; Elvestad & Blekesaune, 2008). Outside Europe, Asian countries like Japan have the highest density of paid newspaper readership. In Japan 526 paid daily newspapers circulate per 1000 inhabitants. In comparison; the United States has 160 newspapers per 1000 people. Norway and Finland both have more than 400 newspapers per 1000 inhabitants (OECD, 2010). Over the past few years, readership has shown a decline. It needs to be underlined that mainstream newspaper publishers were already losing parts of their audience since the last quarter of the twentieth century, before the internet became popular (Grueskin, Seave, & Graves, 2011). First many newspaper readers turned to television for news consumption, only much later internet became a major competitor.

Newspaper reach figures vary per country. In Figure 11 the daily reach of newspapers in 2009 is projected for a number of European countries. In addition to daily reach, the difference in newspaper reading compared to 2005 is shown. In Sweden, 83% of all adults reads a newspaper daily in 2008, down by 4% since 2005. In the UK, only 33% of the adult population reads a newspaper daily. The daily newspaper reach in the UK has remained stable between 2005 and 2008.

Figure 11: Decline in daily newspaper reach between 2005 and 2008 in per cent (all adults who claim to have read a newspaper the day before)



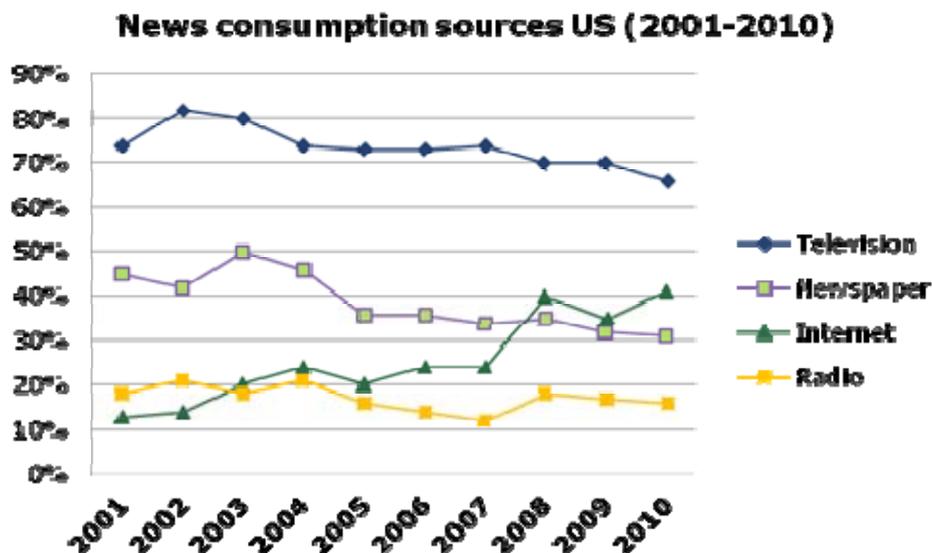
Source: TNO, based on data from EOCED, 2010, and WAN-IFRA, 2010.

Remarkably, despite declining newspaper readership, the demand for and instant access to news has never been higher. Research by McKinsey shows that, in the last three years, news

consumption in the United Kingdom rose by 20 to 72 minutes a day (Nattermann, 2010). Researchers from the Pew Research Center for People and the Press come to similar conclusions for the US (Pew Research Center, 2010). Americans spend approximately 70 minutes on news a day, and digital platforms play an important part in news consumption. Media users have access to a wide range of news sources and platforms. They consume news via paper, television, mobile phone, computer, tablet or e-reader. Purcell et al. (2010) estimate that half of all Americans use approximately four to six different platforms for news consumption a day. In this sense digital news consumption is more than making up for the decline in traditional news consumption, but online readers do not only use the websites of print newspapers but also use other ‘online only’ news sources. In other words: readers have fragmented over different platforms and news services and newspaper websites are but one of many options.

Figure 12 shows the development in how people use the different media for news consumption between 2001 and 2010 in the US (news sources consulted on a typical day). While television, newspapers and radio show a decline, the internet shows a steep rise. People increasingly turn to the internet to read and view news.

Figure 12: News consumption sources US (2001-2010)



Source: The Marketing Data Box, Hubspot & Pew Research, (2010) Based on data from Pew Project for Excellence in Journalism, 2010.

Danish, German, Dutch and English research show similar developments (Schrøder & Larsen, 2010; Schrøder & Kobbernagel, 2010; Huysmans & de Haan, 2010; Slot & Munniks de Jongh Luchsinger, 2011a; Eimeren & Vrees, 2011). For the majority of people in the age groups between 25 and 65 years, television still is most worthwhile for gathering the latest news and background information. But research results show that the majority of the youngest age group (between 14 and 24 years) turns to the internet as most worthwhile news medium.

Age seems to be the most important variable to explain the time spent on reading a newspaper (Horrigan, 2006; Elvestad & Blekesaune, 2008; Slot & Munniks de Jongh Luchsinger, 2011a). Other research shows that generation, more than age, is the main determining factor for media consumption, meaning that young people who spend little time on newspaper reading now, will not automatically start reading more news once they grow older. According to Lee and Delli Carpini (2010) people stick to the media with which they grew up when they

were young. Thus, children who grew up with the newspaper as the dominant news medium will continue reading newspapers when they are adults.

With respect to (digital) media, three generations can be discerned: (1) digital natives, (2) digital immigrants, and (3) digital settlers. Digital natives are born after 1980 and grew up in the age of the internet. Digital immigrants are people between 30 and 64 years, who grew up with radio and television as the dominant news media. Although this generation did not grow up with the internet, they learned to use the medium later in their lives. The digital settlers (65 years of age or older), grew up in the newspaper era. Radio and television were introduced during their youth. Online news consumption will largely reflect offline news consumption; digital settlers will turn to newspaper websites more frequently and digital immigrants will be likely to turn to websites of radio and television broadcasters. But in all cases the decline of print newspaper reading seems to be a structural trend in Europe and the US.

American research by PEW Internet and American Life showed that reading news is the third most popular online activity for Americans on an average day, just after checking e-mail and searching (Horrigan, 2006). The WAN-IFRA reported that between 1999 and 2004 the audience for newspaper websites grew 350% (WAN IFRA, 2005). Horrigan (2006) found that 35% of internet users check online news everyday and almost one-third of all American internet users are reading traditional newspaper websites.

Online news readers get their news at different times during the day and from different news sources; from news alerts (RSS feeds), email newsletters, news aggregators, online newspapers, and increasingly also from mobile news aggregators or through mobile news apps on their smart phones and tablets. There are only scattered data on the time spent on these diverse news sources. The available data seem to indicate that the online publications of legacy newspapers and broadcasters still attract a considerable share of the visits to online news sources, but that aggregators such as Google News, Yahoo News, Digg, NetVibes attract increasing shares of online news readers (see Experian Hitwise for OECD 2010 in (Wunsch-Vincent, 2010, pp. 30-31)). It is to be expected that with the increasing use of mobile devices the employment of aggregators and tools that enable users to select feeds from different sources and customize and personalize their news offer will also grow. In Europe especially English language websites (WSJ, NYT, Financial Times, the Economist, BBC) will be able to attract significant traffic from abroad.

2.3.6 Differences between EU countries

The crisis in news publishing is felt harder in some countries than in others. For instance the French press is hit harder and is less able to respond to the challenges of new technologies and increased competition. This is said to be due to its outdated production and distribution models, based on a monopolistic cooperative which owns the printing presses and a distribution cooperative which runs the only newspaper distribution company (Antheaume, 2010). In contrast the German press is doing comparatively well. Germany is home to a number of well established global players (Bertelsmann, Springer, Holtzbrinck), which are still (partly) privately owned or family businesses and not traded on the stock markets. German newspapers are much less reliant on advertising revenues (with over 50% revenues from subscriptions) and consequently less vulnerable to economic conjuncture and pressures from private stockholders (Esser & Brüggemann, 2010).

In some eastern European countries the relative importance of the newspaper publishing industry to the economy as a whole (expressed in % of value added) is still increasing, but even in those countries the circulation figures are dropping.

2.4 Technological innovations and new print products

The newspaper publishing sector has always been affected by technological developments. Developments in printing processes, photography, communication technologies, text processing and desktop publishing software have all affected news production, delivery and consumption. Technological advancements improved and accelerated production processes and created faster access to audiences. The introduction of the printing press around 1440 enabled the wide-spread dissemination of pamphlets and played an important role in economic, political and religious developments (Hirst & Harrison, 2007). The printing press can be seen as an important enabler of the modern newspaper era.¹⁶ Soon after the invention of the printing press, the first printed materials carrying news or information on major events were disseminated (Gorman & McLean, 2003). News sheets ("corantoes"), gazettes and almanacs were printed and read by the public. The first modern newspapers that appeared on a regular and frequent basis were published at the beginning of the 17th century, although it must be underlined that newspapers in the 17th and 18th century did not have a wide circulation yet (Gorman & McLean, 2003). Around 1900, newspaper publishers achieved economies of scale and became increasingly reliant on advertising - which lowered the cost of daily newspapers for the public. Newspapers became large and commercial businesses with mass audiences, large staffs and significant capital investments (Gorman & McLean, 2003).

Advances in papermaking processes and in printing made the creation of newspapers easier. Printing plants developed into highly modernised newspaper production units, with improved quality and speed of printing text and images. Communication technologies supported the news gathering and dissemination process. The invention of the telegraph in the nineteenth century, which functioned as a means to quickly transmit messages, speeded up the production process, later telephone, satellite connections and the internet caused similar accelerations in the communication between news reporters and editorial desks and in the gathering of information from remote sources, resulting in a currently almost 24/7 news production process, at least for those publishers with online editions.¹⁷

In the 1980s, newspapers started experimenting with technological possibilities like videotext, which enabled a physical separation of the editorial and printing process (Castells, 2000). Reporters took advantage of technological developments like portable computers and mobile phones in recording news and in sending their stories to the editorial desks.

For a long time, printed newspapers and (later) printed magazines were the only media available mass audiences. Between the two World Wars, radio became one of the most accepted domestic appliances and an important source for news broadcasts (Hirst & Harrison, 2007). Public service broadcasters and later on commercial radio stations started transmitting news programmes. After World War II, television developed into a mass medium and became another competitor for print publishers on the news market. Gradually television replaced newspapers as the most used source for daily news.

In the early 2000 a number of publishers started to circulate free newspapers, in an attempt to win back some of the readers (and advertisers), especially young people, which they had lost in recent years. In response to increasing competition newspaper publishers also introduced other innovations in their print product in order to make it more attractive for readers and advertisers. An example is the introduction of separate sections or magazines. For advertisers these offer extra advertising space, in a relevant context – for instance advertisements for travel agencies in the travel magazine or fashion advertisements in the lifestyle section. Some

¹⁶ http://www.wan-press.org/print.php3?id_article=2821 (March 2011).

¹⁷ Already then, the death of newspapers was forecast (ENPA, 2010/2011).

newspaper publishers have also offered advertisers the possibility to write their own content (advertorials).

Other examples are the transfer from broadsheet to tabloid and the introduction of Sunday newspapers in countries where these were not yet common and the launch of newspapers especially aimed at young people, often linked to major newspapers with which some of the content is shared. Successful examples of the latter are *Dein Spiegel* in Germany (launched in 2009), *NRC Next* in the Netherlands. Finally newspaper publishers have tried to create more loyal readership by offering extra services for readers and subscribers such as reductions in the sale of books, records, wine, festival tickets and travel arrangements.

There are hardly any data available on the level of R&D investments in the news publishing sector or in the media sector in general (Dal Zotto & Van Kranenburg, 2008). Experts in the field observe that newspaper publishers are often not very good at innovating and spend little money on R&D. Nevertheless newspaper publishers have responded to technological challenges in numerous ways. Some of the innovations in the print product mentioned above will be discussed in more detail in the following two paragraphs.

2.4.1 New formats

An example of an innovation in the print product is the conversion of the broadsheet newspaper to the tabloid or Berliner format. The tabloid format used to be associated with the sensationalist newspapers in the UK (*The Sun*, *The Daily Mirror*), but as serious newspaper like *The Independent* (in 2003) and *The Times* (in 2004) changed to the tabloid format, it lost its bad name and many more serious quality newspapers changed their printing format (NRC, 2011, 9 February 2011). Some, like *The Guardian* (in 2005) changed to the somewhat bigger Berliner format. The smaller format led to savings in the cost for paper. It was also supposed to be more user friendly and for instance easier to read in public transport. In many cases the introduction of the new format indeed caused an initial rise in sales, although this might be attributed more to the marketing efforts surrounding the introduction of the new format than to the benefits of the format itself. To advertisers the format change has sometimes been harder to sell. Accustomed as they were to paying for their advertisements per inch, they were now asked to pay the same prices for less space. So the transformations did not always produce the results that were hoped for. Currently in European countries the majority of newspapers appear in tabloid or Berliner format.

2.4.2 Free newspapers

Since 2000, free dailies were introduced on the market in Europe and started competing with paid-for dailies for advertising revenue. Free dailies are, for example, distributed in public transportation, universities, libraries and other public places. In 2008, the circulation of free newspapers was estimated to be approximately 30 million copies (OECD, 2010), almost double the circulation in 2004. In Europe, 23% of the daily newspapers were free in 2008. In the UK, Metro has a circulation of 1.35 million copies. In Spain four titles (20 Minutos, Que!, ADN and MetroDirecto) account for 3.5 million copies, in Italy three titles (Leggo, Metro and City) provide 2.74 million copies, in France two titles (20 Minutes and Metro) provide 1.72 million copies every day. In Sweden, Austria and the Netherlands the circulation of the largest free daily newspapers is 605.000 (Metro), 530.000 (Heute) and 514.000 (Metro) respectively (OECD, 2010; WAN-IFRA, 2010). The top-20 of free dailies features 13 European free dailies (WAN-IFRA, 2010) (see Table 11). Russia has the largest number of free dailies (41).¹⁸

¹⁸ Circulation figures in this paragraph are all from 2009.

Table 11: Top 20 free dailies

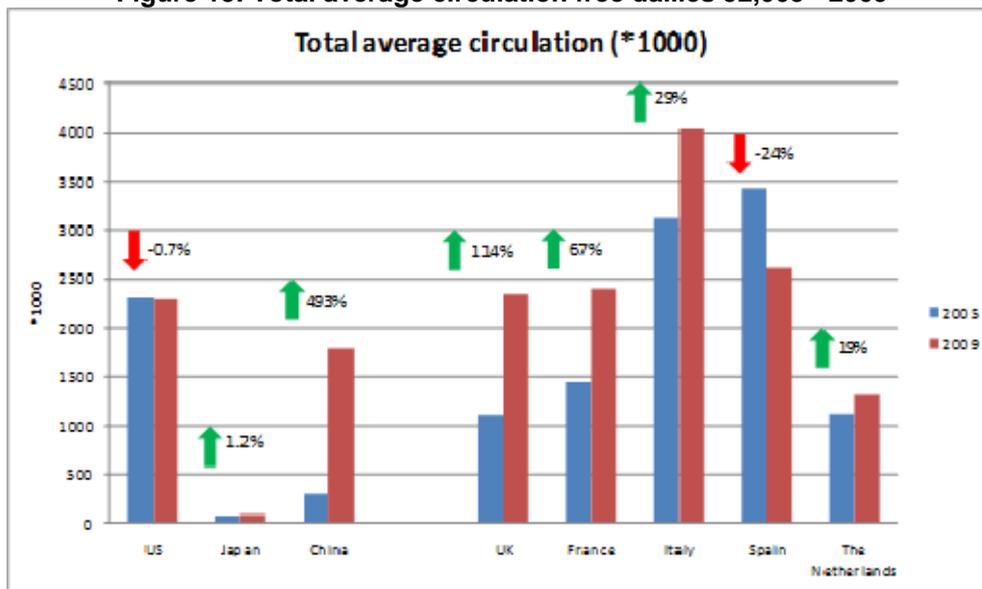
TOP 20 FREE DAILIES

	Title	Country	Language	Circulation (000)
1	Metro	United Kingdom	English	1,335
2	Leggo	Italy	Italian	1,050
3	Metro	Italy	Italian	850
4	City	Italy	Italian	840
5	20 Minutos	Spain	Spanish	789
6	Que!	Spain	Spanish	741
7	Headline Daily	Hong Kong	Chinese	737
8	Metro	Canada	English/French	726
9	20 Minutes	France	French	712
10	ADN	Spain	Spanish	690
11	Metro	France	French	660
12	24 hours / 24 heures	Canada	English/French	657
13	Metro	Sweden	Swedish	605
14	Metro, Novaya Gorodskaya Gazeta	Russia	Russian	600
15	Metro	United States of America	English	590
16	The Daily Focus	Korea, Republic of	Korean	550
17	Metro	Korea, Republic of	Korean	550
18	20 Minuten	Switzerland	German	536
19	Heute	Austria	German	530
20	Metro	Netherlands, The	Dutch	514

Source: WAN-IFRA, 2010.

Figure 13 shows the total average circulation of free dailies in the US, Japan, China and the five largest European news publishing countries, compared between 2005 and 2009. The market for free newspapers is diverse. China is a growth market for free dailies, while in Japan the market seems relatively insignificant. In Europe, the free dailies seem to have gained more ground than on other continents. In circulation, the UK, France, Italy and Spain, for example, top the US, Japan and China. In most countries circulations figures have grown substantially, only in the US there is a small decline in circulation figures and in Spain circulation of free dailies dropped with 24% between 2005 and 2009. The WAN-IFRA report (2010) does not provide statistics on the circulation of free dailies for Germany.

Figure 13: Total average circulation free dailies 92,005 - 2009



Source: TNO based on WAN-IFRA data, 2010.

2.4.3 Digital online and mobile technologies

In the following paragraph some of the activities of newspaper publishers in the digital domain will be discussed, in some cases also comparing the activities of newspaper publishers with those of other and 'internet-only' news providers.

Online news providers (traditional news)

Around 1980, the internet offered a new strategic challenge to newspaper publishers and a new platform for news publishing. From 1980 on, newspapers (of which the *New York Times* and the *Wall Street Journal* were the first) offered their news online (at first in online databases, later on newspaper websites and news portals). According to Boczkowski (2005), around 1995 newspapers relied on the internet as their preferred non-print publishing environment; in 1998 more than 750 American newspapers offered their news on websites (Boczkowski, 2005) and in 2000 this number was up to 1207 (WAN IFRA, 2011); a 37% growth. Between 2003 and 2007, the number of online newspaper websites grew 51%. From 2006 to 2007 this growth percentage was almost 14% (WAN IFRA, 2008). Online, newspapers reprinted original content from the paper, increased their usefulness by adding related (multimedia) content and published new content as well (for example continuing updates of news stories). At the same time, these developments also enabled other news producers (like broadcasters and ICT companies) to extend their production online, diversifying the competitive field in the news sector. Broadcasting corporations, ICT companies and internet-only news providers now increasingly compete with newspaper publishers for online advertisers and audiences.

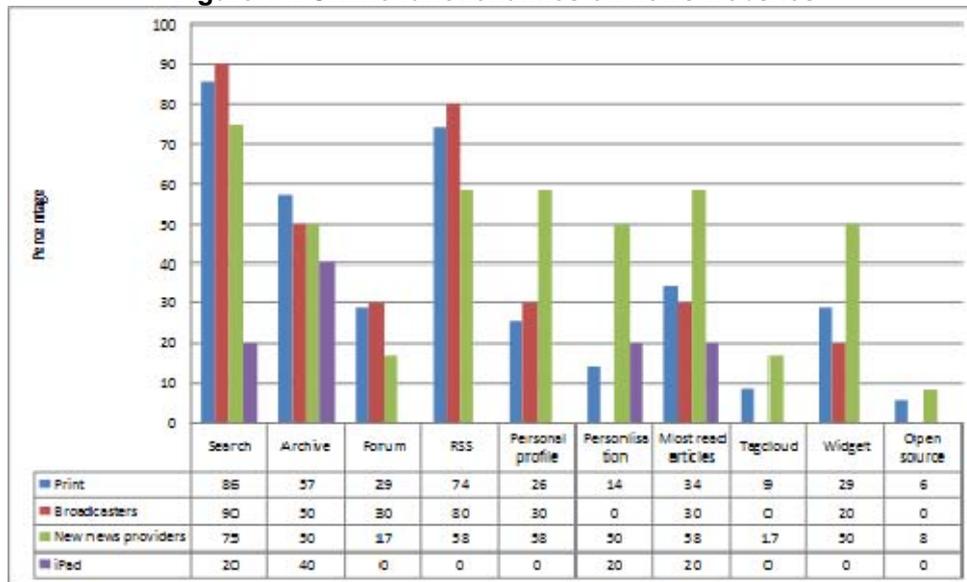
Newspaper publishers have experimented with different ways of expanding their news service to the online domain. The Guardian (UK) for instance is known for its innovative use of online possibilities. On the website of the Guardian, users can read (newspaper) articles, but they can also access additional content such as blogs. In addition, The Guardian offers extensive opportunities for interaction; users can create and save clippings for later use or send content to others. The Guardian offers its users insight into the trending topics by displaying *Zeitgeist*, a new way to reveal and disclose news based on 'social signs' of Guardian users.¹⁹ *Zeitgeist* displays a dynamic visual record of what people find interesting on the website of the Guardian. Another success story is Der Spiegel. This leading German newspaper has an independent web edition with 60 journalists working for it and 5.6 million unique visitors per month, who have little overlap with the print readership. The Der Spiegel website is said to have been profitable since 2005 (Esser & Brüggemann, 2010). One of the best known French online news services is Rue89, founded by former editors from the French newspaper Libération in 2007.

Newspaper publishers have not only used the internet as a new platform for publishing news, but have also used internet tools such as email and RSS to alert people to news. RSS feeds make the websites of newspapers accessible by crawlers to aggregate content automatically. By providing RSS feeds to their websites, news publishers enable users to automatically keep up-to-date with new articles on their website. Thus, a reader does not have to visit the news website to check whether a story has been updated or a new article has been published. This has, on the one hand, facilitated the news consumption process. But on the other hand, by offering RSS feeds, newspaper publishers have paved the way for aggregation websites like Google News and applications like Flipboard, Pulse, Zite and Instapaper to aggregate and display content, and thereby distracting readers from their own websites (Filloux, 2011).

¹⁹ <http://www.guardian.co.uk/zeitgeist>

It is interesting to compare traditional news publishers' online offer with the news offer of the new, internet only news publishers and aggregators and with the news offers available on the iPad as the most recent innovation in the news publishing market. Figure 14 shows the functionalities on news websites of newspapers, broadcasters, new news providers and on iPad applications. While many news providers offer search functionalities, an archive and RSS feeds, functionalities like a forum, tagclouds and widgets are offered less frequently.

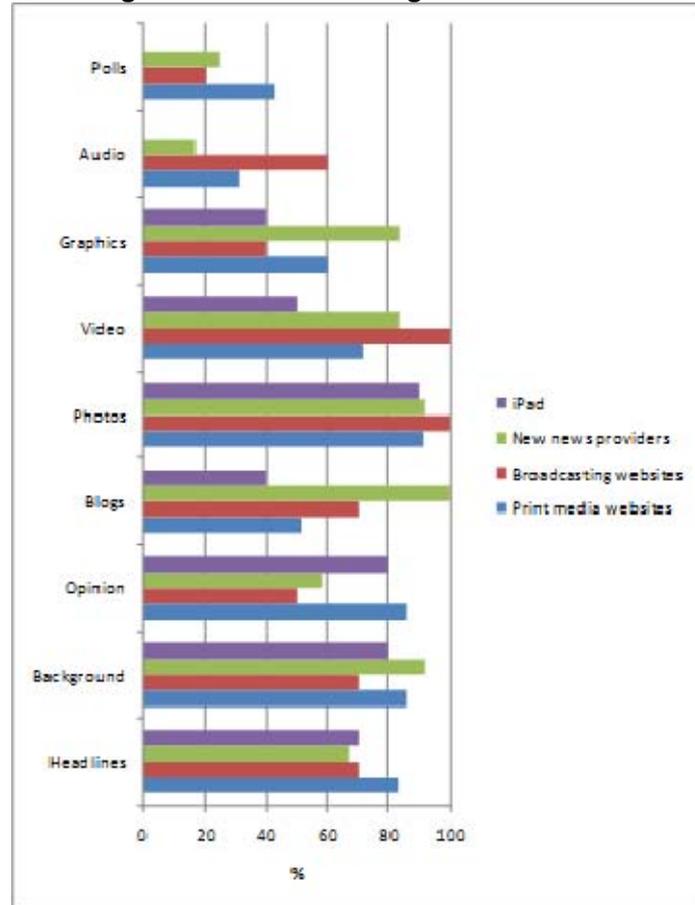
Figure 14: Online functionalities on news websites



Source: Slot, Ruhe, & Frissen, Nieuws Online, 2011b.

In general, traditional news providers increasingly exploit the potential of the internet and social media. They add blogs and video to their websites (see for an overview of online content on news sites Figure 15). Also, people are regularly invited to take photos or provide eyewitness accounts of news events (Bakker & Pantti, 2009). Increasingly, news providers can be followed on social media. However, there still are differences between the online services of traditional newspapers and the 'new', internet-only, news providers (or 'pure internet players' as they are also sometimes called). Whereas most traditional news providers can be characterized as providers of mainstream, professionally produced news with some additional options for user interaction, many 'new' news publishers' websites are predominantly designed as a platform where non-professionals are the main contributors and where users share or discuss news (Slot, Ruhe, & Frissen, Nieuws Online, 2011b). Users can personalise news websites, post content or share news messages via other social media. They can vote on content, articles or videos and recommend content to other users (see Figure 16). Examples are news sites such as the Huffington Post where celebrities but also ordinary users contribute blogs and which provide ample space for user comments to the news. Other examples are the French *Rue89* and *Mediapart*, or the popular Dutch news site *NU.nl* which obtains a considerable part of its content from its users (see for more information the Sanoma case study in Appendix B).

Figure 15: Online offering on news sites²⁰

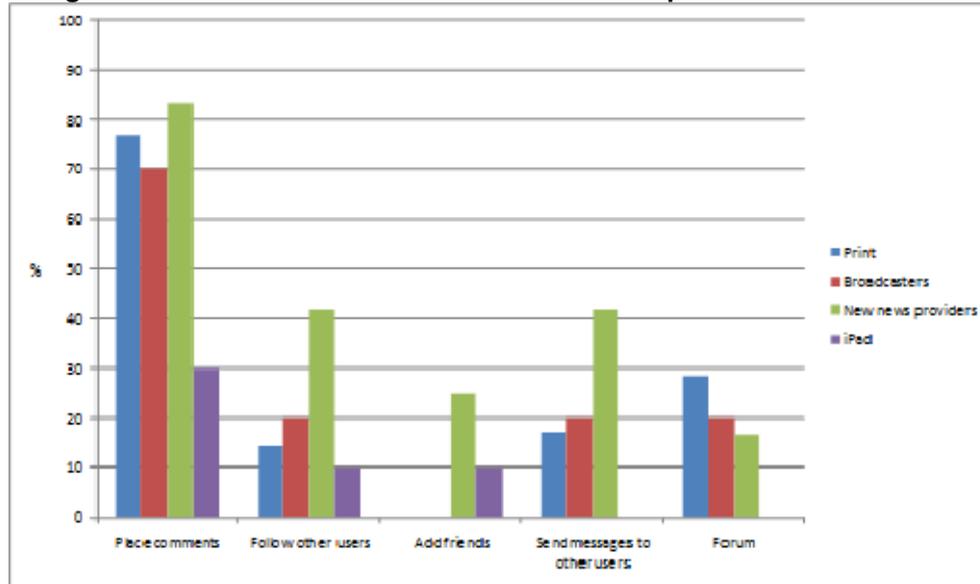


Source: Slot, Ruhe, & Frissen, Nieuws Online, 2011b.

Traditional news providers use the internet primarily as an extra to their primary news distribution via print or broadcast channels (Slot, Ruhe, & Frissen, Nieuws Online, 2011b; Rebillard & Touboul, 2010). The social and participatory possibilities of the internet are mainly used as add-ons. New news providers rely more on the social aspects of online services in their service; they engage their users more often in the creation and preservation of news than traditional providers.

²⁰ The research of Slot et al. (2011b) is based on an analysis of 57 international news websites.

Figure 16: News website's use of social media aspects on their websites



Source: Slot et al., 2011b.

Smartphones and tablets

Since approximately 2008, people are also able to access the world wide web via mobile devices like smartphones and e-readers. Tablet computers like the iPad are again causing major changes in news publishing and news consumption. In 2010 Apple was the first to launch the iPad, but soon after other companies like Samsung and HTC followed, producing tablets on Android or other operating systems. Publishers have looked at these tablets with great expectation. Tablets – a combination between a mobile phone and a computer – provide users with easy internet access and enable them to use a large number of applications (apps) on a mobile, portable device, with a user friendly interface. Not only do tables offer consumers a better reading and browsing experiences, they also provide an interesting publishing tool. They offer publishers the opportunity to create a host of different apps for users. A large number of applications for mobile devices has been developed by news providers, for whom news services on smartphones and tablets could offer interesting new opportunities to distribute their content and introduce new pay models.

Until now, traditional news providers primarily use the iPad as a new distribution channel for their traditional news offer (Slot, Ruhe, & Frissen, Nieuws Online, 2011b). Publishers offer digital versions of their print product for sale via the iPad, so far with little extra functionalities for interactions or user participation. Users can purchase a subscription, or buy single copies of the digital version of magazines or newspapers.

New news providers do offer more extended functionalities on their iPad applications. Examples are Flipboard, Zite and Pulse, which offer personalised, social magazines for the iPad and other tablets. These services allow users to aggregate their own unique social magazine and combine these with content from Twitter and Facebook with other online (news) content. Users can completely personalise the service.

A format which has seen a surprising revival in recent years, with services like Instapaper and Read It Later, is the so called Long-form journalism. Disproving the typical thinking that web users want their information in small, easy chunks, sites like Longform.org – which curates more in-depth stories – are flourishing, allowing users to push longer articles off to mobile devices – like the iPad – to read later They seem to be specifically suitable for use on tablets.

Amazon introduced the so called Kindle singles for its Kindle e-readers and recently made these also available for the iPad. Kindle singles will typically run to between 5,000 and 30,000 words, too long for a magazine article and too short for a book, but exactly long enough for more in-depth journalistic stories.

Social networks

The past five years, social networks like Facebook and Twitter have functioned as interesting networks for the dissemination of news and information. During breaking news events and revolutions, Twitter has provided people the tools to communicate fast and easy. When something happens a lot of information, especially pictures and video, comes from people that are eye-witnesses or victims, and often faster and closer to the spot than the news reporters from traditional news publishers. Major examples have been the bombings in the London tube (2005), the post election events in Iran (2010) and during the so-called Arab Spring or revolutions in the Middle East (2011) and the earthquake and tsunami in Japan (2011). Localising, mobilising, distributing information and mapping situations have become much easier. Many journalists are using Twitter as a source of information and a means to contact sources. Social networks have also become a new and much used way to distribute and share news.

2.5 Conclusion

This chapter has shown that the situation in the newspaper sector is complex and multifaceted in nature. Publishers of print news media are facing a decline in advertising income due to the economic crisis and to the – more structural - shift from a significant share of advertisers to the internet. At the same time they also face a decline in circulation and readership and increased competition from broadcast and online news providers, which again reinforces declining advertising revenues for their print products. However, the urgency of the situation varies per country. Newspaper publishers in countries which rely to a large extent on advertising income are hit hardest. Compared to the US, the European market is still relatively strong, because US newspapers rely to a larger extent on advertising revenues and many newspapers are in the hands of private equity funds, whose shares are traded on the stock markets, whereas in Europe many newspapers are private or family businesses and many still make profits, though much less than in previous decades.

Due to digitization, convergence and the internet, news has increasingly become a merit good; it is supposed to be needed by society, but consumers' willingness to pay for online news is low. News is everywhere and news producers have lost their exclusive role as news providers. In response newspaper publishers have attempted to renew their print newspapers, increased their sales and marketing efforts and developed additional products and services for their readers. The figures on the revenues for the print product and the internet product in this chapter have shown that the decrease in print revenues has not yet been compensated by the increase in digital revenues. In the next chapter, we will look more closely at how internet and digitization have affected all the different stages of the value network and undermined traditional business models in the newspaper publishing sector.

3. Transition to digital and online

3.1 Introduction

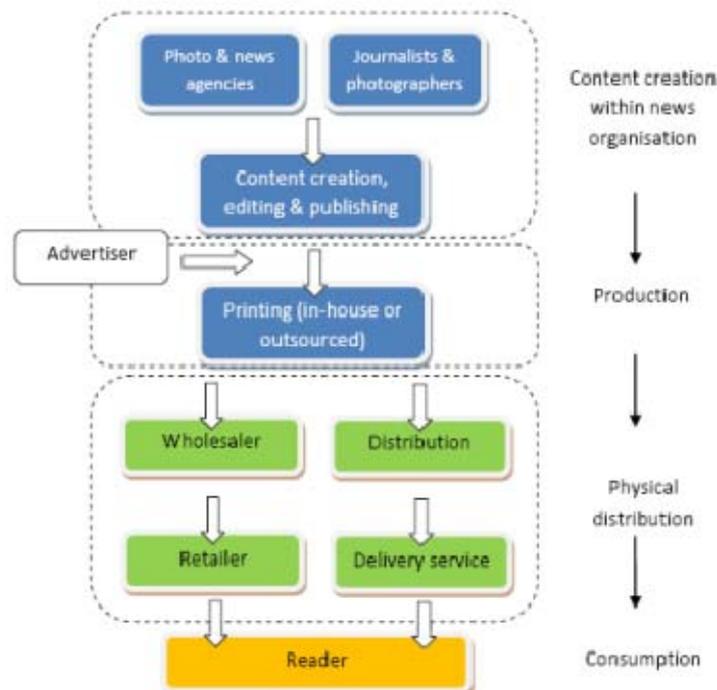
The news sector is undergoing significant changes (e.g. OECD, 2010; Boczkowski, 2005, (Pleijter & Deuze, 2003; Pavlik, 2000). The economic foundation for the traditional newspaper businesses is collapsing and the gathering and distribution of news has become more widely dispersed (Downie Jr. & Schudson, 2009).

The market developments described in Chapter 2 have shown how digitization and the internet have affected newspaper publishing markets. In this chapter these developments are discussed from the perspective of their impact on the value chain; i.e. on the production, aggregation, distribution and consumption of content. Digitization has affected all links in the value chain and have made the value chain increasingly complex. Digitization and the internet have also fundamentally disrupted traditional business models. Consequently newspaper publishers are experimenting with a number of (new) business models, trying to exploit the strengths of their product and brand in competition with an increasing number of online news providers. Another new phenomenon is the increasing importance of news aggregators and social networks that has been made possible by the digitization of information and the new ways of distributing and sharing news that these enable. Especially noteworthy are the changes in user roles that have become apparent in recent years. News consumers have taken on much more active and participative roles. Changes are visible in every aspect of the value creation process, leading to what some researchers have labelled a ‘new media logic’ (e.g. (Oblak, 2005) or a new media ecosystem.

3.2 From value chain to value network in the news industry

Traditional news production can be schematically presented as a linear value chain of content creation, production, distribution and consumption (see Figure 17).

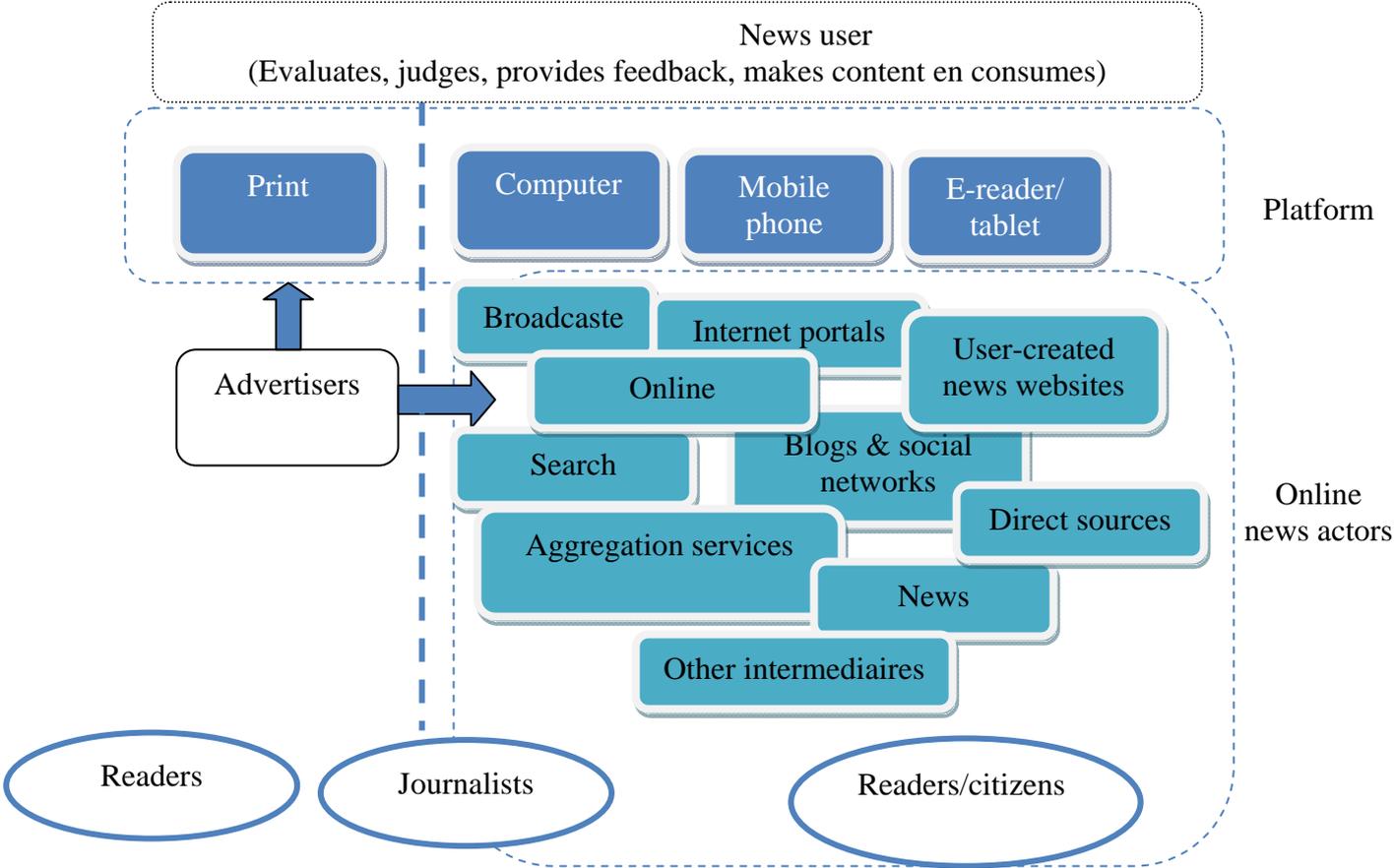
Figure 17: Traditional value chain newspaper industry



Source: based on OECD, 2010).

In business modelling literature, the value chain concept is increasingly seen as inadequate to describe the complex, interdependent and dynamic relationships between actors in value creation and exchange (Allee & Schwabe, 2011). Instead, the value web or value network concept has become a more suitable model to explain relationships between market players. In Figure 18 a value web for the news sector is presented. It expresses that the creation of value is not a straightforward, linear process from production to consumption, but that there are many players involved, which can have different (sometimes combined) roles in different phases or aspects of value creation, and which can engage in a number of relationships, involving different cost- and revenue streams. Compared to the traditional value chain this model better shows how journalist can now access more and different sources, how news is published on more different platforms, with more options for advertisers to spend their advertising budgets. The model also visualizes how users have gained different roles in the value chain, from being mere consumers to also producing, disseminating and responding to news.

Figure 18: News value web



Source: based on OECD, 2010.

3.2.1 Production

Digitization has gradually been introduced in many aspects of the news gathering and production process. Many newsrooms have integrated their print and online workflows. Newspaper publishers do not only provide text, they also integrate photos and place videos and infographics on their websites. Journalists use computers and the internet for information gathering, communication with sources and to write, edit and lay-out their articles, adding graphics and illustrations. Field reporters have a number of mobile technologies to facilitate news production, such as smart phones, digital camera's, laptops and voice recording equipment. Technology to record and stream news events have become increasingly smaller, easier to use and lighter to carry. A live news event can be recorded and instantly streamed by using a Blackberry or other smart phone. To deliver the news to consumers, print newspapers are combined with an array of internet technologies like email, website editions, RSS feeds, links on search engines and social network sites etc. etc.

A 2005 e-business survey in the printing and publishing industry by the European Commission showed a substantial adoption of digital technologies in all business areas in the newspaper publishing industry, including procurement, managing of supplies, content production and publishing processes, marketing and the distribution of products and services. Compared to other industries the level of adoption and effective deployment of ICT and internet-based applications to support key business processes internally, as well as with customers, turned out to be rather high in the printing and publishing sector (European Commission, 2005). Most newspapers were also implementing digital workflow management systems, which enable them to organize work processes more resource-efficient and cost effective, particularly in servicing advertising customer demands. (European Commission, 2005). To what extent this digital technologies adoption level has continued since then is unclear, as the European Commission no longer provides updates of the survey. It might be the case that regular updates and renewals of digital administrative systems and software has become standard procedure, for newspaper publishers, like it has for many other companies. Digital technologies do not only affect internal administrative and management systems though, they often also lead to new ways of working, different products and services and different relationships with customers and these are often more difficult to develop and implement.

One example of such an effect on working routines and end products is that publishing and distributing news through the internet has changed the news-cycle. News production is no longer limited to a 24-hour cycle but can be produced permanently and made available 24/7. For online news sites there are few spatial limitations (in terms of the number of pages and inches available in the printed newspaper) and news can be constantly updated. In times of breaking news and crises, many news providers generate a constant news stream online. The Guardian, for example, is keeping a live blog in times of crisis.

Another example is how the internet has become an important source for news and information gathering. Journalists use the internet and Twitter to find story ideas, check their facts, approach and interview news sources and search additional photo and video footage.

A major difference with the print era is that the internet has lowered entry barriers. Online the costs for paper and printing have disappeared and distribution costs are substantially lower. Some costs however remain. News gathering and the creation of content has not necessarily become less costly. It still depends to a large extent on the human labour of journalists and correspondents reporting on events, checking sources, interviewing, collecting evidence, writing news and background stories, as well as on photographers taking pictures, on editors reviewing stories and on people taking care of marketing and sales activities. Although some

of these activities and processes can be done faster and more efficiently with the help of new technologies, like portable, small and user friendly camera's, laptops, desktop publishing software, easy access to online sources and fast and cheap communication technologies, human labour is still a major cost factor.

Most newspaper publishers however have not completely turned to online news publications and still also publish print newspapers. They consequently have to bear double costs of producing print and online editions of their newspapers. At the same time they also still benefit from the income generated from their print products, which are still in many cases profitable, although much less so than before. Online only news publishers have the advantage of being able to start from scratch and do not have to bear the sunk costs of earlier investments in printing presses, staff and offices.

Gradually some newspaper publishers start to consider phasing out their print products, especially when the time draws near that their printing presses are amortised and they have to decide on whether or not to reinvest in new ones. The Guardian for instance has announced a 'digital first strategy', which means that it will give precedence to investments in digital products over investments in its print editions. One of the first evidences is that it has ceased the international print editions of the Guardian and The Observer from 1 October 2011, which it used to print in five foreign cities (New York, Frankfurt, Madrid, Malta and Cyprus). At the same time it will expand its digital operations in the US where it is competing with the MailOnline over US visitors (MacMillan, 2011). Some newspapers discontinued their print products (e.g. the Christian Science Monitor), but for most newspaper publishers completely finishing their print publications is not a decision which they foresee to take in the near future.

Users as news producers

A final important change in the production of news is that users take on increasingly active roles by producing or disseminating news through blogs and social networks like Facebook and Twitter. *Web tools* have enabled users to find and organise information online according to their own preferences. Services like Digg and Delicious let users bookmark interesting information. Through the semantic web users and news organisations can combine open information sources and raw data to find patterns. The 2010 publication of secret documents on the wars in Afghanistan and Iraq through the website Wikileaks, in collaboration with professional news media such as The New York Times, The Guardian, Der Spiegel, Le Monde, El Pais and Al Jazeera is a prominent example of how citizens and professional journalists collaboratively produce news stories by examining huge amounts of open data.

Traditional news providers are responding to active internet use by giving consumers options to contribute to their website or by tapping in to the crowd. The BBC, for instance, lets users upload their own photos and videos of news events. The Guardian asked its readers to help sort out the expenses of the British MPs in the 2010 scandal around British MPs abusing public money for personal expenses. In 2011 the Guardian, in collaboration with researchers from the London School of Economics, recruited researchers with good relations to the affected communities to (confidentially) interview people directly involved in the urban disturbances, in an attempt to investigate the deeper causes of the riots. They also analysed 2.5 million riot-related tweets.²¹ Going one step further, newspapers such as the Guardian, USA Today and The New York Times are experimenting with opening up their own data to the public, in order to enable others to develop new services or information based on these data. For instance an app in which the newspaper's film reviews were combined with data from online film catalogues and services such as Netflix (Ingram, 2011).

²¹ <http://www.guardian.co.uk/uk/2011/dec/05/reading-the-riots-methodology-explained>

Furthermore, supported by free and easy accessible online content management tools like Wordpress, the amount of user-generated websites and weblogs has expanded drastically (Thurman, 2008). A weblog is a website with regular entries of commentary provided by an author, and to which users can respond with their own commentary (Pascu, Osimo, Ulbrich, Turlea, & Burgelman, 2007). Since 2003, the number of blogs rose exponentially; at the end of 2003, 2 million weblogs were tracked by Technorati. Two years later, 20 million blogs were tracked and in August 2008, Technorati indexed almost 113 million blogs. In 2009, Technorati decided to stop indexing blogs and sites in languages other than English, so recent figures on the total number of blogs are not available. At the end of 2011 Technorati indexed 1,29 million English language (www.technorati.com). Blog content can be searched through blog search engines like Technorati, Feedster, Blogsearch (Google) and IceRocket.

Many weblogs are news related and some of them have grown into important players on the news market – for example the US Huffington Post, and the South Korean OhMyNews.²² OhMyNews (founded in 2000), for example, generates news written by a small staff and (for the largest part) by its users since 2000 (Yeon-Ho, 2007). In 2000 the citizen journalism website started with approximately 700 reporters and in 2007, this number rose to over 500,000 reporters from 200 countries. Citizen journalists who publish on the website are paid approximately 50 Euros by the service if they produce a headline story. They can also receive tips from readers who appreciate their story (Yoo, 2007). In Europe, there are numerous citizen journalism websites, aimed at national as well as regional and local audiences. Examples are Agoravox,²³ Baksheesh (founded 2006), Street 89 (founded 2007) and Mediapart (founded 2008) (France), Readers Edition²⁴ (Germany), You Reporter²⁵ (Italy), and Nyhetsverket²⁶ (Sweden). The Dutch online only news provider NU.nl also combines headline news from professional news agencies with stories and picture uploaded by users (see the case study in Appendix B).

These forms of user generated news contribute to the amount of available online news outlets and sometime fill in gaps that have emerged in news reporting, due to the closure of print newspapers. In the US, in particular local and hyperlocal online news production (i.e. news on neighborhoods, blocks) is vibrant, aided by voluntary contributors. Some local or hyperlocal news sites even employ paid staff, but compared to the numbers of newspaper editors and journalists that have been laid off and the drop in editorial spending on newspapers, the increase in paid staff and earnings is minimal (Waldman, 2011). In the US AOL has hired local reporters/editors for its local news service Patch in about 800 communities and recently took over the Huffington Post, and the Examiner.com has set up local news sites in numerous places, but these news providers focus on entertainment, lifestyle and sports news and offer much less reporting on local public affairs.

From a quality perspective there is criticism that these user generated news sites are sometimes at odds with professional journalistic practices. Some journalists and publishers fear that the growth of user generated news will go at the expense of traditional journalism, as it offers news publishers cheaper content than professional journalists can offer. They also argue that amateurs providing news often violate journalistic standards. They accuse bloggers of ‘stealing’ their news messages and of publishing them on their weblogs, without proper compensation and/or reference (Allan, 2005). User contributions are also assumed to be sometimes unreliable and the quality of most blogs is, according to some critics very low

²² The Huffington Post, was bought by AOL for \$315 million in 2011.

²³ <http://www.agoravox.fr/>

²⁴ <http://www.readers-edition.de/index.php>

²⁵ <http://www.youreporter.it/>

²⁶ <http://www.nyhetsverket.se/>

(Fuller, 2010). Often practical constraints and routines within newsrooms make the integration of user created content in legacy news publishers' websites difficult. Research shows that on many news websites, links are provided to invite users to participate, but actual user participation options are often limited (Rebillard & Touboul, 2010). Users are allowed to fill in a survey, add a comment or give feedback to editors. But the addition of non-professional contributions into the online news stream of legacy newspaper websites is (still) less common practice.

However increasingly, traditional newspapers incorporate participatory options in their own websites and the interest in user participation grows (Rebillard & Touboul, 2010). In Germany, for instance, the regional newspaper *Opinio* is fully composed of weblogs (Tomesen, 2005).

Many authors have discussed the potential of more participatory forms of journalism, which use citizen's contributions, but still see important roles for professional journalists to play. Charlie Beckett (2010) for instance investigates the options of networked journalism and claims that a continuous interaction between citizen contributors and professional journalists has in cases such as the British 2010 elections led to ground breaking and influential new forms of journalism. Professional journalists took on different, but still indispensable roles in moderating content, encouraging people to contribute, linking citizen contributions to background information, and checking facts.

Another perspective comes from Jay Rosen (2011), who introduces the concept of the pro-am (professional amateur), which refers to practices in which news publishers invite dedicated users to contribute on a regular basis. An example of this is the Public Insight Network, an organisation which manages a database of over 100.000 people who have agreed to being used as a source for journalists. The database contains information on their interests, networks and location, thereby enabling the professional journalists of associated news media to ask the right questions for support to the right people (<http://www.publicinsightnetwork.org/>).

Moderation, obligatory registration codes of conduct and different other mechanisms of self-regulation are employed to stimulate and support a certain quality level on user generated news sites (Hellberger, Leurdijk, & Munck, 2010). So while the discussion on the quality and reliability of citizen journalism and blogs will continue, there is also evidence that more and more sophisticated ways of moderating content and improving the quality of user generated content are being developed.

3.2.2 Aggregation and distribution

Newspaper publishers are not only the producers of news but also the aggregators of news. They combine news from different sources and in different categories in one print product under a single brand name. In the digital domain the production and aggregation of news are no longer necessarily in the hand of one player. Online companies like Yahoo, Google and MSN have grown into important news aggregators. These companies aggregate news from external sources and distribute the news through their (news) portal sites. They use software to browse the internet and gather news from existing news sources. They gather the news on their own portal, provide the first few lines of the news message and a link to the full article on the source's website. This practice has led to on-going disagreements between legacy news publishers and online news aggregators. Newspaper publishers accuse Google of stealing their content and making money out of it, by placing advertisement on Google's own aggregation website and by deep-linking to articles instead of guiding visitors through the newspapers' online front page. These practises cause major losses in online revenues for newspaper publishers. Google offers the opportunity for newspapers to remove links to their websites from Google News, but this is for most newspaper publishers not an attractive option, as they

also benefit from Google News because it generates traffic to their website. At the same time news consumers benefit from the options to personalise news and (pre)select preferred news sources and themes that Google News and other online news aggregators offer. The debate about the use of newspaper publishers' content by Google News illustrates the tension between the news incumbents on one side and the new online intermediaries on the other side.

Similar issues arise between traditional publishers and the providers of applications like Flipboard, Pulse and Zite. These are apps which offer an attractive magazine- or dashboard-like user interface and aggregate news and information from a personalized selection of online sources, combining this with social media like Facebook, Twitter and LinkedIn and options to publish, share and recommend the content. Some of these have content deals with publishers. They differ in the kind of content offered, business models and the ways in which they prioritize news selections (.e.g. based on curation by editors, personal search histories or on recommendations in the users' social network).²⁷ Publishers accuse these services of generating income on the back of the traditional news providers. This is one of the reasons why many of the new news services do not yet charge their readers for their service. Like many internet start-ups they attempt to gain a large user base first, in order to become attractive for advertisers and/or explore other business opportunities in a later phase, once they have proven to be popular.

Comparing traditional and 'new', online news providers there are distinct ways in which they perform their roles in the news production and aggregation process. Most traditional news providers function as gatekeepers and have an active role in selecting, producing and editing news, whereas many new news providers function primarily as gate watchers and gate openers by observing, commenting on and linking to news and information, which is made available through off- and online sources by traditional news media but also by press releases and reports from government, industry, NGOs etc. (Bruns, 2003). News providers who do not have their roots in traditional media, use their websites to offer platforms to users to add information themselves, or directly link to content from other news providers. They often play an intermediary role, or function as moderators or facilitators of discussions. New entrants often produce less content themselves; they are less likely to employ a large editorial staff and are more dependent on other news sources.

3.2.3 Distribution

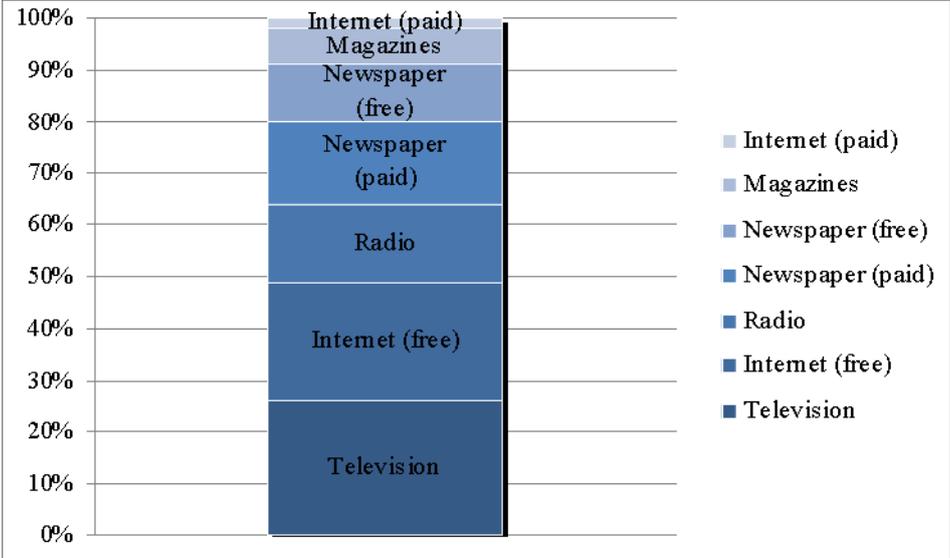
By publishing news online, it is theoretically distributed or made available for anyone with access to an internet connection. There are no added costs for physical transport and delivery and therefore online distribution costs are significantly lower than the distribution of physical content (Boczkowski, 2005). There are still costs involved for connections to the network, for server and network capacity, and for maintaining and operating content management systems. Legacy newspaper publishers, for the time being, have to bear both costs for physical as well as for online distribution. In the early 2000's newspapers experimented with printing on demand models, but so far these do not seem to have not taken off on a large scale. A paperless future has often been predicted, but so far there have only been a couple of newspapers which have completely abandoned the print newspaper and completely shifted to digital distribution.

²⁷ See <http://paidcontent.org/table/comparing-the-new-aggregators> (consulted on December 5th 2011) for a useful comparison between a number of new aggregations apps or next generation RSS feeds as they are sometimes called.

3.2.4 Consumption

The availability of and access to news sources has expanded drastically since the widespread diffusion of computers and internet. In addition to newspapers, television and radio news, consumers can also access news content online through websites, news apps on mobile phones and tablets and online social networks. Online news has become a popular source of news and the internet has overtaken newspapers in popularity as a news source (see Figure 19).

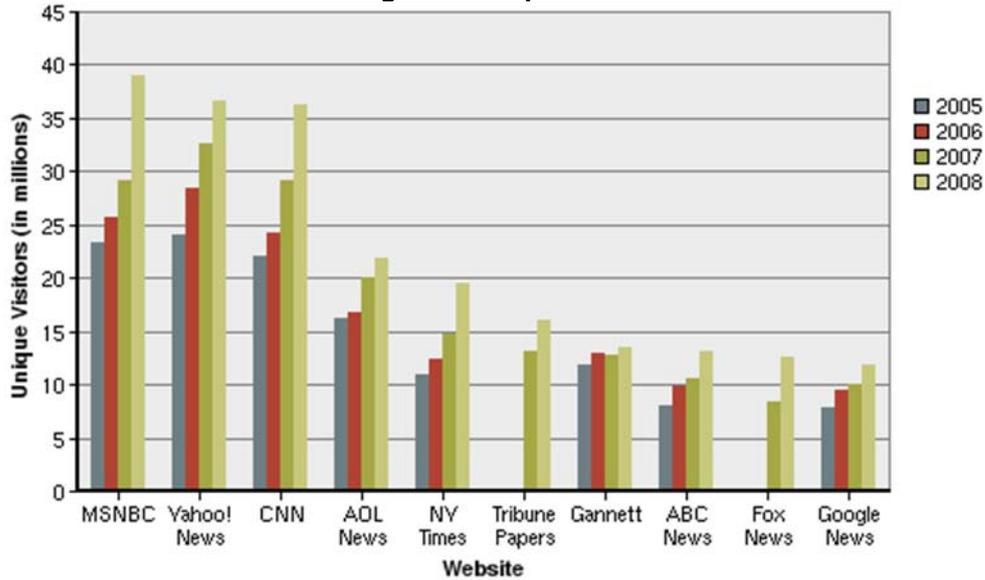
Figure 19: Media preference when gathering news and background information (based on a survey in Canada, France, Germany, the Netherlands, Switzerland, the United Kingdom and the United States in 2009)



Source: PwC, 2009

The Pew Center for Excellence in Journalism issued “The State of the News Media”, featuring the top 10 news sites in the USA ranked by unique visitors (Figure 20) from 2005 to 2008, based on an internet panel survey conducted by Nielsen. Remarkably, only three news organizations (New York Times, Gannett and Tribune) are in the top 10. In 2008, the three traditional newspaper organizations accounted for 22% of the total unique visitors among the top 10. This might indicate that newspaper companies are losing their print audience slowly to online news sources.

Figure 20: Top News Websites



Source: PEW, 2009

Based on a combination of website statistics, eBiz has compiled a top-15 of most visited online news sites in the US (Ebizmba, 2011). In this top-15, four (American) newspapers are listed; the *New York Times* (5th position), the *Washington Post* (9th position), the *LA Times* (10th position) and *USA Today* (13th position). News aggregator *Yahoo News* has the number one position with an estimated number of 70 million unique users per month. Broadcaster *CNN* is second, and attracts approximately 48 million unique visitors per month. The third place is occupied by *MSNBC*, another US broadcaster (47 million unique visitors per month). Five ‘new’ news providers are listed. In addition to *Yahoo News*, the list consists of *Google News*, *the Huffington Post*, *Digg* and *Drudge Report*. The list features only one European news provider: the *BBC* (18.5 million unique visitors).

In some European countries the websites of the big national newspapers and public service broadcasters rank in the top 10 or top 25. This is the case for instance in Germany (AGOF, 2011), the UK (Ofcom, 2011) and the Netherlands (STIR, 2011). But new news aggregators such as *Google News* are also often among the top 25. Due to the expanding availability of news, news consumption has become more fragmented, but comprehensive, reliable and publicly available data on online news site visitors, as an indicator of market shares for the different news providers and the level of competition in the different European Members States, is virtually non-existent.

Online distribution of news could implicate that newspapers, which publish their content online, have a potential worldwide audience. In practice most news consumers prefer national or local news sources in their own language, although some of the major news providers did manage to build a worldwide audience online (*BBC News*, *CNN* etc.). English, Spanish or Chinese news publishers and other news sites publishing in languages which are spoken by many people in different countries across the world are likely to benefit more from the worldwide potential of internet news distribution than news media in languages, which are spoken only by limited numbers of people.

In addition to the numbers of readers, website visitors and users of news apps, information on the socio-demographics, lifestyle, consumer and media behaviour of these users become increasingly important for advertisers, especially for targeted advertising.

Finally, citizens have many more options to find information, to customize their news and information offer according to their own preferences and to share and comment upon news items. From being merely consumers at the end of the value chain, many consumers now also contribute actively to different phases in the news value chain by distributing and sharing news, adding information and pictures on all kind of subjects, responding with their knowledge to crowd sourcing information requests, interactive maps, investigations, twitter feeds, Facebook pages, picture galleries and numerous others news formats.

3.3 Impact of digitization and internet on business and revenue models

Despite the economic pressures many newspaper publishers still make a profit (although far less than in the 1990s). Traditionally, newspaper companies overall have had relatively high (two-digit) profit margins compared to other industries (Boczkowski, 2005; OECD, 2010). However, due to the recent economic downturn, profit margins are falling rapidly. It is to be expected that profit margins for newspaper publishers will never reach the high numbers of earlier decades again (OECD, 2010; Eurostat).

The development of mass media and economies of scale at first made newspapers cheaper. The more people read a newspaper, the less money the newspaper costs. But recently, declining readership and advertising income has caused newspaper prices to rise. Especially in countries where a large amount of people have a subscription, fewer readers means higher prices for newspaper delivery. The OECD states that available data indicate that newspapers have also significantly increased their advertisement prices (OECD, 2010).

Most news publishers have not yet developed working business models for their online news and many newspaper publishers are still experimenting with different business models. Some newspapers are able to generate revenues online from subscriptions and sales, but most online news services rely mainly on advertising. Other models that are tried out are for instance voluntary donations, licensing content to other providers, selling customer data and selling goods and services to the audience.

However, in the first decade of the 21st century, print remains the main revenue driver for newspaper publishers (PwC and Wilkofsky Gruen Associates, 2011). Digital advertising accounted for 2% of the global spending on newspapers in 2005, rising only to 4% in 2010 (Table 12). At the same time the advertising revenues for print are declining, while advertising revenues for digital are rising, except between 2009 when digital revenues dropped as well.

Table 12: Global revenues from print and digital advertising, 2006-2010

	2006	2007	2008	2009	2010
Print advertising newspapers	111962	109732	100341	81525	80885
% Change		-2,0	-8,6	-18,8	-0,8
Digital advertising newspapers	4127	5369	5842	5634	6404
% Change		30,1	8,8	-3,6	13,7
% of total revenues	2%	3%	3%	4%	4%
Circulation newspapers	69503	71756	73137	72534	72457
% Change		3,2	1,9	-0,8	-0,1
Total newspapers	185592	186857	179320	159693	159746

Source: PwC and Wilkofsky Gruen Associates, 2011.

Nevertheless, the potential for digital online growth is widely recognized due to rising website traffic, and therefore, new online business models are incorporated by the traditional news industry as well as by new market entrants. There is little evidence for proven concepts of online business models for news. However, news providers continue to experiment with new

and sometimes innovative business models, ranging from a focus on hyperlocal content to publicly supported not-for-profit journalism (News Innovation, 2009).

3.3.1 Online advertising

With the internet newspapers not only lost readers, but also advertisers. Especially classified advertisements, employment and real estate advertisements moved online, where transactions between sellers and buyers can more easily and directly be accommodated, for instance through the popular Craigs list and eBay, or through local versions of market places, dating, employment and real estate sites. Online advertisers can also gain direct access to their clients instead of via advertising in a newspaper, which lowers the advertising income for classifieds in newspapers (Van der Wurff, 2005b) (Kung, Picard, & Towse, *The Internet and the Mass Media*, 2008).

Online, news providers are looking for alternative revenue streams to compensate for lagging advertising revenue and declining subscriptions to their print newspapers. Downie Jr. & Schudson (2009) state that it is unlikely that all news organizations can be supported by online advertising revenues. Revenues from online advertising are growing, but not fast enough to fill the gap opened up by the decline in revenues from print advertising and circulation.

Because information online is often free and easily accessible, legacy news organizations are losing their power over audiences and advertisers. The audience for news has fragmented and this has a negative effect on advertising income. Some news paper publishers have tried to compensate for the loss of print advertising by launching or taking over successful websites (dating sites, online market places etc.). The case study on Sanoma provides examples of this strategy (see Appendix B). Sanoma's acquisitions of popular online market places have partly compensated for losses in advertising revenues in their traditional newspapers and the company has thus managed to keep growing. But its news division has shrunk. So while the company as a whole benefitted from these acquisitions, profits did not necessarily feed back into the news publishing division. 2008 also marks a turning point in overall net sales, operating margins and employment figures for the company.

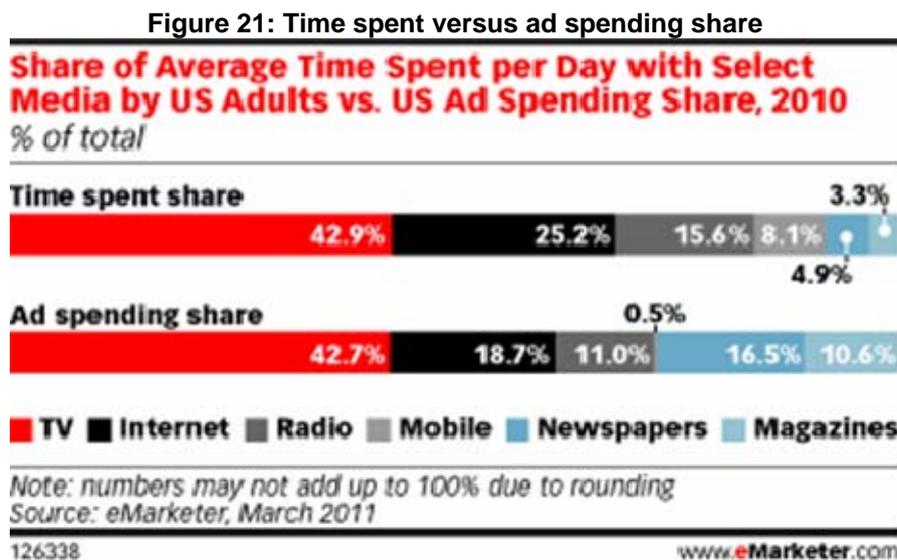
Online news providers can expand their geographical reach with little extra costs, but online they are also confronted with much more competition. Grueskin and others (2011) explain how legacy news providers are losing their grip on the platform and their role as aggregators of news to Google, Facebook and Twitter. This means that they are also becoming less interesting for advertisers. At the same time the prices for online advertisements (often expressed in CPM = costs per thousand page impressions) are much lower than those for print advertising. One reason for the relatively low prices is the vast volume of advertising space available on the internet. Online advertising typically brings in less than 20% of a newspaper's advertising revenue, and rates on all but the most prominent pages are falling (Koen, 2011). There are billions of pages on the internet, so the value of an individual page is lower than that of a printed page. Another reason is that online audiences are more fragmented, spend only short time on news sites, easily click through to other sites and generally have a short attention span.

Also reliable metrics are still lacking, which makes it more difficult to convince advertisers to spend their money online. In a study about online metrics and ad spending, Graves & Kelly (2010) found that the uncertainty about audience measurement provides a threshold for online ad spending, with media buyers and sellers adhering to incompatible metrics. Although the internet, in theory, provides news publishers with almost unlimited access to data on news consumption, there is not yet an established, specific measure to analyse website visits, while audience measurement is crucial to understanding audiences, evaluating competitors and

selling ad space (Graves & Kelly, 2010). Consequently advertising revenues for online news sites are generally low. Internet advertising can become more valuable as it becomes more targeted. This might drive up prices for those news sites, which manage to collect and employ data about users, and their (media and news) consumption patterns.

It is not only the number of website visitors that counts, but also the way in which they use the site. An in-depth analysis of the visitors of 70 news and information websites has shown for instance that there are generally speaking four types of online news consumers; fans, regulars, occasionals and fly-bys (Shanahan In: Grueskin et al., 2011). The fans, the most loyal group of visitors, visit a news or information website at least twice a week. Although they are only a small part of the audience (4%), they account for more than 55% of the total page views to a news site. In contrast, the fly-bys, people who visit a news website about once a month, count for 75% of the visitors, but for less than 20% of total page views. According to Shanahan, newspaper publishers should therefore invest in the relationship with their fans instead of trying to attract as large an audience as possible.

Figure 21 shows the share of average time spent per day to a particular medium and the ad spending share. Estimates by eMarketer show that the internet took up 25.2% of adults' daily media time in 2010, but received just 18.7% of US ad spending (see (eMarketer, 2011). Even though the estimates by eMarketer differ from WAN-IFRA (2010) and ZenithOptimedia (2009), they provide another indication that growth in internet use does not mean an equal level of growth in online advertising spending.



Source: eMarketer, 2010.

3.3.2 Paying for online and mobile news offerings

Due to the abundance of news and information available online people have so far showed little willingness to pay for online news. Early efforts to have people pay for online news articles or archive services have largely failed, with some notable exceptions for specialised and niche content. For instance the Financial Times is one of the few online newspapers which has succeeded in developing a profitable online service. Currently, visitors who register can view up to ten articles for free and are subsequently invited to pay for the newspaper's online content, if they want to read more than just the headlines.

Despite early failures, the search for feasible and viable pay models continues. At the end of 2010 and the beginning of 2011, several news publishers relaunched paywalls and

subscription plans to their websites (WAN IFRA, 2011).²⁸ At the beginning of 2011 the New York Times, for instance, introduced a digital subscription plan. Readers who visit the New York Times website are allowed to access twenty articles per calendar month for free. To gain access to more online content and to receive the New York Times mobile app, people need to pay a fee. Subscription plans start at 3.75 USD a week.²⁹ The New York Times estimated that approximately 15% of its visitors would run into their paywall. In Europe, newspapers also have launched paywalls. Examples are The Berliner Morgenpost, the Hamburger Abendblatt and Le Figaro (Foremski, 2010; Lunden, 2010) as well as Murdoch's News International UK titles The Sun, News of the World, The Times and the Sunday Times (Lloyd, 2010). Early figures on the amount of online subscribers are modestly positive for the New York Times but less so for other newspapers that have introduced paywalls. Digital subscriptions to the nytimes.com went up from zero to 224,000 customers in three months; 57,000 iPad and Kindle users joined and 750,000 print subscribers registered for online access (Preston, 2011). At the same time, and contrary to expectations, advertising revenues rose as well. Figures for the online edition of the Times in the UK are however, much less positive (Preston, 2011).

The introduction of tablet computers such as the iPad (in 2010) brought new promises for paid newspaper services. In 2011, News Corp. launched an iPad-only newspaper; *The Daily*. There are also examples of newspaper publishers offering a combination of a print subscription and a digital iPad version of the newspaper for reduced prices for use in households where more than one person wants to read the newspaper (e.g. NRC Handelsblad, a Dutch quality newspaper). Since 2010, Apple has been negotiating with publishers to enable the sale of newspaper and magazine subscriptions via the iTunes store for consumption on the iPad (Rabil, Satariano, & Burrows, 2010). In February 2011, publishers reportedly closed deals with Apple. Publishers can sell subscriptions through the iTunes store, but must grant Apple 30% of their revenues (Pompeo, 2011). When a reader buys a subscription with a credit card via the iTunes store, Apple does not need to share the personal details of the subscriber with the newspaper publisher. In this way publishers miss out on valuable user data on their readers (Grueskin, Seave, & Graves, 2011). But apparently, so far, newspaper publishers are not in a position to make better deals and benefit from the secure and reliable sales mechanisms of the iTunes store and of the attractiveness and ease-of-use of iPads, which has made newspaper reading on computers a relative success for the first time.

Another experimental model is one where online news providers offer their users subscriptions to a selection of news and other content from different news sources. Users can make their own selections and pay a fee based on the number of articles, categories or sources they have chosen (see, for instance, eLinea³⁰). Instead of buying a full newspaper or magazine, subscribers can select for instance the foreign news articles from the newspaper famous for its foreign news reporting and the book reviews from a newspaper which has high quality cultural sections. This model depends on the willingness of news publishers to cooperate with the new service providers and/or their ability to cooperate and develop such models amongst themselves. Pulse, Zite, Flipboard and others offer similar services, but the first three so far do not yet charge users.

Although it is too early for a thorough analysis of the success or failure of these paywalls and other pay models for online news, they already evoke much discussion. The strategic problems with paywalls are threefold (Reichenstein, 2011). First, paywalls do not protect all content. As there is no information shortage online, users might decide to get their

²⁸ It must be noted that the Wall Street Journal had already implemented a paywall in 1996.

²⁹ See for more detailed information:

<http://www.nytimes.com/subscriptions/Multiproduct/lp5558.html?campaignid=37XQH>

³⁰ www.elinea.nl

information elsewhere, leaving the newspaper publishers with less traffic and thus less advertising income. Secondly, paywalls might weaken the attraction of online news because content (the main attractor) is no longer fully available and because it complicates the user's experience. Thirdly, even online news behind paywalls, often comes with a certain level of advertising and marketing. This is a distraction of the content and might have a negative impact on the reading experience. Grueskin and others (2011) however argue that the small percentage of paying online news consumers are often also the most loyal and most intensive users of news. It has been calculated that they spend more time reading news on websites, generate more page views than the average users and are thus more likely to notice and even click through on advertisements. This makes their paying users more valuable for advertisers than the superficial 'freeriding' visitors of websites. The challenge seems to be to offer high quality online content that loyal visitors are willing to pay for and who are simultaneously an interesting target audience for advertisers, but to balance this with sufficient free content to also attract a wider audience and to function as a kind of a continuous marketing tool. Another potential benefit of introducing a paywall may be the effects it has on the legacy print business. It could actually contribute to a tick-up of print subscribers, as it diminishes the gap between the paid print subscription and the free news content on newspapers' websites (Blodget, 2011). Whether this would only be a short term effect or a more structural pattern, remains to be seen.

3.3.3 New entrants and alternative business models

Because online distribution eliminates physical distribution costs and can have a wider geographical reach, the internet makes it easier for alternative and niche news providers to launch services, which would be difficult to sustain in a paper format. At the same time many of the new initiatives also have to confront limitations on upholding the desired level of journalistic quality, while at the same time being able to maintain a viable business. The Germany *Netzeitung* for instance, has been an ambitious initiative, founded in 2000, which provided quality journalism on the web, but had to lower its ambitions and lay off its professional journalists to become an automated news portal in 2009. Other online publications were launched to function as a watchdog for the German tabloids press (*Bildblog* in 2004), or offer coverage of local and regional politics (*Wir-in-NRW*, *Ruhrbaronne*). But none of these German initiatives have reached the same coverage as the established media brands (Esser & Brüggemann, 2010).

Some news and investigative journalism sites have also implemented or are experimenting with alternative sources of funding, for instance through donations or sponsorship. This model is more common in the US than in Europe. The US knows a strong tradition of private funds and individual donors, who sponsor cultural and media projects. In the field of journalism foundations such as the Ford Foundation and The Knight Foundation have been active for decades, sponsoring journalism training, public media foundations and media projects and also increasingly online initiatives. Recently some of the funds which have traditionally sponsored professional journalism, have now changed their focus to supporting informed citizenship, which implies a much broader scope, and often also more emphasis on local citizen journalism or user generated content projects (Lewis, 2012).

ProPublica is an example of a website for investigative reporting, which hires professional staff and which has won a Pulitzer Prize for its publications. It receives funding of 10 million USD per year from a former bankers couple and also receives funding from George Soros.

The US based online service Spot.US (www.spot.us) is an example of an investigative journalism site, presenting ideas for stories to be sponsored by users. Users can contribute financially to stories, which they think deserve to be made, they can also earn credits to

support stories by filling (commercial) questionnaires. Spot.Us partners with other news sites and newspapers and sometimes manages to sell the stories produced through its site. There are also individual free-lance journalists who try to realize their publications with the support of 'crowd funding', for instance the Dutch journalists who follow the build up to the Olympic Winter Games in 2014 and how this affects the remote Russian Sochi village, where the games will take place (Leurdijk, 2010).³¹ At the same time the Spot.US model has only been copied as a new funding model by very few news providers (A. Ibargiuen, 2011). So far these alternative models seem to be more successful in the US than in European countries, possibly due to larger home markets and a longer tradition of private sponsorship than in Europe.

3.4 Conclusions

Internet and digitization have caused major changes across the value chain. New digital technologies support different phases in the production of news, enabling better access to worldwide online information and news sources, faster communication and easier processing and integration of text, (moving) images and sound. Users have become active participators in the value chain by sharing, commenting upon and contributing to news production in various ways. Many new online business models rely at least partly on users, who offer their contributions for free or at least for much less than professional content. Although traditional newspapers also experiment with user contributions, their professional staff remains a core asset – even though many have had to cut down their editorial staff. Consequently labour costs for professional staff remain substantial. Moreover legacy newspaper publishers have to bear the double costs of producing the print newspaper, while simultaneously investing in their online presence. Online they need to compete with new news providers, which do not have to bear the investments in printing presses, and often manage to be more efficient in their spending on offices and staff. Online-only news providers sometimes provide original content and news, but often function in the first place as news aggregators, by linking to other news sources, like Google News, or by providing apps with attractive, user friendly interfaces combining content, social networks and options to add and share content. Many online news providers also rely to a considerable extent on voluntary contributions of citizens.

Most legacy news papers so far have been unable to compensate the loss in print revenues by the growing online revenues. There are a number of reasons for this. Firstly online news mainly relies on advertising but some main advertising categories, which used to be strong in newspapers, such as job and real estate advertisements and personals, have not moved to specialized stand alone advertising sites. Secondly revenues from online advertising are much lower than for print advertising. Online advertisements are thought to have less impact, due to fragmented audiences in some cases their reach is lower, but most importantly, there is less scarcity in advertising space and thus prices are much lower. Thirdly, the willingness to pay for online news has so far been low, with a few exceptions for specialized news categories, such as financial news, and a number of high quality, international/US newspapers. Recently, hopes are set on raising advertising revenues by improving targeted advertising based on consumer and consumption data, on the introduction of paywalls on tablets and smart phones and on personalized news aggregation services, which combine news from different sources, social networks and web 2.0 tools. It is still too early though, to determine the level of success of these strategies.

A major question regarding the future of news production is how advertising and other revenues will be distributed between old and new news aggregators and to what extent these revenues will be re-invested in original news production. When advertising revenues mainly

³¹ <http://www.thesochiproject.org/home/?en>

flow to large ICT or hardware providers, this might have serious consequences for investments in for instance more expensive forms of journalism such as investigative journalism, or for local news production in less affluent communities. In the US there are some examples of sponsor / donor supported investigative, online journalism, but in Europe this model is (still?) less common. User generated content to some extent provides a solution for the severe budget cuts or even disappearance of local newspapers, but again there are concerns on the level of quality and continuity that this type of reporting can provide.

4. Current and future competitiveness of the European news industry

4.1 Introduction

In this chapter an attempt is made to assess the competitiveness of the EU newspaper publishing market. There are various definitions of competitiveness. Porter defines the competitiveness of a location (a country or a sector) as the productivity that companies located there can achieve. Others also look at the health and growth potential of a sector in terms of value added and labour productivity or at the ability to sell on international markets (Ketel, 2006).³²

Not all EU or national industries have an equal potential to grow and become more competitive. This depends, amongst other factors, on the availability and costs of natural resources, (skilled) labour, the level of consumer demand and openness to innovation.

In this chapter we will use indicators which express the relative strength of the sector in terms of turnover, circulation and employment, and indicators which express the level of cross-border trade. However one could question the relevance of latter interpretation of competitiveness for the newspaper sector. Media and content industries in Europe have historically mainly produced for local markets, because of language barriers and the specificity of cultural tastes and values. Within the media and content industries there are however important differences in the level of cross border trade. Music, film and television series, especially from the US and the UK, are strong export industries and have found international audiences, as well as some books, especially if they are translated in different languages. In contrast, most newspapers have mainly national, regional or local readers, because of language barriers and the strong connection between their content and the local, regional or national context in which they are published. Most relevant for the majority of readers are national, regional or local news, or, in case of international news, a selection and presentation which reflects a nation's cultural, political or economic perspective on international news events. Only rarely does a reader in Paris read a German newspaper nor is a reader in Berlin very likely to buy a French newspaper. Exceptions are newspapers which are sold abroad to expats, immigrants and tourists. In addition there is a small group of newspapers which could be characterized as international newspapers catering to international business people and diplomats, such as the Financial Times and the International Herald Tribune. Finally there are some national newspapers, which have an international readership, such as the Wall Street Journal and which appear - sometimes repackaged - in a number of different languages such as Le Monde Diplomatique. In general newspapers remain predominantly produced for national, regional or local markets. To the extent that this is the case, competitiveness, understood as the strength of a national newspaper publisher on foreign markets, or its strength vis-à-vis foreign competitors is a largely irrelevant concept. However, it remains possible to provide some insight into the competitiveness of the sector, when the concept is understood as the relative health and growth potential of a sector, compared to similar sectors abroad, and for those readers, mentioned above, in international or foreign newspapers indeed do compete to some extent with national newspapers.

In this context it is also important to take into account that many newspaper publishers have become part of international, multimedia companies, operating across borders and running

³² In the European Competition Reports (2010) many other indicators of economic health, vitality and growth potential are used as well.

different media outlets. Even when still producing local or localised content, these companies benefit from shared facilities such as sales departments, printing facilities or consumer research as well as from outsourcing parts of their production chain to cheap labour countries within or outside the EU (for instance, some Dutch and Flemish newspapers are printed in Poland). For these multinational companies the notion of a European single market might be relevant.

The effects of digitization and the internet on the size, growth, structure and international competitiveness of the EU news publishing industries are still uncertain. On the one hand there is a decline in print news readership and a move to online news consumption, which – even though newspaper publishers do also publish online versions of their newspapers – are often detrimental for the news publishers' revenues. On the other hand the internet has also lowered entry barriers for newcomers and made cross-border distribution and consumption of news easier. This has led for instance to new players like Google and Yahoo entering the market, which have taken over part of the aggregation functions that newspaper publishers used to provide. As the major online news aggregators are US based, this could strengthen the grip of US companies on the European news market. At the same time, lower costs for news production and distribution might have also strengthened some EU newspaper publishing companies, especially those with 'cross-border' potential. However, there are currently few publicly available statistics which show the countries where newspaper sites visitors come from, and thus no solid evidence for online crossborder potential of European online news services run by newspaper publishers.

All in all the effects of digitization and the internet on the cross-border trade within the EU27 and from the EU27 to other countries outside the EU27, the extent to which this could enlarge the single market and whether or not it improves the competitiveness of the EU news publishing sector vis-à-vis the US or Asia are still largely unknown. Due to a lack of consistent and comparable data they are also difficult to determine. This report attempts to make a start with analysing some of these developments, based on the very scarce available evidence.

In this chapter we first provide an indication of the relative health of the European newspaper publishing sector (paragraph 0), by comparing turn-over (paragraph 0), circulation (paragraph 0) and employment (paragraph 0) figures with those for the US, China, India and Japan. We also provide some figures on the online performance of newspaper publishers in these countries (paragraph 0). In paragraph 0 we will try to find some evidence for the extent to which newspaper publishers are operating in a single European market or whether they are mainly catering for national markets. We will do this firstly by looking at the level of intra-EU imports and exports, based on Eurostat data. These data indicate the exports and imports of EU Member States to and from other EU Member States.

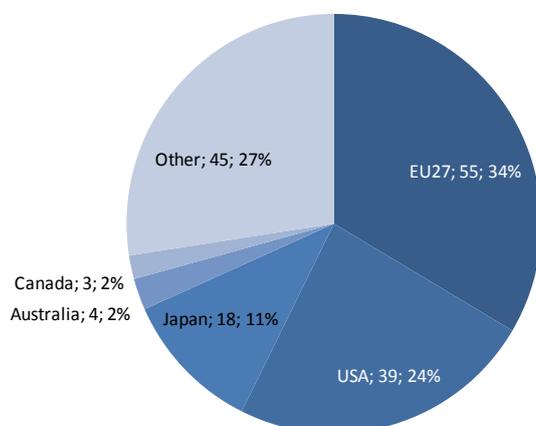
Often the extent to which the EU27 can function as a single market is seen as a precondition to increasing the competitiveness of the EU vis-à-vis the US and Asian markets. By lowering obstacles for cross-border trade EU companies can benefit from economies of scale and thereby grow faster and become more competitive vis-à-vis the US and upcoming Asian markets. Secondly we will look at the external competitiveness of the EU27, where the EU27 is compared to its major competitors, the US and Japan, China and India. Due to the lack of comparable, longitudinal data, we can only provide some indications. Section 0 presents the conclusions of this chapter.

4.2 Economic health; turnover, circulation and employment

4.2.1 Turnover

The global newspaper publishing market in 2009 was estimated at USD 164 billion (PwC, 2009). The United States (approx. USD 39 billion) and Japan (approx. USD 18 billion) are the largest newspaper publishing markets, followed by Germany (approx. USD 13 billion) and the United Kingdom (approx. USD 11 billion) (OECD, 2010). Based on PwC figures, the OECD estimates that, taken together, the EU27 has the largest turnover in the newspaper publishing industry, approximately USD 60 billion in 2006 (OECD, 2010). Given the fact that between 2006 and 2009, revenues in the newspaper industry generally have declined by an estimate of 14%, EU27 turnover in 2009 might be around USD 55 billion, approximately one third of the total global revenues (see Figure 22). In Figure 22, both absolute amounts (in billion USD) as percentages are shown.

Figure 22: Newspaper publishing market in 2009, in billion USD and percentages



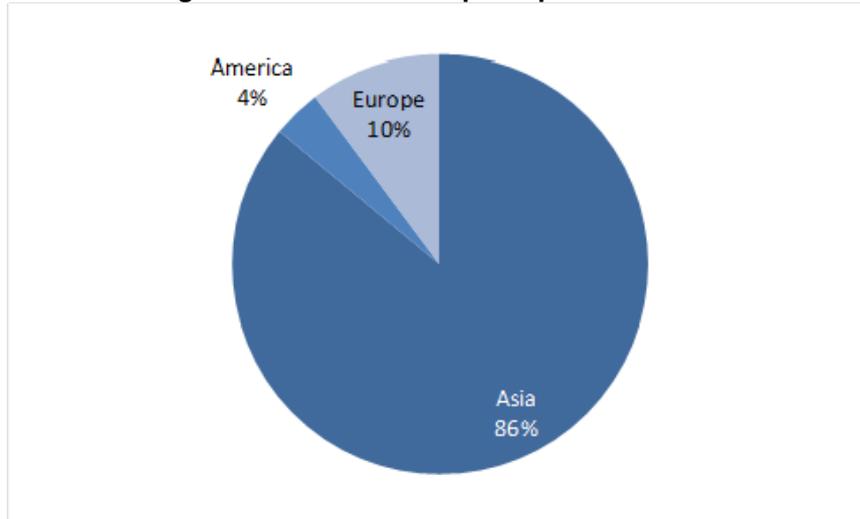
Source: TNO based on figures from EOCED, 2010 and PwC, 2009.

So, while the newspaper publishing industry in the EY27 is declining, the EU as a whole still has the largest newspaper publishing industry, measured in turn-over, worldwide.

4.2.2 Circulation

In terms of circulation a somewhat different picture emerges. The Japanese newspaper *Yomiuri Shimbun* is the world's largest paper – daily more than 10 million copies are printed. Europe is fairly underrepresented in the top-100 of largest newspapers (paid-for dailies). Of the top-100, 86% of the newspapers (measured in circulation) find their origin in Asia (predominantly in China - 25%, India – 22% and Japan - 17%), 10% in Europe and 4% in the United States (see Figure 23). In the top 10 of the world's largest newspapers, two European newspapers are represented; the German newspaper *Bild* (3.3 million copies) and the English newspaper *The Sun* (2.9 million copies). US newspapers only have four newspapers in the top 100 ranking (*The Wall Street Journal* - 2.0 million copies, *USA Today* - 1.9 million copies, *The New York Times* - 0.9 million copies and *The Los Angeles Times* - 0.7 million copies) (WAN IFRA, 2010).

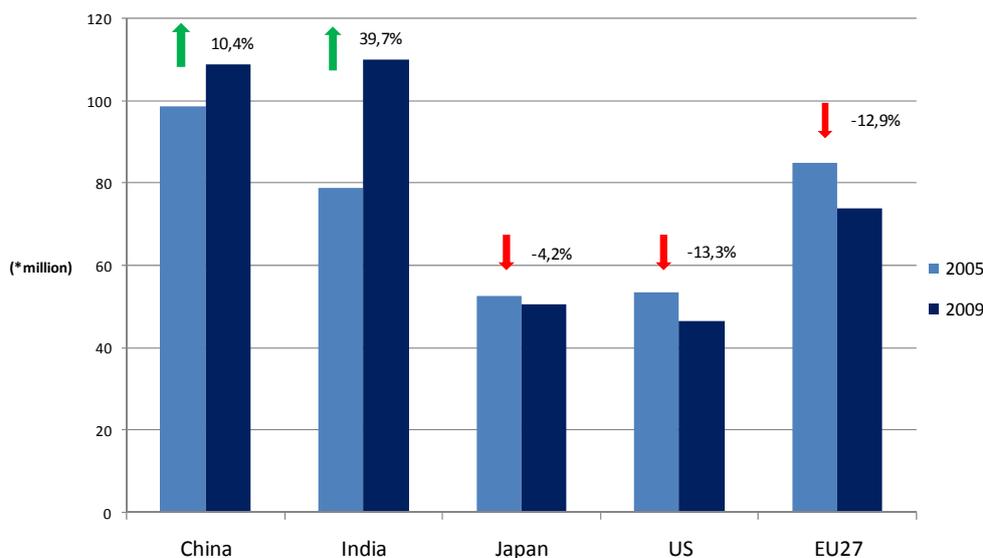
Figure 23: Circulation top 100 paid-for dailies



Source: TNO, based on WAN-IFRA data, 2010.

In Japan and the USA, every day approximately 53 million newspaper copies are printed. Similar to most European countries, between 2005 and 2009, circulation dropped in these countries. In many OECD countries the number of physical newspaper titles, circulation and readership numbers are falling. The OECD states that the impact of the economic crisis on the newspaper publishing sector is more severe in English speaking OECD countries such as the United States and the UK than in Asian countries. The publishing industry in countries like India and China is less influenced by the economic crisis. Due to their large population, increasing literacy and economic growth in recent years, more newspapers are printed in these countries than ever before (OECD, 2010). In India and China, the thriving newspaper markets can also be attributed to low internet penetration and state support mechanisms (Moro & Aikat, 2010). The observation that Asian countries do relatively well with respect to newspaper publishing is supported by data on worldwide circulation. The circulation of paid-for dailies in Europe and North America was down 8 and 10% respectively in 2009 compared to 2005. In Asia, circulation was up more than 13% (WAN IFRA, 2010).

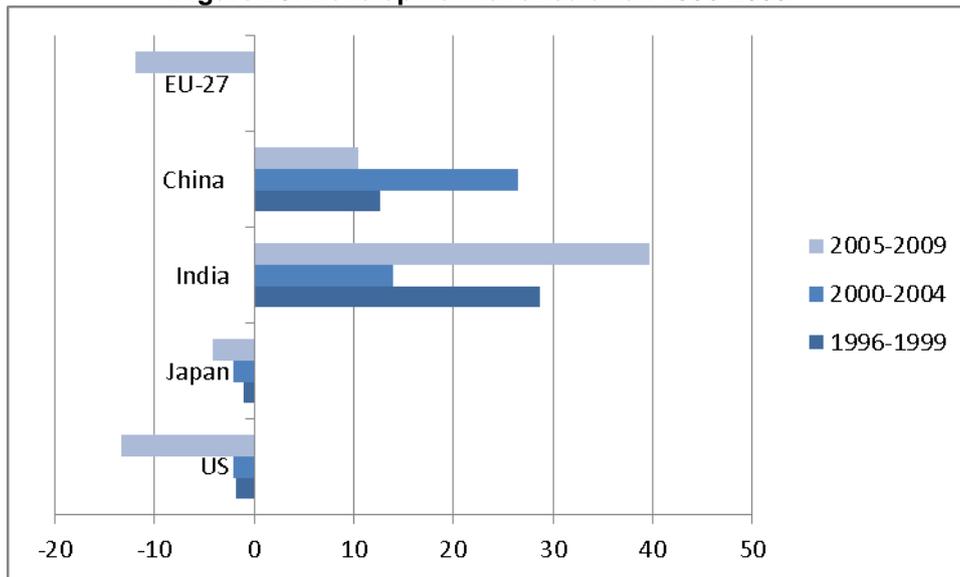
Figure 24: Total average circulation paid-for=dailies (in millions) 2005-2009 China, India, Japan, the US and EU27



Source: TNO based on WAN-IFRA data, 2010.

The difference in circulation between the European countries and China, India, Japan and the US is put into long(er)-term perspective in Figure 25. For the EU27 as a whole there are only figures for 2005-2009. In the EU circulation dropped with almost 13% between 2005 and 2009. The United States and Japan also show negative circulation growth. Especially in the United States, the decline has increased between 2005 and 2009. In contrast India and China are large growing markets. In India, between 2005 and 2009, circulation grew by approximately 40%, but their gains may be temporary once internet penetration and computer use will start to grow in these countries (Pew research center's project for excellence in journalism, 2011).

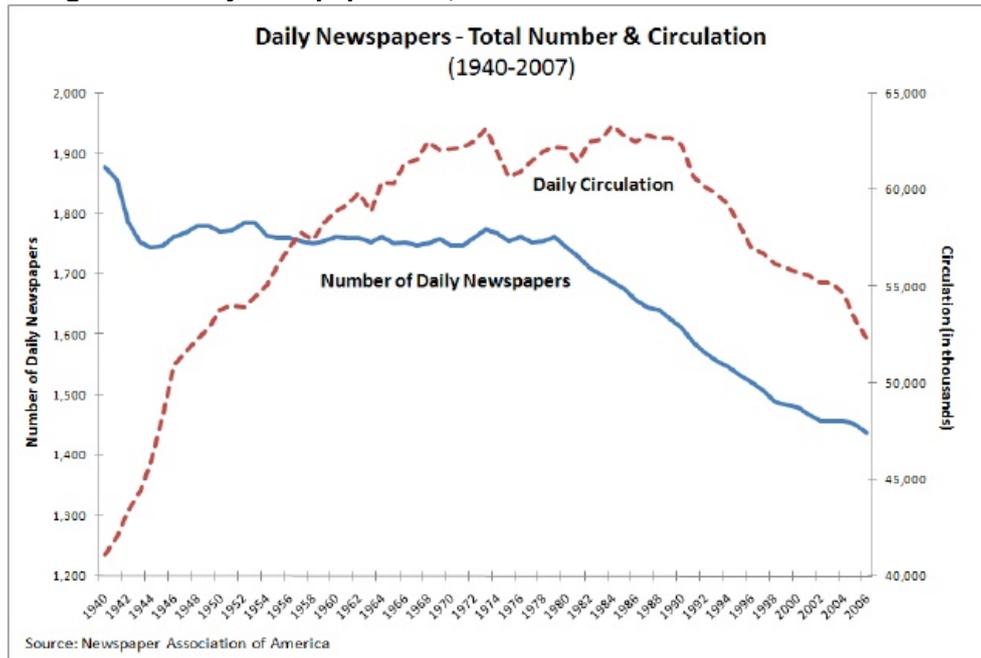
Figure 25: Development of circulation 1996-2009³³



A perspective on developments in the US over an even longer period is given in **Error! Reference source not found.**Figure 26 which shows how daily circulation of print newspapers has been declining since the 1980s in the US, when increasingly, users started using a more diverse palette of media sources for their daily news consumption (Thierer & Eskelsen, 2008). The number of daily newspapers printed, started to decline already a decade earlier.

³³ Data sources are (WAN, 2010), <http://www.wan-press.org/article7321.html> and <http://www.wan-press.org/ce/previous/2001/congress.forum/wpt/circulation.html>

Figure 26: Daily newspapers US, total number and circulation 1940-2007



Source: Newspaper Association of America, in: Thierer & Eskelsen, 2008.

In an article in the New York Times in 2009, Pfanner compared the European situation on the newspaper market to the American situation (Pfanner, 2009). Because European newspapers are less dependent on advertising income than their American counterparts, the economic downturn seems to have a more moderate effect on their income. Also, readership is declining, but at a slower pace than in the United States. Although the author acknowledges that a large number of European newspapers are struggling to survive, he also points to a number of successful newspaper publishers. Axel Springer, a large German publisher, is doing fairly well, and so does Norwegian publisher Shibsted, which is generating approximately 25% of its income out of online activities. In the US several newspaper publishers went bankrupt or carried heavy debt burdens. This happened, despite the fact that they were still making money, but they were no longer able to make their bank payments. This has not happened to the same extent in European countries (Pew research center's project for excellence in journalism, 2011), where many newspaper publishers are still profitable, though far less than in previous decades and often with a reduced workforce and news output, if not in quantity than in the number of municipalities, regions, countries or issues covered or in the depth and quality of the reporting.

4.2.3 Employment

A final indicator for economic health and growth potential are employment levels. Table 13 shows the number of employees in China, India, Japan, US and EU27.

The figures show declining employment in the EU27, the US and Japan, a development which corresponds with the decline in circulation in these respective markets. For China and India, WAN data are incomplete and show such large and unexplained differences between subsequent years, that we are uncertain about their reliability and decided not to include them here.

Table 13: Number of employees in news publishing industry in China, India, Japan and the USA

	2005	2006	2007	2008	2009	% change 2005/2009
China	--	--	--	--	--	
India	--	--	--	--	--	
Japan¹	49.523	49.668	48.069	48.331	47.599	-4%
USA²	54.100	53.600	55.000	52.600	46.700	-14%
EU27³	304.300	310.000	302.300	na	na	

¹ WAN-IFRA (2010) Source NSK: the figures include employees working for news agencies.

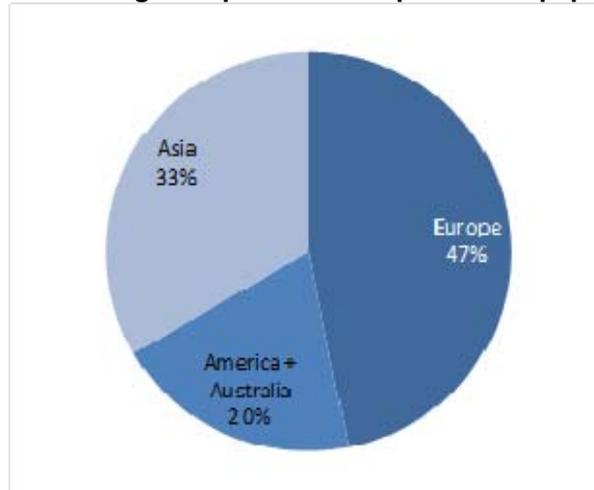
² WAN-IFRA (2010) Source: 2005-2008 American Society of Newspaper Editors; 2009 American Society of Newspaper Editors; US Bureau of Labour Statistics. Included are journalists and newsroom staff. For 2009 a Total number of employees in the Newspaper publishing industry is provided: 295.010.

³ Based on Eurostat data, total number of employees, not only journalists and newsroom staff.

4.3 Online news

As we have seen in Chapters 2 and 3, a considerable part of print newspaper readers has shifted to online news sources. To assess the vitality of the EU newspaper publishing market it is therefore also of interest to compare how newspapers in the EU are performing online in comparison with newspapers in the US and the main Asian newspaper markets. The report of the worldwide industry organisation WAN-IFRA provides figures on the number of unique visitors per month of the top 100 newspapers websites. Whereas of the top-100 print newspapers (measured in circulation), only 10% find their origin in Europe, the top-100 of daily newspaper websites (measured in unique visitors per month) shows a rather different picture. In the top-10 of this list, Europe is represented by seven newspapers, five from the UK and two from Spain. In total, 40 websites of European newspapers are in the top-100 list. If we add-up the number of unique visitors of these news sites per continent, 47% of the total amount of visitors can be attributed to websites of European newspapers, 33% to Asian newspapers and 20% to American or Australian newspapers (see Figure 27). The differences in ranking of European, Asian and US newspapers between the off- and online readership can probably be explained by the fact that more Europeans than Asians have access to the internet, and consequently are more likely to read online newspapers than people in Asia. The fact that some of the European newspaper can, through their online presence, also gain new audiences across borders, might also contribute to their success. However more data on the composition and origin of news website visitors would be needed to be able to provide a better interpretation of the figures.

Figure 27: Percentage unique visitors top 100 newspaper websites



Source: TNO based on WAN-IFRA data, 2010.

The figures seem to indicate that on the internet European newspapers have a better market position, at least in terms of readers, than Asian and US newspapers. The problem for online news of course is that a good position in terms of readership, does not automatically equal good (or even any) revenues. A shortcoming of these data is also that pure internet players are not included, and therefore the figures do not provide a complete picture of online news consumption in the respective countries.

4.4 EU27 internal and external trade in newspapers

Trade figures within the EU are an indicator for the presence of a single market, trade figures from the EU to non-EU countries are an indicator of the relative strength of the EU – or individual countries within the EU – compared to non-EU countries.

Table 14 shows an overall negative trade balance (trade deficit) for the publishing of newspapers in 2007 of 237 million Euros. The trade deficit grew by an average of 10.6% annually. The trade balance for the economy as a whole improved, the trade deficit decreased by 2.7% annually.

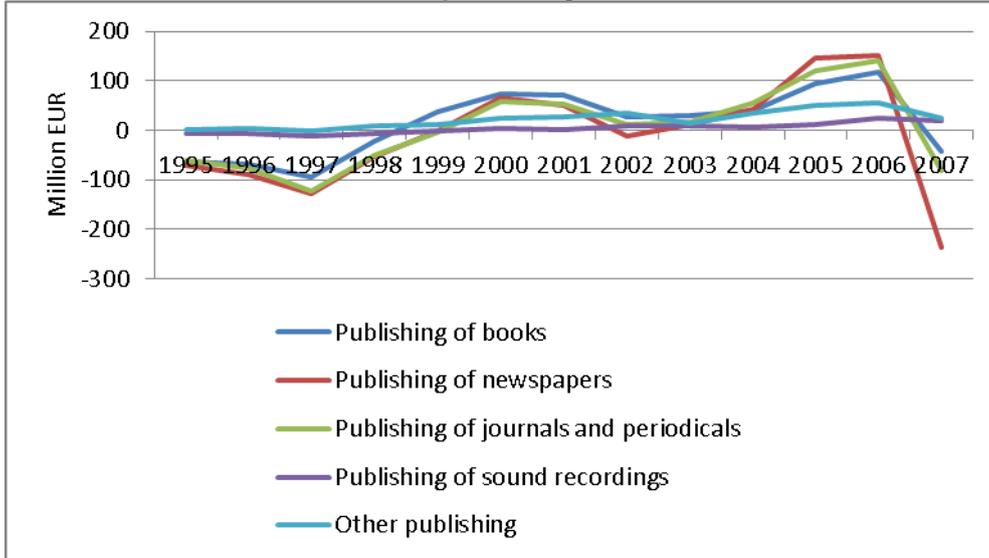
Table 14: Trade balance and annual average growth rate for the EU27 MCI industry

	Trade balance 2007	Annual average growth rate, 1995-2007
	million EUR	%
Publishing of newspapers	-237	10.6
Total EU economy	-71,324	-2.7

Source: Eurostat.

Figure 28 shows how the trade balance for newspaper publishing grew from a negative figure in 1995 to a positive figure in 1999. It dropped sharply in 2002 and rose again in 2003 to a peak in 2006, after which it dropped even sharper.

Figure 28: Trade balance in the EU27 publishing sub-sectors between 1995 and 2007



The figures in Table 14 and Figure 28 show the overall trade balance, but they give no indication on the trade within the EU27. They also do not show the extent to which there is a single market for newspaper publishing. An indication of the existence of a single market is provided in Table 15, which shows figures for the value of trade within the EU27 with countries from within the EU27 and from the EU27 to countries outside the EU27 in 2006. In this table trade figures for newspapers, journals and periodicals are combined. Table 15 shows that France was the main importer of newspapers, journals and periodicals in EU 27 in 2006 (€24,8 mln), followed by Germany (€324.4 mln) and Belgium (€288.6 mln). All countries imported mainly from within the EU27. Only a few countries import newspapers, journals and periodicals from outside the EU. Germany was the main exporter of newspapers, journals and periodicals (€52.6 mln), followed by UK (€25.9 mln) and France (€403.9). Most countries exported mainly – i.e. for more than 50% - within the EU27 in 2006, except for Malta (100% extra-EU), Slovenia (84%), Lithuania (83%), Estonia (66%), Sweden (66%), Finland (58%) and Portugal (57%).

Table 15: External trade in newspapers, journals and periodicals for each EU country, 2006 (EUR 1000s). Trade can include press printed outside the country of origin

	Import			Export		
	Total 1000EUs	Intra-EU (%)	Extra-EU (%)	Total 1000EUs	Intra-EU (%)	Extra-EU (%)
BE	288,553	97	3	170,786	99	1
BG	4,938	96	4	1,791	70	30
CZ	96,797	100	0	112,627	81	19
DK	44,110	54	46	63,219	71	29
DE	324,398	88	12	852,628	74	26
EE	2,179	64	36	14,956	34	66
IE	137,699	100	0	25,681	97	3
EL	17,638	83	17	10,599	96	4
ES	159,572	98	2	139,480	67	33
FR	424,794	91	9	403,967	73	27
IT	183,161	97	3	185,712	75	25
CY	30,522	100	0	4,237	100	0
LV	10,859	69	31	2,394	70	30
LT	1,722	52	48	19,398	17	83
LU	29,539	100	0	10,906	100	0
HU	32,550	97	3	6,934	83	17
MT	6,870	97	3	180	0	100
NL	91,564	79	21	125,562	87	13
AT	179,487	96	4	48,551	90	10
PL	24,529	91	9	165,497	70	30
PT	93,417	91	9	3,702	43	57
RO	11,356	93	78	519	70	30
SI	22,421	72	28	18,913	16	84
SK	20,167	98	2	49,128	64	36
FI	56,693	95	5	123,656	42	58
SE	87,420	91	9	26,069	34	66
UK	250,666	73	27	625,902	68	32

Source: Eurostat.

The Japan External Trade Organization (JETRO) provides data about the import and export of Japanese newspapers and magazines in 2005. As can be seen in Table 16, the export is quite stable over the years. The import of newspapers and magazines however is less stable, but varies between 14.6 billion Yen (2004) and 19.1 billion Yen (2001). The figures provide no information on the countries to and from which newspapers and magazines are imported or exported.

Table 16: Import and export of newspapers and magazines in Japan (in billion Yen), 2005

	Import	Export
2000	16,5	4,4
2001	19,1	4,3
2002	15,9	4,3
2003	16,8	4,3
2004	14,6	4,5
2005	15,4	4,6

Source: JETRO, 2006.

In order to determine whether trade within the EU27 has increased or decreased in recent figures over longer periods of time are required. In order to determine the relative strength compared to the US and Asia the general trade balance figures would have to be specified for the trade to and from the US and Asia and compared to trade figures of the US and Asia.

Also figures on which shares of circulation and revenues come from national newspapers and which from foreign newspapers are lacking, which makes it difficult to provide a quantitative assessment of the market position of European newspapers vis-à-vis foreign newspapers.

Compared to other creative industries (like music, TV and film), the newspaper publishing industry is less affected by the process of globalization; the readers and buyers market has remained mainly national, regional or local. Crossborder trade in newspapers has always been relatively marginal (Wunsch-Vincent, 2010) (Kurad & Friedrichsen, 2006), also due to high cost of transportation, cultural and language barriers, the need for a close relationship with the customer, the need for short runs and frequent updates, and short delivery times (European Commission, 2005a). Despite convergence and the internationalisation of media and content industries, newspaper consumption remains geographically limited, even though satellite TV and the internet have made news consumption more international for a select audience of for instance international business people and academics.

Notwithstanding the geographical boundaries on newspaper publishing, many publishers have become part of major media conglomerates, which are active in different, often bordering, countries and in different media sectors, like television, radio or online. It would be interesting to assess in more detail how these multinational companies benefit from the European Single Market, for instance by being able to sell their products in different countries or outsource certain parts of the production process to other countries, and in which respects they experience obstacles, such as for instance copyright and tax issues discussed in paragraphs 0 and 0).

4.5 Conclusion

Looking at turnover, employment and circulation trends the newspaper publishing sector in the EU27 is doing worse than in the major Asian markets, China and India, but it is still in a better condition than the newspaper publishing sector in the US. The main explanation for this is that newspapers in Europe generally rely less on advertising and more on sales and subscriptions than US newspapers. Also the ownership structures are different; US newspaper publisher are more often traded on the stock markets, while European newspaper publishers are (still) more family owned businesses and not traded on stock markets. In Asia newspapers are still growing, due to increasing literacy and wealth levels. Online European newspapers are doing better than both Asian and US newspapers, when looking at the amount of visitors.

Online only news providers are not included in these figures and more figures over a longer time period would be required to provide a clear picture.

The second indicator for competitiveness in the newspaper publishing business, discussed in this chapter is the level of intra and extra European trade in newspapers. Although most newspapers mainly cater for local, regional or national markets, there is some trade across borders, with most European countries mainly exporting to and importing from other European countries. This shows that there is a certain level of intra European trade, also indicating potential for increased use or even payment for online access to news(paper) sites from other countries. However, this is likely to be the case for only a few newspaper titles which cater for expats, emigrants, business people, tourists and other travellers.

5. Policy and regulatory developments

5.1 Introduction

In this chapter we will provide a brief overview of the main policy issues affecting the economic position of newspaper publishers in Europe. Most of these policies are formulated on the level of Member States, but increasingly also EU policies have an impact.

Policies concerning news publishing markets vary considerably among EU Member States. As providers of information, and platforms for opinion and debate newspapers have been considered to play a crucial role in the functioning of democracy. A pluralistic, diverse and high quality news provision is seen as a prerequisite for well functioning democracies. Unlike broadcasting, which in many EU countries has started as a public service undertaking and who are mostly publicly funded, newspaper publishing has mainly been left to the market. The concern for quality and diversity however, has in some countries been a reason for a certain level of government support in the form of subsidies (e.g. Sweden, France) or for regulation which sets ceilings on market shares or restrictions on crossmedia ownership.

A second important reason for policy interventions in the market has been to protect national newspaper markets: enterprise policies and media policies have helped national media companies in their efforts to stay competitive (European Commission, 2005a, p. 24). At the same time government intervention in newspaper markets has always been controversial out of concern for undue interference with the freedom of the press and the freedom of speech.

In addition to national policies, the publishing sector is subject to European Commission policies. The Task Force for Co-ordination of Media Affairs within DG Information Society and Media covers the publishing industry as well as media pluralism and audiovisual policy, and the promotion of growth and diversity within media sectors. Other DGs affect the media and content industries through general economic policies, such as DG Competition (enforcing policies on anti-trust, merger, cartels, liberalization, state-aid etc.) and DG Internal Market (free movement of people, goods, services and capital). More recently, the 'digital challenges' for the media and content industries have come to the forefront of the EU policy-making agenda, for instance in the i2010 agenda and its follow-up, the Digital Agenda (European Commission, 2010). An important and recent policy theme, which also returns in the Digital Agenda, is the concept of the Digital Single Market (DSM), building on the existing efforts in creating a unified economic space in Europe (the Single Market), but extending it to the EU's plan to create a competitive *digital* market by 2020 (European Commission, 2010). At the same time media policies have to a large extent been considered to belong to Member States' competences, as is reflected in the diversity of policies in this field. Moreover, fragmentation in Europe due to differences in languages and culture across Member States sets limits to the creation of a Digital Single Market for news publishing in Europe. As mentioned earlier in this report, most newspaper publishers mainly cater for national, regional or local markets.

There are however also some newspaper publishers and online news providers catering for readers across borders. Single market issues which are particularly relevant in this context are copyright issues. If the European news publishing market is to benefit from economies of scale and if it wants to be open to new media players and online only news providers, more efficient ways of clearing copyrights and ways of protecting the copyrights of content owners in the digital domain, are asked for.

In this chapter we will not provide a full overview of policies and policy changes in individual EU Member States nor will we cover all relevant EU policies. Freedom of speech issues or issues regarding editorial codes of conduct and other forms of self regulation, which are very

relevant for the democratic functioning of newspapers will largely be left out of the discussion. We will rather focus on a brief overview of those policies directly affecting the economic position of newspapers and the policy challenges and changes caused by and/or affecting the (partial) shift from print to online news provision and the resulting converging news markets. A distinction is made between two types of policy measures: legislation and regulation (0) and financial measures (paragraph 0). In paragraph 0 the main conclusions are summarized.

5.2 Legislation and regulation

Two of the main policy areas which are relevant for the economic development of newspaper markets are crossmedia ownership regulation, and regulation concerning copyright and advertising.

5.2.1 Media (cross)ownership regulation

Just like all markets newspaper publishing markets are subject to general competition law. In recent years several media companies that publish newspapers have been confronted with investigations by the EC DG Competition. Interventions concerned potentially unpermitted state aid for a newspaper publisher in difficulty (Greece, 2010), a too large scheme for promoting media pluralism and diversity of opinions (Finland, 2008 and Sweden, 2010) and too high level of media concentration resulting from the acquisition of another media firm (News Corp/BSkyB, 2010).

Ownership limitations can be effectuated by general competition law, but can also be the result of stricter legislation developed specifically for media or newspaper publishing markets. General competition law implies limitations on maximum market share following mergers or acquisitions, and (ex post) measures against abuse of dominant positions (antitrust). In order to secure pluralism and diversity in media outlets, some Member States have imposed stricter (ex ante) regulation and try to prevent dominant market positions and concentration of so called 'opinion power' in one person or company. Policy instruments to achieve this are restrictions on media or cross media ownership (ICRI a.o., 2009). Specific (ex ante) legislation or regulation for the newspaper market can take on different forms:

- Limitations to the market share a particular newspaper publisher can have in the newspaper market or to the maximum number of daily or weekly newspapers one person, company or group can own.
- Limitations to cross media ownership by prohibiting ownership of different media simultaneously when a company has reached a certain market share threshold in one market (for instance a prohibition for newspaper owners to also possess a TV channel in the same geographical market, when they have a market share of 35% or more).

In a recent study, the Dutch Media Authority (2011) has looked at eight EU Member States and the way in which they apply media ownership legislation. Of these eight Member States, Belgium, Spain, Sweden and the Netherlands do not have (or only have rather limited) specific legislation to limit media ownership. Germany, France, Italy and the UK have cross-ownership regulations for several media markets, such as the television and newspaper market. These rules address the combination of ownership of television broadcasting organisations (or shares in a broadcasting license holder) and daily newspapers. France and Italy defined a specific maximum share for market shares resulting from a merger or acquisition within a single media market. In the Netherlands convergence and the difficult economic position of newspaper publishers have been reasons to abolish in 2011 earlier cross media ownership rules.

Newspaper associations have called for a relaxation of existing rules in competition policy, allowing for fewer restrictions in mergers and acquisitions or allowing for cross-media ownership. In attempts to respond to increasing competition from TV and online media newspaper publishers seek flexibility to produce innovative content and come up with cost-saving arrangements which might conflict with competition rules, but which could be a condition for the survival of a sound newspaper publishing business.

In recent years some large mergers and take-overs have been approved by competition authorities and media-authorities on the grounds that single titles are only able to survive by becoming part of a larger publisher and thereby gaining efficiency. Sometimes approval was granted on the condition that separate editorial boards and newsrooms were to be maintained. In some countries - such as the Netherlands – cross media ownership rules were lifted because of the difficult economic position of many newspapers due to decreasing readership and increased competition.³⁴ By lifting cross media ownership restrictions newspaper publishers would have more possibilities to evolve into multimedia organizations, which can benefit from shared resources and economies of scale and consequently might have better chances of economic survival. Member States like Italy and Germany are developing platform-independent approaches for an integrated media regulatory framework, which also considers advertising and all kind of online activities (Dutch Media Authority, 2011).

In addition, media-ownership is becoming more and more an international and even multi-continental phenomenon. As a result, national media regulations face more difficulties in monitoring and regulating these companies and general economic or more specific competition rules are more difficult to enforce.

Converging media markets may require a framework for considering media concentration, which takes into account the changing market structure and level of international competition for EU based media companies. A recent study for the European Commission (ICRI a.o., 2009) has developed a number of indicators for risks for media pluriformity which also attempts to take into account the developments resulting from digitization. However, so far this framework has not yet been adopted or implemented by European media authorities.

5.2.2 Copyrights

Digitization and the internet have made it easier to copy and distribute content. For a number of media products (music, video) this has given rise to p-2-p networks or platforms such as YouTube where content, among which copyrighted content, is distributed and shared for free among users. Especially in the music industry this has led to substantial losses in the sale of their physical product (music CDs). Albeit not to the same extent as in the music industry, piracy is also a concern for news providers (European Commission, 2005a).

A copyright issue with a larger impact for newspaper publishers is the practice of deep linking to articles and content by news aggregators such as Google News. News aggregators often link users directly to the relevant news content, thereby potentially enabling users to skip the front page branding and advertising of the original news source. This practice undermines the current business models for newspaper publishers' online activities, for which branding and front page advertising are of major importance. Several publishers and press agencies, for instance Danish, Belgian and German newspaper publishers and French press agencies - have tried to stop (deep) linking to articles and pictures without consent or compensation (OECD, 2010). In Belgium and Denmark news publishers have tried to stop Google from aggregating

³⁴ In January 2011, the Dutch government decided to abolish a specific law for media cross ownership, because it interfered with the development of publishers into multimedia concerns. Overseeing market concentration has since then been left to Dutch Competition Authority (NMa). (Dutch Media Authority, 2011).

news from their websites. In Belgium, trade organisation Copiepresse (representing the rights of French and German language newspapers in Belgium) won a lawsuit and Google was no longer allowed to include links to articles from these newspapers in its Google News service.³⁵ In Denmark, publishers wrote a letter to Google saying Google could not expand Google News to Denmark without permission (and until now, Google News is not available in Denmark). The Belgian and Danish Courts convicted news aggregators for deep linking to newspapers without paying royalties. In July 2011 newspapers who are members of Copiepresse have again been included by Google in the Google News index after confirmation that they would refrain from claims.

The disagreements between Google and newspaper publishers have so far not been solved and newspaper trade organisations have continued their lobbying efforts. For newspaper publishers taking steps against Google, for instance by having the links to their content removed from Google News, is a not always the best solution, as they also benefit largely from the traffic which Google News generates to their websites.

5.2.3 Advertising restrictions

The strong dependency on advertising makes the publishing sector very sensitive to advertising restrictions. Advertising bans for cigarettes, alcohol, sweets and cars have reduced the potential for newspaper advertising (European Commission, 2005a).

Another issue is the newspapers' heavy reliance on solicitation to win new subscribers (e.g. trial subscriptions), online and off line. Any legal change in, for instance, privacy legislation, which affects these direct marketing practices, also affects the potential for newspapers to gain new subscribers.

5.3 Financial measures

Financial measures to support newspaper publishing can be divided in two types: direct financial support for individual newspapers, or indirect financial support for the newspaper market as a whole, for instance in the form of tax benefits. In their study about news in the internet age (2010), OECD distinguishes several direct and indirect incentives: subsidies to facilitate the production, printing and/or distribution of news (including funds to support a national news agency), reduced postal or rail tariffs, reduced value-added tax or other tax measures, funds to promote news diversity or papers with weak advertisement revenues and funds to promote modernization of newspapers and multimedia.

EU Member States in the Nordic and Mediterranean region more actively support newspapers, in the form of direct or indirect subsidies. Italy, France and Sweden are the most notable cases. The Netherlands has a Press Fund that supports media diversity by supporting individual titles at risk and by subsidizing innovative internet news projects and ethnic minority newspapers. It recently received an extra 8 million Euro for a period of two years (2010-2011) to support innovation in the news(paper) publishing sector and to employ young journalists.

Some Member States subsidise a press agency (France and Portugal). The French government recently also introduced a programme which offers students a free newspaper subscription. Czech Republic, Germany, Greece, Hungary, Iceland, Spain and the UK have no apparent direct subsidies for the press, although some offer newspaper publishers loans at low rates and favourable depreciation rules.

³⁵ <http://www.copiepresse.be/>

Because of freedom of speech, indirect and generic government subsidies are less controversial than direct support for individual newspapers. This is why a majority of the Member States give preferential tax treatment to newspapers, instead of direct support. Another way of indirect support is by committing a large proportion of the government advertising budgets to advertising in the printed press, like in Belgium (OECD, 2010).

The recent economic crisis in the news publishers market made some countries (in particular Denmark and Italy) to maintain their subsidies to newspaper publishers instead of abolishing the subsidies, as was intended (OECD, 2010). Another factor that enters this debate is the funding of public broadcasters: especially government subsidies for online public service broadcasters' content is seen by some newspaper publishers and other commercial media organisations to compete directly with online content of commercial news providers, and is therefore considered to distort the newspaper market (ENPA). This debate is most pronounced in the UK, Germany and also the European Commission has started the discussion by reviewing state aid to broadcasters at the EU level.

5.4 Conclusion

Contrary to Public Service Broadcasting newspaper publishing is generally seen as a private, market driven sector. Nevertheless quite some Member States have special mechanisms to support newspaper reading, or diversity and innovation in the newspaper publishing sector. Some also have specific legal limitations on concentration and crossmedia ownership for newspaper publishers. In the context of increased competition between news providers, some of these limitations have been lifted in recent years, or have been reconsidered to make them more 'technology neutral'.

Although media policies are generally considered to fall within the competence of Member States', there are also some issues, in which the European Commission plays a role. This concerns in particular the harmonization of copyright laws and the development of easier and more effective ways to implement fair copyright regimes and to negotiate copyright licence deals between stakeholders.

Other issues with relevance across Europe, are the development of effective policies to maintain and improve the quality and diversity of news output and critical monitoring of the role of large, online (US) news aggregators in aggregating news from other news sources and in framing access to news for consumers.

Many of these issues will have to be considered in the context of a news market in which not only newspaper publishers, but also broadcasters and internet only news providers operate. Even though complete convergence of the different media is not likely to happen, all different news providers are increasingly involved in interwoven en overlapping news producing activities and it makes sense to monitor and judge the quantity, quality, diversity, accessibility and economic growth potential of news, by taking into account all relevant news platforms, and not only those produced by legacy newspaper publishers.

6. Conclusions

In this final chapter we will summarize the main findings of this study and draw some conclusion with regard to the strengths, weaknesses, opportunities and threats for the European newspaper publishing sector.

6.1 Strength and weaknesses of current European market

The traditional print newspaper publishing sector in the EU is confronted with serious problems, as illustrated by declining employment, value added and circulation figures. These problems can not be explained by the economic crisis which troubles European countries alone. Some of the problems are the result of more structural developments such as the decline in readership, especially among younger generations, and the shift from print news consumption to online news consumption.

The European print newspaper publishing sector is still a substantial sector, both in size as well as in social and political impact, especially when compared to the US. Nevertheless, in most European countries the newspaper publishing industry witnesses a decline in readership, circulation and revenues. However, there are major differences within the EU between Member States in the level of decline. The UK and Germany on the one hand, witnessed a decline in circulation between 2005 and 2009 of 15.9 and 8.3% respectively, France and Spain on the other hand saw a much more moderate decline. In Austria and some Eastern European countries circulation figures still show some (marginal) growth.

The newspaper publishing market is characterized by a small number of very large newspaper publishers and a large number of small and medium sized publishers. Many of the large companies have over the years grown into international multimedia companies with magazines, radio and television channels and online services as part of their portfolios. This means that they no longer only rely on print publishing and therefore have good chances to compensate losses in this business with gains in other segments of the MCI. The Sanoma case study for instance shows how this company has bought several successful online news services as well as market places and sites with classified advertising and was thus able to compensate its annual profits for the loss of advertising revenues in its newspapers (see Appendix B). However, while the company as a whole benefitted from these acquisitions, the news publishing division within the company has shrunk.

In a report published by the FCC, (Waldman, 2011) presents a rather bleak analysis of the situation the US news media currently find themselves in. Newspapers but also local radio and television channels have had to lay off large numbers of their editorial staff, in many cases as much as 40-50%. This has resulted in less reporting on local beats such as town halls, hospitals, schools, courts etc. It has also led to less in-depth reporting and more reliance on official press releases from institutions and governments instead of on independent reporting. All this leads to a weakening of the press's watch dog function. Though local TV news reporting has increased in volume, it has not filled the gaps in independent and investigative reporting that newspapers have left. A PEW study on local reporting in the Baltimore area recorded a profusion of outlets, but 95% of the public affairs reporting originated in the traditional media, especially in the press (PEW , 2010). This example shows that the press still has a very important agenda setting function and implies that when the newspapers' ability to cover important issues, this function is not easily replaced by other media, simply because of a lack of investment and professional staff.

The US newspaper sector seems to witness more serious decline than the European newspaper sector. This difference between the US and European countries is partly due to the fact that

European newspapers rely to a far lesser extent on advertising, which makes them less vulnerable to economic recessions. Other explanations are that most newspapers in the EU are run by private owners (sometimes still family businesses), instead of depending on private equity investors or traded at the stock market as is the case for most newspapers in the US. Therefore they are less subject to the pressure of striving for short term profits.

But, fundamentally European newspaper publishers face similar problems as US newspaper publishers. The developments sketched in this study indicate that the newspaper publishing sector in Europe is in a transition phase. Its legacy business is declining, it is facing increased competition and its new online and mobile services have in most cases not yet been profitable. Newspaper publishers are trying out various new models, none of which has so far compensated the revenue losses of the print newspapers. Meanwhile the legacy publishers bear the double costs of sustaining their offline print newspapers, while at the same time investing in new online news services.

There is a risk that the market enters a spiral of decline created by a lack of profitability Picard (2002). If newspaper publishers suffer from lack of profitability, they will reduce their expenditure on content, personnel, equipment and marketing. This will lead to less desirable products, declining audiences and subsequently less advertising revenue. Newspaper publishers will respond by further reductions in financial resources - which will contribute to even more lost profits and so on and so forth.

All this means that the management of newspaper publishing companies needs to reconsider its strategies. They need to rethink their identity and their business models; their organizational structure, their products, their target audience and their role in society. Innovation, supported by research and development might help them to adjust to the declining income, and increased competition. Numerous news organizations are working on innovative projects, including new (online) products, services and partnerships. But usually these projects are incremental in nature; they focus on a process of gradual change. So far these efforts have not led to significant new business models or higher print circulation, while online, revenue models remain uncertain and do not compensate for loss in profits.

Traditional media companies respond differently to disruptive developments in their environment than newcomers. They often find it difficult to, on the one hand, protect their vested interests and investments and on the other hand to respond to the new opportunities that arise. The new possibilities are often financially unattractive because profit margins are initially lower and it still is largely unclear how the market will develop. Companies find it difficult to allocate sufficient resources to invest in new developments. And when they do, they try to integrate new developments into their existing product, focusing on their existing audience. Often they are also afraid that investing in new technologies will cannibalize their legacy products.

Incumbents face a number of problems with respect to innovation if the conditions of the market change drastically (Kung, 2009). Strong players in the market focus on existing skills and incremental innovation. The more successful these companies are (were), the more they will linger on their current unique selling points. As markets shift and technology changes, existing parties will focus on old markets. They often seem unable to reinvent themselves in time. Many newspaper publishers turn to merger and acquisition strategies instead of innovating themselves.

The strengths and weaknesses of the EU newspaper publishing sector, in the context of a digital media market, are summarized in Table 17.

Table 17: Strengths and weaknesses of EU newspaper publishing sector

Value network	Strengths	Weaknesses
Production	<ul style="list-style-type: none"> • Large number of companies, titles, circulation • Strong online presence 	<ul style="list-style-type: none"> • Different levels of public support • Weak innovation potential
Aggregation & distribution	<ul style="list-style-type: none"> • Newspapers can benefit online from strong brands 	<ul style="list-style-type: none"> • Fragmented market • Lack of cross-border trade
Consumption	<ul style="list-style-type: none"> • Large newspaper reach in some countries and strong brand loyalty 	<ul style="list-style-type: none"> • Declining readership and reach in most countries, especially among young generations
Business models	<ul style="list-style-type: none"> • European newspapers still have relatively large share of income from sales, rely on advertising and stock markets than US newspapers 	<ul style="list-style-type: none"> • Declining circulation, readership, advertising revenues • Online revenues do not compensate losses in print advertising and sales

6.2 Opportunities and threats

The fundamental changes brought about by digitization and the internet have confronted legacy newspaper publishers with great challenges, but also offer them new opportunities for innovation and growth. Online news distribution provides increased opportunities for reaching readers outside the newspaper’s traditional geographical boundaries or for reaching new groups of readers, such as younger people. The websites of large newspapers are often in the top ten of most visited news websites in a country. Newspaper publishers can benefit from cross promotion between on- and offline products, and they can make their print product more attractive by offering online extras. They could also benefit from sharing editorial staff and other resources amongst their different on- and offline products, though this is known to be not an easy endeavour due to very different culture and work routines between print and online journalists.

But in this wider market newspapers are also confronted with more competition from companies outside the traditional newspaper publishing business, for instance from broadcasters’ online news services, from national or local online only news providers, from (international) internet and software companies which offer news services such as AOL, MSN, Google, Facebook and Yahoo and from platforms for user generated news. This increased offer and choice of information and news is in many ways beneficial for consumers, offering them increased volume and choice of news, ways to customize, share, comment upon and contribute to news. But all these changes do not necessarily benefit the legacy news publishing sector.

The newspapers which are likely to benefit most from online opportunities are those with strong brands, with affluent, (international) audiences and publishers who can spread their costs over different media products and services. Economies of scale and scope seem to have become more important to maintain a viable business. This is also true online, where the largest newspapers are often among the most successful online news sites, though they are often beaten by the large online news aggregators in number of visitors. In this domain the large US based ICT companies often are most successful. The recent take over of the Huffington Post by AOL also shows how for local news, bloggers and news aggregation sites, scale and scope matter. It enables them to produce and distribute news in the most efficient way to consumers, to benefit from shared content production and shared advertising sales efforts for their news services. Online there might also be opportunities for special interests news services aimed at niche audiences, which can be reached more efficiently online than

through physical distribution of print newspapers, though there are not many data available to support this assessment.

An important threat for legacy news providers is the insecurity they face, caused by the fact that they no longer control the aggregation and distribution of their news. News is increasingly circulated through news aggregators and social networks and these companies benefit from advertising revenues that come with the traffic generated through aggregating and sharing news content. This development affects news publishers worldwide. It leads to a redistribution of costs and revenues of which news aggregators and owners of social networks, mostly owned by US companies, benefit most. In general these companies do not invest in original news production. The overall decline in revenues for news publishers is therefore a serious threat to investments in original news production.

On the whole the problem does not seem to be that there is less interest in news, but that the advertising revenues are diverted and that the willingness to pay for news has diminished. This affects the legacy news providers, but also most local and national online-only news providers have difficulties in finding viable business models. There is such an abundance of news and information available for free on the internet that it takes much more effort to produce an offer, which users are prepared to pay for. Also – for the legacy newspaper publishers - revenues from digital advertising are not likely to make up for the losses in print advertising. Even though income from digital advertising is rising, the prices for ads will remain much lower than newspaper publishers are used to receive for print advertising.

The effects of the changes in revenue streams are not the same across the board and should be qualified for different kind of journalism. Some forms of journalism might be harder to charge for than others. Examples of journalism which seem difficult to charge for are headline and general interest news, entertainment news and (some forms of) sports reporting. As these are also popular forms of news, they might be sustained by advertising revenue. Other forms of journalism, which require expert knowledge and investigation are scarcer and could still have added value for which people are willing to pay, especially if the information is indispensable for people's job performance and of high value for businesses. Examples are financial and economic news, or background information on international politics. Some of these forms of journalism could even succeed in attracting paying users as well as advertising revenues, as its readers often fall in high income groups, are loyal readers who spend time on the news they've paid for and thus more likely to also see the advertisements and are well defined groups which are of interest for targeted advertising. There are, however, also forms of journalism which run the risk of falling into the gap between these two, for instance the kind of journalism that requires sustained following and investigation of institutions and companies. This kind of journalism, providing journalism's watch dog function, is crucial for well functioning democracies. At the same time this form of journalism might have fewer, less affluent or less obvious 'stakeholders' taking care of or paying for its continuing existence. In this field the search for alternative funding mechanisms such as crowd-funding and sponsoring is most urgent. In the US there are some prominent investigative journalism sites. Most of which are sustained by private donors and sponsorship, such as ProPublica and SpotUS. In the EU donor and sponsorship models are less well developed. Crowd-funding can work for some imaginative projects or local projects, in which readers have a direct interest, but might be more difficult to organise structurally and might not be a sufficiently stable source of income to sustain more continuous journalistic reporting on less appealing issues, or on issues of which the results are hard to predict in advance.

Another concern is to what extent society wants to rely on the information published by companies and institutions, on bloggers opinions and on citizen journalists, or to put it differently, to what extent there is added value in the role of professional journalists selecting,

checking, explaining and interpreting news and information. In this context there is also debate on whether some forms of journalism are at risk and might therefore require a certain level of state support.

Nielsen and Levy (2010) signal two simultaneous developments in how news publishers try to face the digital challenges. The first is one in which news publishers offer more exclusivity by introducing premium services and pay walls for exclusive or high value content. The recent take-off of mobile platforms and tablet computers and the gradual penetration of e-books provides publishers with more options to charge for a (personalized or premium) news offer and consumers seem to display more willingness to pay for news apps and e-papers than for online news services. The second development is one in which news publishers try to integrate professional journalism and user generated content by making the news more relevant for users and inviting them to contribute to news production and distribution. The internet offers many new opportunities for journalists and news publishers to strengthen the relation between their product and its users, especially by making the relationship more mutual and by exploiting all options for interactivity and user participation. According to Nielsen and Levy finding the right balance between exclusivity and participation is the main challenge for the news publishing sector. They see this challenge not just as an economic, but also as a social or democratic challenge. A business model that would rely too much on exclusivity by providing niche content to affluent elites may be commercially successful but ultimately fail to fulfil journalism's democratic functions and would therefore not be the best solution for the news publishing business as a whole.

What kept the print model in place, is that it bundled different content categories and advertising, or as Shirkey puts it: “Newspapers, [as] a sheaf of unrelated content glued together with ads [...]” (Shirkey, 2011). One could argue that the popular newspaper categories, such as sport, entertainment, lifestyle, cartoons and the weekly cross word puzzle paid for the less popular but, at least from a social and democratic point of view, important news categories, such as foreign policies, financial and economic news and investigative journalism. Because now large parts of advertising have moved to the web, and news is also available in unbundled forms, the traditional print model has been severely undermined.

Online, the economic and technological rationale for bundling weakens. The high margins which newspapers earned on print advertising can not be maintained online. While some news categories might still be sustained by advertising or consumer payments, others are unlikely to be able to survive without alternative funding models. Table 18 summarizes the opportunities and threats facing the EU newspaper publishing sector in the digital media environment.

Table 18: Opportunities and threats for EU newspaper publishing sector

Value network	Opportunities	Threats
Production	<ul style="list-style-type: none"> • Benefits of scale through mergers and acquisitions, shared facilities • Lower entry barriers • Cross-platform production • Potential cross border reach, esp. for sites in languages spoken by many across the world • Users contribute to content production 	<ul style="list-style-type: none"> • Increasing competition from broadcast and online news providers • Less investment in original news production • Loss of content diversity (some news genres at risk)
Aggregation and distribution	<ul style="list-style-type: none"> • Mobile platforms taking off • News Apps and e-papers • Cross platform marketing 	<ul style="list-style-type: none"> • Loss of control over value chain
Consumption	<ul style="list-style-type: none"> • More tools to connect to and engage with readers • More tools to track consumers' news preferences 	<ul style="list-style-type: none"> • Largest online players from outside newspaper sector are in best position to offer new communication and social networking tools
Business models	<ul style="list-style-type: none"> • New pay models (paywalls, donations, crowd funding) • New targeted advertising options 	<ul style="list-style-type: none"> • Platform and hardware producers take substantial shares of readers and revenues, mostly US based companies

From another angle, one could argue that it is not so much the printed newspapers which need to be saved, and not even the companies producing newspapers, but the democratic functions which newspapers are claimed to fulfil. To assess the extent to which these functions are at risk, a more integrated analysis is required, which takes into account the revenues, value added, but also the investments, quantity as well as quality and reach of all news services produced by newspaper publishers, broadcasters, internet only news providers, user generated news sites, news aggregators and other news publishers, on- and offline.

Eurostat data only provide figures on the traditional newspaper publishing companies, and only to the extent that this is the core business of a company. They therefore do not provide sufficient insight into the fundamental transformations taking place in the newspaper publishing sector, as many newspaper publishers are now part of larger multimedia companies, whose main activity may be in broadcasting, book publishing or other activities. Eurostat data also do not provide a sufficient basis to analyse developments in the wider news publishing domain, of which broadcast and online news are also important parts and in which many news companies from outside the traditional news publishing and even outside of the media and content industries are active. In this report we therefore included data from industry reports and consultancies, which provide figures on developments in circulation and revenues and on the shift from print to online revenues for newspaper publishing companies. These data provide better insight into what is happening on the level of the products and services at stake, rather than the developments at company level. But most industry and consultancy reports do not provide sufficiently systematic and consistent data on these developments either, as their data collection is usually based on traditional sector delineations. Though they provide better insight into the online activities within the traditional newspaper publishing and broadcast sectors than the Eurostat data, they do not single out the news provision services within the much wider market of news providers. More importantly, they also do not systematically collect data on e.g. number of firms, employment, value added, revenues and investments of online news services provided by companies outside the media and content industries. Therefore it is hard to assess how much online-only news providers, news aggregators like Google, Yahoo, citizen journalism sites or user-generated news sites

contribute to the size and growth of the news market as a whole. There is an increasing amount of literature which provides qualitative assessments of these developments or quantitative, but very incidental assessments on for instance website visitors and advertising revenues for single news websites. Combined, these different sources could provide a picture of major developments and what is at stake in the future of news provision, but more comprehensive data collection would be required to be able to make more precise assessments. This is especially relevant as people increasingly turn to online news sources and news consumption patterns are changing fundamentally. Consumer surplus in terms of the amount and instant availability of news, updated 24/7, and sophisticated options to personalize, share, discuss and contribute to the news offer is obvious. However the long term viability and sustainability of news provision, on international, national, regional and local levels, as well as in different news genres, also needs to be taken into the equation, especially because some genres might not so easily be funded by the market alone and alternative models have so far not been sufficiently strong to provide structural solutions for emerging gaps in news provision.

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B Company case study: Sanoma

INTRODUCTION

Sanoma is a major publisher of newspapers in Finland. It controls a third of the total newspaper circulation and it is also active in other media (it owns a television channel as well as the biggest publishing house in Finland). In addition to its home base it is also active in different media sectors, including the newspaper publishing sector, a number of other European countries.

Finland, like all Scandinavian countries, is a country with a strong reading culture and a high newspaper readership density. At the same time, as the home country of Nokia, it is an early adopter of new technologies and is among the countries with the highest penetration levels of broadband and mobile internet (Nieminen, 2010). It is therefore interesting to see how this newspaper publishing company, whose homebase is in one of Europe's most advanced digital countries, has responded to the changing market conditions as a result of internet and digitization. Sanoma took over the best visited, internet-only news website in the Netherlands: NU.nl. NU.nl has been at the forefront of innovations in online news offerings, including a very successful user generated news section. This service will be discussed in a bit more detail in this case study, as an example of a successful online news provider.

HISTORY

Sanoma Corporation was founded in 1860 as a textbook publisher. The name 'Sanoma' comes from the Finnish 'Sanomat' meaning Messages. Sanoma has a long history of acquisitions and mergers and of launching and divesting activities. Sanoma Corporation started to expand its news publishing activities in 1890 when newspaper Päivälehti, now known as newspaper Helsingin Sanomat, became part of the company.

A second big expansion took place in 1910 when Sanoma Corporation together with WSOY and a group of other companies founded Rautakirja, a company that sold books and newspapers at Finnish railway stations. In 1920 there were more than twenty Rautakirja kiosks, in 1971 Rautakirja opened its 500th R-kiosk.

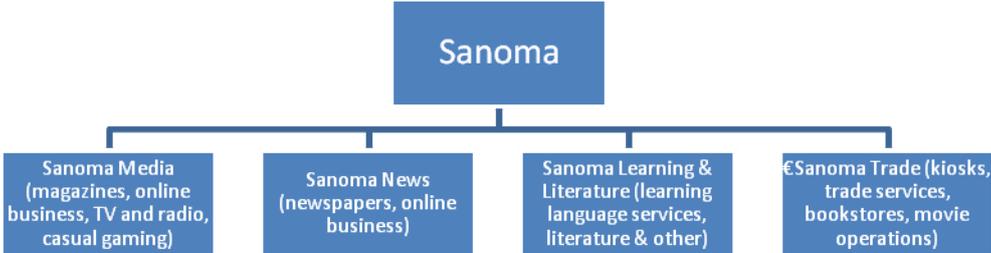
Business was going very well for Sanoma Corporation during the 20th century. The circulation of the newspaper Viikkoliite (the first illustrated newspaper) had grown up to 100,000 on Sundays. Weekday circulation of the newspaper stood at close to 82,000. In 1954 the newspaper became the largest Nordic region subscription-based newspaper with more than 230,000 copies on weekdays. In the context of these newspaper successes, Sanoma Corporation founded the Sanoma School of Journalism in 1967 to train future reporters and build professional skills.

During the last years of the 20th century, Sanoma Corporation owned its own printing facility where color advertisements (instead of the previous black and white) and editorial pictures were printed. The joint venture between the two Finnish companies Sanoma and WSOY in 1999 was the starting point of the Sanoma Media Group. While Sanoma's print activities went well, Sanoma corporation once again started to extend its activities by taking interests in television and internet activities next to the acquisition of companies like the regional newspaper publisher and printer Kymen Lehtimedia and the Dutch VNU magazine publisher in 2001.

In 1996, Sanoma launched the first online version of the newspaper the Helsingin Sanomat. The company's focus switched slowly from print towards more and more digital activities.

With the acquisition of foreign companies like the Dutch VNU media in 2005, Independent media in Russia in 2008 and SBS broadcaster in the Netherlands and Flanders, Sanoma expanded its stage throughout Europe.

Figure B1: Sanoma chart of all divisions



Source: www.sanoma.com

COUNTRIES

Sanoma operates in twenty European countries including Finland where its headquarters are. The other countries where Sanoma performs its activities are shown in figure 2.

Figure B2. Countries in which Sanoma has activities



Source: Annual report 2008.

Sanoma publishes most of its titles in Scandinavia and in the Netherlands. In Estonia, Latvia, Lithuania, Russia and east Europe, Sanoma publishes newspapers and owns a number of websites. These websites are both news websites and websites for classified ads.

NUMBER OF EMPLOYEES

Table B1 shows the number of fulltime employees who work at the Finnish news division and the total number of fulltime Sanoma employees.

Table B1 Number of employees by year and division.

Year	News division. Employees (FTE)	Total, all divisions. Employees
'99	approx. 4.900	No data
'00	approx.4.800	No data
'01	approx.5.000	No data
'02	approx.5.000	No data
'03	approx.4.000	14.207
'04	approx.2.800	13.651
'05	approx.2.850	14.256
'06	2.329	15.732
'07	2.373	16.701
'08	2.449	18.503
'09	2.306	17.343
'10	2.016	16.016

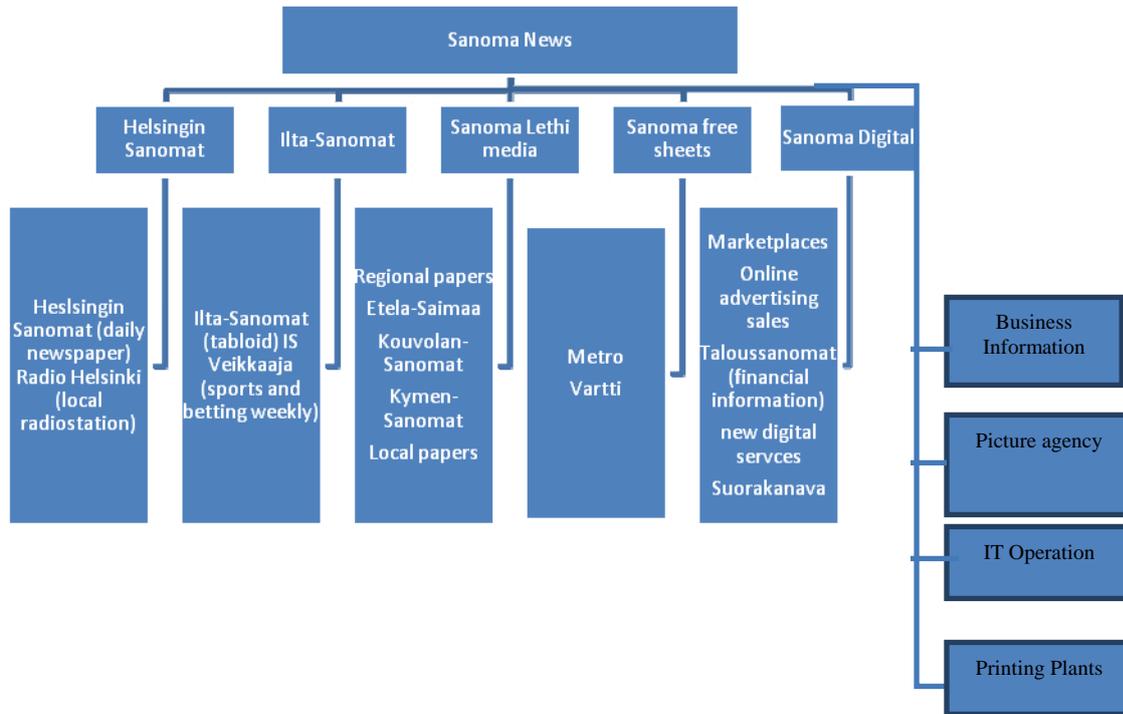
Source: Annual report 2003- 2010

The figures in this table show that the number of employees working for the news division has shrunk with more than 50% since 1999, while the total number of employees has grown, until 2008. In 2009 and 2010 the total number of employees also declined. The news division employs in 2010 approximately 13% of the total number of employees working for Sanoma.

ACTIVITIES AND RESULTS

The Sanoma news division is only active on the Finnish market. It has the following activities (Figure B3):

Figure B3. Activities Finnish news division.

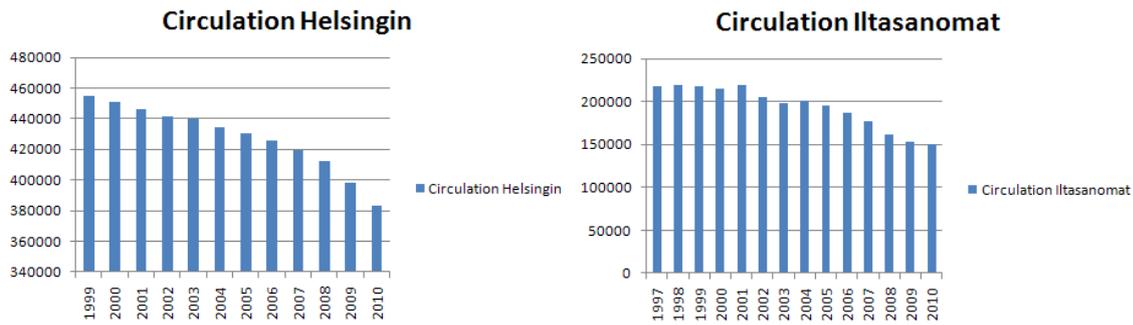


Source: Annual Report 2008

The Helsingin Sanomat is the largest newspaper in the Nordic region and the leading newspaper in Finland, with approximately 1 million Finns as daily readers. The newspaper's circulation is over 400,000 copies. It is the leading advertising medium in Finland. In addition to the daily edition, Helsingin Sanomat readers also receive a weekly supplement NYT, focusing on leisure and entertainment on Fridays, and a monthly magazine Kuukausiliite.

Ilta-Sanomat is the second largest newspaper in Finland and the largest quality tabloid. Ilta-Sanomat includes the sports and sports betting weekly Veikkaaja. The paper's circulation is over 150,000 copies and it has over 650,000 readers (Sanoma.com). Figure 4 shows the circulation of the two biggest Finnish newspapers. Like the total Finnish newspaper circulation, the circulation of these two print newspapers is decreasing.

Figure B4: Activities Finnish news division - Circulation Helsingin and Iltasanomat.



Source: levikintarkastus.

Sanoma news division publishes three Finnish regional newspapers: Etelä-Saimaa, Kouvolan Sanomat, Kymen Sanomat and six local newspapers in South-east Finland. Sanoma news also publishes the free news sheets Metro and Vartti. The free sheet Metro is distributed in the Helsinki metropolitan area as well as in a number of other Finnish towns. It has in 2011 over 500,000 readers weekly.

In addition to the print edition, all newspapers have a website. The Group's newspapers and magazines' online services offer a variety of services: theme sites on different topics, videos, user generated content, conversation platforms and archives. The online edition of Finland's leading daily newspaper Helsingin Sanomat, Hs.fi, and the online edition of Ilta-Sanomat, Iltasanomat.fi, are among the most popular websites in Finland. Taloussanomat.fi provides news, financial information, analysis, financial tools and a conversation platform for free. Free sheet Vartti's online service Vartti.fi stood in 2008 in the top 10 online newspaper sites in Finland (press release 29 September 2008).

In response to advertisers' shift from print to online advertising the company launched and took over a number of advertising sites. Sanoma has approximately ten popular classified websites, containing classified ads that used to be part of the printed newspaper. Among them are a site for car sales (keltainenporssi.fi) and a market place for second hand goods (Huuto.net). The job advertising site Oikotie.fi assumed the role of market leader in online job advertising in Finland (Sanoma, 2010). All together, as many as 80% of Finnish internet users access Sanoma's online publications and services each week (Sanoma, 2008). Recently Sanoma became shareholder of the coupon sales website, Offerium.fi.

In addition to its Finnish on- and offline news activities, Sanoma has developed several news activities abroad. These activities, like Independent Media which publishes the newspapers The Moscow Times, the St. Petersburg Times and leading Russian business and financial daily Vedomosti, are part of the Sanoma Magazine division. In Estonia, Sanoma is the owner of the classified websites kuldnebors.ee and auto24.ee. The leading news website Netinfo.bg in Bulgaria is also part of Sanoma. In The Netherlands Sanoma owns leading news website NU.nl and television guide TVgids.nl. In 2011 Sanoma bought Dutch television broadcaster SBS.

The Finnish News Division witnessed a multi-channel growth, with both print and digital media significantly improving their performances (Sanoma, 2010).

Table B2: Top five Finnish news and classifieds websites

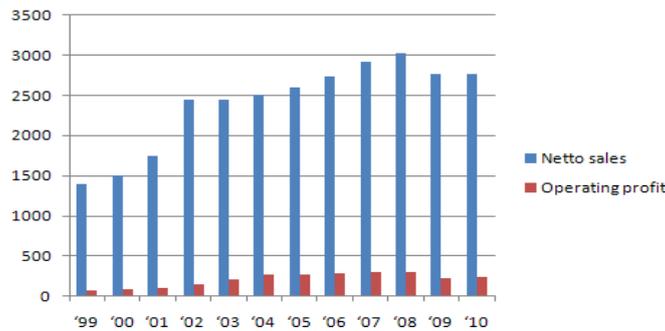
Website	Average visitors each month
Iltasanomat.fi (3 th top Finnish sites)	1.772.573
HS.fi (4 th top Finnish sites)	1.299.830
Taloussanomat.fi (13 th top Finnish sites)	673.006
Huuto.net (11 th top Finnish sites)	619.289
Oikotie.fi (22 th top Finnish sites)	444.577

Source: Annual report, 2010 and Netcraft 2011.

In Figure B5, the revenues of the Sanoma Group are represented. Net sales have grown between 1999 and 2008. In 2009 Sanoma’s net sales decreased for the first time. The net sales in 2010 were 0.2% lower than in 2009.

Sanoma group

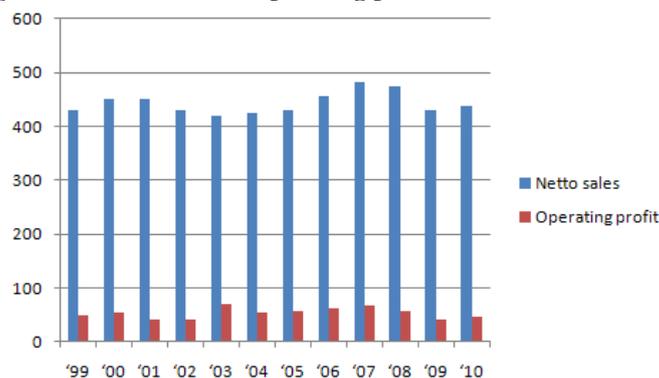
Figure B5. Net sales and operating profit Sanoma group



Source: Annual Report 2002- 2010.

News Division

Figure B6: Net sales and operating profit Sanoma News division



Source: Annual Report 2002- 2010.

The net sales of the news division show a somewhat different pattern, with alternating growth and decline (see figure 6). In this figure only the net sales of the news division in Finland are included, sales figures of Sanoma’s news activities abroad are spread over the different divisions outside Finland.

Table 3 shows the distribution of net sales over Sanoma’s different activities. Between 2002 and 2007 the contribution of the different activities to the total net sales remained more or less equal, with max 2% difference. In the reported period activities have shifted and continued under different names, divisions were renamed and for 2004-2007 and for 2008-2010

different categories were used to report Sanoma's results. Therefore the net sales of each activity for these two periods can not easily be compared. But roughly speaking between 2007 and 2009 the share of the different activities in the total net sales seems to have remained more or less equal.

As the online newspaper and magazine activities are reported under newspapers and magazines respectively and not reported separately, it is not possible to distinguish a shift in the share of the revenues which comes from print to the share which comes from online news and magazines.

Table B3: Net sales distribution

Net sales distribution	'02	'03	'04	'05	'06 (no data)	'07			
By division									
Magazines, online operations (Magazines)	41	40	21	44		41			
Newspapers, online operations, printing (Sanoma)	18	17	9	17		16			
Education and books (WSOY)	8	8	5	11		10			
TV, broadband internet, radio (SWelcom)	4	5	3	5		5			
Kiosks, press distribution, bookstores, entertainment (Rautakirja)	29	30	13	24		28			
Other companies (WSOY)			49						
<i>Total</i>	<i>100 %</i>	<i>100 %</i>	<i>100 %</i>	<i>100 %</i>		<i>100 %</i>			
By activity							'08	'09	'10
Retail							27	21	30
Advertising sales							25	21	23
Subscription sales							15	17	17
Single copy sales							13	14	13
Learning materials and solutions, books							13	11	9
Distribution sales							8	5	
Other								11	8
<i>Total</i>							<i>100 %</i>	<i>100 %</i>	<i>100 %</i>
By activity							'08	'09	'10
Magazines							37	37	
Retail and distribution							27	27	
Newspapers							14	13	
Digital media							11	12	
Television and radio/cable TV/online service									
Printed learning materials and solutions, books							11	11	
<i>Total</i>							<i>100 %</i>	<i>100 %</i>	

Source: Sanoma Annual Reports 2002-2010.

STRATEGIES

Investments and takeovers

In 1981, Sanoma bought cable company Hesinki Television. In 2000, Sanoma focused on quality in print. The company invested in new printing presses (Sanoma, 2000). In the same year, Sanoma started to invest in online classifieds to gain more revenues from advertisers and in response to advertisers who started to shift their advertising budgets from newspapers to online services. Sanoma bought a 20% holding in Netwheels Oy, an online car sales company (press release, September 20, 2000). Sanoma continues to invest in classifieds, it acquired a

20 share in Auto24, the leading market place for used and new cars in Estonia (Sanoma, 2007), and – only recently – in coupon sales website Offerium.fi. In 2000, Sanoma also started a co-operation with Helsinki Telephone to explore new possibilities for co-operation between the media corporation and the telephone and internet operator in for instance electronic publishing, co-operation in content production and electronic distribution channels (Sanoma, press release January 15 2000).

In 2005 and 2006, Sanoma acquired free sheets Itäväylä and Metro. The free sheet unit Sanoma Kaupunkilehdet Oy concluded a 3-year agreement with VR and the Finnish Rail Administration on the distribution of the free sheets Uutislehti 100 and Metro at railway stations in the Helsinki metropolitan area (press archive, 23 November and 11 August 2006).

Sanoma started to invest strongly in internet activities in 2006. Taloussanomat.fi had been renewed. The online newspaper wanted to be faster, more comprehensive and more entertaining than other financial media. The print version of the newspaper contains material that is not published on the website. The focus for both the paper and the website is to have high quality visual images, presenting news in attractive ways, emphasising entertainment and interactivity (press archive, 2 October 2006). In 2008 Sanoma continued its investments in internet activities (Annual report, 2008). The online investments in expanded in 2009 when more investments were made in mobile activities (Boogert E., Sanoma: mobiel nog geen miljoenenhandel, 2011a) (Boogert E. , 2011a)

Brands, synergies and acquisitions

Sanoma's strategies can be summarized by the following key strategies:

- Building strong brands; Sanoma tries to build brands across media platforms. Thereby strong print brands can for instance also generate online audiences to their online outlets.
- Exploiting synergies between different media outlets by sharing expertise and resources. For example by producing video for TV channels that can also be used in digital publications of magazines (Starkenburg J. , 2010). The goal of this strategy is to produce more integrated products (Adformatie 15th April 2011). For example the website NU.nl and the nu.nl-app for the iPad combine the different NU.nl services and share the same design, only the app contains more video and pictures (Starkenburg J. , 2010).

Another example of content sharing are the classifieds for employment and vehicle advertisements. The classifieds of seven leading newspapers will be published as Oikotie's advertising sections with the same name and visual image both in the print newspapers and in their online versions (press release, 8 January 2010). On the level of news content, the Finnish newspapers are produced from one central newsroom. They share content and get more content from Sanoma's Finnish television channel which is also published on the newspapers websites as well as made available on the iPad applications (BusinessConsultancy, 2011). Another example is the joint venture of magazine Sportweek and NU.nl, which together produce NU.sport (Villamedia, 2010).

- Buying successful (online) companies or launching new activities. For quitting or starting news online activities Sanoma uses a couple of criteria. First a product needs to cover the costs for producing it and keeping it running. When a product does not meet this requirement, then there has to be a good strategic reason to keep this product online. In the launch period it is normal for digital activities to produce a negative result. The portfolio must always contain activities for future experiments as well as activities that make enough money to finance the recently launched activities (interview with Business Consultancy, 2011).

The success that Sanoma has with its digital business is due to the increased amount of services, and improved internal collaboration according to Pentikäinen from Sanoma Finland (Sanoma, 2008). Advertisers can now find their desired target groups by interest through Sanoma Digital Online Ad Sales at the dozens of online services offered by Sanoma News, Sanoma Magazines Finland and Sanoma Entertainment.

BUSINESS MODELS

Content

Like every media company, Sanoma is struggling with its business models. In its search for new business models, Sanoma started experimenting with online paid and free content. Sanoma thinks that online it can only charge for niche content. An example of digital paid content is the Autoweek iPad application (Autoweek is a Dutch car magazine, which is also responsible for all content on NUauto.nl, the special car page of NU.nl).

General content, like the news on NU.nl, has to be free, in Sanoma's business philosophy. Combinations of paid and free content are also possible. An example is Sanoma's paid apps in the women's magazine Viva, which are combined with free content. Users pay per edition of the app (Starkenburg J., 2010). Sanoma sees rapidly increasing consumer interest in mobile solutions, even though the penetration of mobile services varies greatly by country. In addition, consumers are more willing than before to pay for flexible mobile services that make life easier (Annual Report, 2010). At this moment Sanoma still makes more money with mobile advertising than with charging for online content (Starkenburg J., 2010).

Advertisements

Advertisers are still Sanoma's main source for online revenues. The advantage of digital advertisements for advertisers is the measurability of it. The disadvantage from the publishers' perspective is that advertisers, more and more, want to pay only for measured results (Olsthoorn, 2008). In reaction to new audience measurement possibilities, Sanoma News developed a cross media sales unit. This unit helps advertisers to choose the right mix of channels and provides an application processing tool for job advertisers to get their message across. The unit also creates and offers service packages based on customers' needs, which provides guidance for product development (Sanoma, 2010).

Sanoma started working with other companies to develop new ways of advertising. Sanoma collaborated for instance with the Telegraaf Media Group (publisher) and the Ster (sales' company for commercials of the Dutch public service broadcaster) to be more attractive for advertisers who want to advertise on smart phones (Villamedia, March 12th 2010). Sanoma launched an online version of the popular women's magazine Libelle in cooperation with Sara Lee and home deco magazine VT Wonen with Flexa paint (Benjamin, 2011).

Concerning new technologies, Sanoma is the first media group in the Benelux which sells magazine subscriptions through Apple's digital subscription service store (Villamedia, 21 February 2011). This is characteristic for Sanoma, which is known for always trying to be the first in applying technological innovations (BusinessConsultancy, 2011). Non subscription titles like NU.nl can also be consumed on the iPad. Sanoma offers advertising packages for advertisers. Toyota, Achmea and Vodafone were the first advertisers that have experience with these packages (Starkenburg J., 2010). Advertisers on the NU.nl app, can use a special application portal and pay 25 euro per CPM (cost per thousand impressions) (Ringelestijn, 2010).

Sanoma's vision of the future

For 2011, Sanoma expects an increase in the use of smartphones, especially when people travel from home to work or school. The company expects that the iPad will be used more intensively at home, especially because the iPad is suitable for reading long articles with video's and photos (Starkenburg J. , 2010).

Sanoma does not expect that the new, digital forms of publishing will completely replace print activities. In 2012, Sanoma intends to gain 70% of their revenues from the internet (Molman, 2011).

Sanoma's vision on media consumption is that it becomes more and more a social experience. The combination of social networks, digital media and mobility, in Sanoma's vision, enables consumers to share their views and opinions in various ways and media (Sanoma, 2010). In response to this trend Sanoma tries to engage users in the media content production.

After previous unsuccessful attempts to stimulate user created content (www.maakjezo, an initiative to use user content to publish online magazines), NU.nl and also many of the Finnish newspaper sites now exploit popular user generated content section (Adformatie, 2007). Readers elaborate on printed news in online discussions and user photographs and opinions increasingly reach the professional online and printed editions (Sanoma, 2008).

NU.nl

An interesting example of a successful internet only news provider is the biggest Dutch news site NU.nl, bought by Sanoma in 2005. The website was launched in 1999 as the first online news publisher in the Netherlands that published news 24/7. The website is based on similar American news sites and contains mainly brief news reports bought from news agencies. In 2010 NU.nl generated 68 million monthly page views. In 2011 NU.nl has even more visitors: four million unique monthly visitors. This is a large amount considering that The Netherlands has 16 million inhabitants. In comparison: the second biggest news website, the Telegraaf.nl (from the biggest printed newspaper with the same name) has a reach of 3,3 million unique monthly visitors (Multiscope, 2011).

A big success was the launch of the NU.nl app for the iPhone with 35 million page views each month at the end of 2010 (Villamedia, 2010). The mobile website had a reach of 25 million page views per month (Ringelestijn, 2010). NU.nl's goal for this app is to reach the same number of page views as the website (Starkenburg J., 2010). In 2011 the influence of social media grew; many page views on the website NU.nl are now the result of content that has been shared on Facebook, Hyves (a Dutch social networking site) and Twitter (Starkenburg J. , 2011a).

NU.nl has a special section for user generated news: NUjij.nl. This section receives a lot of contributions from Dutch expats who report and comment upon foreign news in the country where they live. The section is moderated. The news published in the user generated news section increasingly becomes a source for the professional part of the website: ten of sixty news articles on NUjij.nl in the first two months of 2011 became front page articles.

In March 2011, NU.jij had 70- to 80 thousand unique visitors a day. These visitors wrote about five to six hundred articles. Also NUfoto (pictures) receives contributions from people who were witness to for instance a crime or accident and who uploaded there pictures. NUfoto sells those pictures to other parties. The revenues are shared between NU.nl and the photographer (Ramaer, 2011).

Sources

Sources consulted for this case study: Sanoma annual reports, Sanoma's website and industry publications. Concerning NU.nl Laurens Verhagen (former chief editor NU.nl) and the Business Consultancy department of Sanoma Media Netherlands were interviewed. See the bibliography in Appendix A for further references.

C Company case study The Huffington Post

Company history

The Huffington Post was founded by Arianna Huffington, Ken Lerer and Jonah Peretti in May 2005, with \$2 million of seed capital. The site started as a political forum and, after traffic grew during the 2008 election, expanded into other news domains. The Huffington Post is an American news website, content and blogs aggregator, featuring news from various news sources and offering space to blogs from volunteers, celebrities and liberal leaning columnists. The site offers coverage of politics, media, business, entertainment, living, style, the green movement, world news, and comedy and has (aggregated) news, blogs, and original content. (Wikipedia)

Arianna Huffington raised \$5 million in August 2006 from venture capital firms including SoftBank Capital and Greycroft Partners, as well as from individuals such as Bob Pittman, the former AOL executive. In a second round of fundraising, in September 2007, the Huffington Post raised a further \$5 million for expansion in original journalism and local news reporting. Since 2008, the site launched several local versions like the HuffPost Chicago; New York, Denver and Los Angeles (Wikipedia). Compared to traditional newspapers this online news site is remarkable because it managed to build a readership comparable in size to the New York Times within six years after its launch in 2005 (Grueskin, Seave, & Graves, 2011).

In February 2011 The Huffington Post was taken over by the internet company AOL for \$131 million and will become part of the The Huffington Post Media Group, which will include The Huffington Post and existing AOL properties Engadget, TechCrunch, Moviefone, MapQuest, Black Voices, PopEater, AOL Music, AOL Latino, AutoBlog, Patch, and StyleList. (Bloomberg). With the take-over AOL thus hugely expands its news and original content creation business. As part of the deal Arianna Huffington became president and editor-in-chief of The Huffington Post Media Group.

The new group will have a combined base of 117 million unique visitors per month in the United States and 270 million around the world. Following the close of this transaction, AOL will accelerate its strategy to deliver a scaled and differentiated array of premium news, analysis, and entertainment produced by thousands of writers, editors, reporters, and videographers around the globe.

After buying the Huffington Post website, AOL Inc is accelerating its expansion of local coverage and intends to attract readers interested in campaign news ahead of the 2012 presidential election (Pulley, 2011)).

In August 2011 the *AOL Huffington Post Media Group* announced the launch of *HuffPost BlackVoices*, a site that covers news and cultural trends from a black perspective with a fresh, fearless point-of-view and a spirited, real-time platform for a diversity of opinions (corp.aol.com).

Current position of The Huffington Post

The Huffington Post currently has over 9,000 bloggers—from politicians and celebrities to academics and policy experts—who contribute on a wide range of topics. The Huffington Post has huge amounts of traffic about 25 million monthly visitors and about 15.6 million page views [er weekday in 2011, according to Quantcast (Quantcast, 2011). But it also has a huge amount of content accounting for those page views. It publishes roughly 100 original pieces per day — paid and unpaid — in its politics section alone. And politics coverage, according to Arianna Huffington, reflects only about 15% of the site's traffic.

The site also has an active community, with about bloggers contributing to it regularly and over one million comments made on the site each month.

By comparison, The New York Times' monthly online audience is approximately 40 million. As a private company, The Huffington Post hasn't officially released financial data. The New York Times reports an expected growth to gross \$60m in 2011, compared to \$31m in 2010. Arianna Huffington claimed that the site made a profit last year, without providing details. The company is said to aim for \$100 million in 2012, (NYT)

The site is appealing and user-friendly and each landing page is full of as much content as possible with images, related stories, or recommendations for further reading: "to make much content intuitively available for people who are interested in certain topics," according to founding editor Roy Sekoff in an interview in Editorsweblog (Heald, 2009). There is extensive "interconnectedness" between elements of the site, which both reduces the chances of readers missing things in the vast array of stories available, and makes the site more 'sticky'. According to Sekoff, people like to blog for the site because of its engaged readership, the high response rate in the form of posted comments and the lack of commitment and deadlines.

In 2011 The Huffington Post has approximately 200 employees, of which only a handful of journalists.

The Huffington Post has repeatedly been criticized over its aggregation practices, in which it rewrites aggregated content without sufficient acknowledgement and without clearly linking back to the original source (Henriksson, 2011). Other online news sources also use aggregation, but often do this by copying only the headlines and then directly linking to the original source, which is said to benefit the original source as it generates traffic to this site. The Huffington Post has also been criticized of earning money over the backs of unpaid bloggers, and following the take over by AOL, a lawsuit was started to find compensation for the thousands of bloggers on the site (Peters J. W., 2011). In a discussion of the Huffington Post's business model Nate Silver (Silver, 2012) shows however how most of the individual blogs only receive few readers and are thus not worth much if one would calculate the advertising revenues generated by these individual pages. Even the best read blogs on the site usually do not receive advertising revenues which could live up to print newspaper standards.

The Huffington Post discontinued its own investigative reporting / non profit journalism staff in 2009, but these editors were absorbed by the Center for Public Integrity The Huffington Post Investigative Fund also gave \$2 million to the center and promised to publish a number of articles and headlines on its site linking to publications of the Center for public Integrity (Holm, 2010).

Business and revenue models

The Huffington Post's business model is based on low cost content production through aggregation and blogging, sophisticated tools to drive visitors to its site and income from display advertising.

It does not pay those who volunteer to write blogs for it, but this content represents a small share of its traffic. Celebrities are allowed to post blogs on the site, and a number have opted to do so over the years. The site also publishes paid or curated content, including columns by specialists in a wide range of fields such as food, dental health, sex, education and politics. Unlike other left-leaning blogs The Huffington Post offers both news commentary and coverage.

Almost all of the site's revenues come from display advertising. In 2010 they generated \$30.1 million revenues from roughly 4.8 billion page views, according to Quantcast data. That means the average page view was worth a little more than six-tenths of a cent, or that 1,000 page views were worth about \$6.25 (Silver, 2012).

It generated its traffic through clever search engine optimization, extensive use of tools which encourage visitors to share its content through social networks, and intense hyperlinking to other articles and content. It also uses data on traffic and usage of its site to optimize the placement of content in categories, page composition, hyperlinking and content sharing tools.

AOL's display advertising revenue grew for the first time in more than three years in the first three months of 2011, helped by the acquisitions of Huffington Post, TechCrunch and GoVira (www.corp.aol).

The Huffington's was first profitable in 2010. Its gross revenues are estimated at 31 million in 2010 and 60 million in 2011 (Peters & Kopytoff, 2011).

Strategic challenges

On February 7, 2011, AOL Inc. agreed to buy the Huffington Post for \$315 million (Sweeney, 2011). AOL's acquisition of the Huffington Post is part of its strategy to increase its investments in online content and to help revive growth in advertising revenue to compensate its declining dial-up internet revenues (Sweeney, 2011). It is meant to strengthen AOL's local news initiative, Patch, and its citizen journalist venture, Seed. AOL's own news Web sites like Politics Daily and Daily Finance will probably disappear and many of its writers will continue to write for the Huffington Post. The transaction will create a premier global, national, local, and hyper-local content group for the digital age – leveraged across online, mobile, tablet, and video platforms. Thus the take-over by AOL means a substantial investment of resources in the Huffington Post's local news activities. For AOL the challenge will of course remain in building and maintaining a viable business model based on advertising.

Many have criticized the quality of the Huffington Post's content because a lot of the news is aggregated from other news sources. Also the content on AOL's news sites has often been considered below standards. The Huffington Post has started to invest more in original reporting and writing, hiring experienced journalists from The New York Times, Newsweek and other traditional media outlets. Finding the right balance between a successful online news and bloggers site of sufficient quality and original content on the one hand and running a profitable online news business will be one of the Huffington Posts main future challenges.

D Company Database

EUROPEAN COMPANIES	WAZ	Ringier	Schibsted	Axel Springer	Bertelsmann	Bonnier AB
Overview						
Revenues	<i>1,98 billion euro revenue</i>	<i>858,4 million euro revenue (2009)</i>	<i>13,79 billion NOK revenue(2010)</i>	<i>2,894 billion euro revenue (2010)</i>	<i>15,364 billion euro revenue (2009)</i>	<i>4,24 billion USD revenue (2010)</i>
Employees	<i>17.000 employees (2011)</i>	<i>8.129 employees (2008)</i>	<i>7.500 employees (2011)</i>	<i>11.560 employees (2010)</i>	<i>102.983 employees (2009)</i>	<i>10.820 employees (2011)</i>
Homebase	Germany (homebase)	Switzerland (homebase)		Germany (homebase)	Germany (homebase)	Sweden (homebase)
Active in other countries	Austria Hungary Croatia Serbia Macedonia Russia.	China Germany Romania Switzerland Serbia Slovakia Czech republic Hungary	Norway (homebase) 20 countries: Sweden France Spain Estonia Russia	35 countries		21 counties: a.o. Denmark U.S. Finland Norway Germany
Activities	13 printing operations in Europe 27 daily newspapers (> 2.500.000) 13 weekly newspapers 177 popular magazines and trade journals 99 advertising journals app. 400 customer magazines			> 240 newspapers and magazines > 140 online offerings	Divisions: Arvato, Direct Group, RTL Group, Gruner+Jahr, 26% share in investigative news magazine Der Spiegel, Random House.	

<p>Newspapers</p>	<p>Total marketshare daily newspapers: 6% und marketshare North Rhine-Westphalia: 59%</p> <p>National: <i>Austria:</i> Neue Kronen Zeitung (50%; 1.000.000), The Kurier (49.4%; 200.000); <i>Croatia:</i> Jutarnji List (50%; 115.000) Dnevnik, Slobodna Dalmacija (55.000); <i>Serbia:</i> Politika AD (50%); <i>Macedonia:</i> Dnevnik, Utrinski Vesnik, Vest (50%?; tot.: 65.000); <i>Russia:</i> SLOBODA (75%; 90.000 Rjazan, Jaroslavl and Wolgograd, Regional: <i>Hungary:</i> Zalai Hirlap, Vas Népe, Napló, Fejér Megyei Hirlap and Dunaújvárosi Hirlap (tot.: 225.000); Germany: West German Allgemeine Zeitung (580.000), Westfälische Rundschau, Neue Ruhr/Neue Rhein Zeitung, Westfalenpost (tot.: 950.000) Thüringer Allgemeine, Thuringian, Ostthüringer, Braunschweiger Zeitung, Harzkurier</p>	<p>Romenia: Libertatea (85.529); Switzerland: Blick, SonntagsBlick and il caffè; Serbi: 24sata free newspaper, 155.000), ALO! (78.952) BLIC (152.199); Slovakia: Novy Cas (172.140); Czech Republic: Aha! (daily, 107.807), Blesk (daily, 412.238), Nedelni Blesk (daily, 104.048), Nedelni Blesk (sunday, 243.824); Hungary: Blikk (daily, 206.245), Nemzeti Sport (daily sports, 71.215) Népszabadság (daily, 90.978), Vasarnapi Blikk (sunday, 164.843)</p>	<p>Norway: VG, Aftenposten, Aftenbladet, Svenska Dagbladet, Bergens Tidende, Stavanger Aftenblad; Spain: 20 Minutos (free newspaper, 2.300.000); France: 20 Minutes (free newspaper, 2.700.000); Estonia: Postimees; Russia: Moi Rayon (686.000).</p>	<p>National: Bild, Bild am Sonntag, Die Welt, Welt am Sonntag, Welt Kompakt; Regional: B.Z., B.Z. am Sonntag, Bergedorfer Zeitung, Berliner Morgenpost, Berliner Woche, Hamburger Abendblatt, Harburger Anzeigen & Nachrichten.</p>	<p>National: The financial Times Deutschland, Regional: Sächsische Zeitung (SZ)</p>	<p>Dagens Nyheter's (DN), Stockholm City Expressen, GT and Kvällsposten (Expressen), Sydsvenskan, Kristianstadsbladet, Trelleborgs Allehanda, Ystads Allehanda, and City Malmö-Lund (SDS Group)</p>
<p>Magazines, Books etc</p>	<p>100% owner of magazine publisher Gong Verlag</p> <p>programmamagazine: Gong, Bild + Funk, TV direkt (>1.000.000), Classics Gong and Bild + Funk (675.000); Monthly titles: Ein Herz für Tiere, Geliebte Katze and Partner Hund, many puzzle mags; Echo der Frau, frau aktuell, Das Goldene Blatt, Neue Welt, die aktuelle, Freizeit Exklusiv and Frau im Spiegel; Advertising Papers Westdeutsche Verlags- und Werbe-gesellschaft (WVW) and trade journals; Other: Korneli-Werbung, Moderner Zeitschriften Vertrieb, Cityweb Communication, Trurnit-Group, MZV direkt</p>	<p>Political magazine: Cicero, (Germany, 82.093); NIN (Serbia, 16.412); lifestyle; entertainment; sports</p>		<p>Magazines: Television program guides, women magazines, car-, sports-, computer- and lifestyle magazines and special interest titles.</p>	<p>Magazines: Stern, Brigitte, Geo, Capital, Schöner Wohnen, Eltern (Grunter+Jahr); Bookpublisher: Random House Bertelsmann; Book clubs: DirectGroup</p>	<p>Books, gaming, film</p>

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Digital media	<p>WAZ Mediengruppe is responsible for all online activities (cf. newportal DerWesten)</p> <p>Markt.gruppe GmbH & Co. KG is active on the classified advertisement markets.</p>	<p>Germany: www.cicero.de; www.monopol-magazin.com</p> <p>Indonesia: www.kontan-online.com;</p> <p>Switzerland: www.blick.ch;</p> <p>Serbia: www.24sata.rs, www.alo.rs, www.blic.rs, www.e24.24sata.rs;</p> <p>Slovakia: www.cas.sk, www.zivot.sk;</p> <p>Czech Republic: www.ahaonline.cz, www.blesk.cz;</p> <p>Hungary: www.blikk.hu</p>	<p>Online news; Online classified advertising.</p>	<p>Online classifieds; marketplaces; interest portal:www.motor-talk.de, www.onmeda.de;</p> <p>news portals: Bild.de, Bild mobil, Welt online, Welt mobil.</p>	<p>Integrated service packages: Arvato Digital Services: ISP for video, audio, games and IT/technology sectors</p>	<p>Newsportals: ddn.se, Feber (larg network blog in Sweden)</p>
Radio and Broadcasting	<p>Radio: Westfunk (largest service for local radio stations in North Rhine Westphalia) with radio in Duisburg, Essen, Bochum, Mülheim, Oberhausen, Emscher Lippe (Gelsenkirchen/Bottrop/Gladbeck), Kreis Wesel), Hagen, Ennepe Ruhr and Sauerland (Hochsauerlandkreis). Also serviceprovider for Radio Vest's since 2008</p>			<p>Radio: Antenne 1, Radio Antenne Bayern, Radio FFH, Radio FFN, Radio Hamburg, Radio NRW; TV: Dogan TV, Hamburg 1, Schwartzkoff-TV and TV Berlin</p>	<p>TV: RTL Group</p>	<p>Radio:Radio Nova; TV:AVA, Canel+, MTV Media (Fakte, Juniori, Komedia, Leffa, MAX, Sarja, Scifi, Sub), C More Entertainment, Enterprize UNLMT, TV4 (Group, Sverige, Gruppen) World Entertainment Services, World Sports and Marketing</p>

EUROPEAN COMPANIES	Sanoma Group	Mecom	Lagardère Group
<p>Overview</p> <p>Revenues</p> <p>Employees</p> <p>Homebase</p> <p>Active in other countries</p> <p>Activities</p>	<p>2,761.2 billion euro revenue (2010) app. 15.400 employees (2010)</p> <p>Finland 20 countries</p> <p>Divisions: Sanoma Media Sanoma News Sanoma Learning & Literature Sanoma Trade</p>	<p>1,414.8 million euro revenue(2010) Half the revenue comes form the Dutch Wegener Group</p> <p>Netherlands Denmark Norway Germany Poland</p> <p>300 news titles Other divisions are: Edda Media, Media Regionalne, Berlingske Media, Presspublica and Media Groep Limburg.</p>	<p>7,966 billion euro (2010) 28.510 (2010)</p> <p>France Appr. 40 countries</p> <p>Lagardère Publishing (books & electronic publishing)</p> <p>Lagardère Active (newspapers, magazines, digital media and radio and TV broadcasting)</p> <p>Lagardère Services (stores, retail)</p> <p>Lagardère Unlimited (sport, events, talent management)</p>

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Newspapers	<p>Owns Lehtikuva, leading press picture agency Finland</p> <p>National: Helsingin Sanomat (383.361), Ilta-Sanomat (150,351), Metro (305.000), Vartti (571.000), The Moscow Times, The St. Petersburg Times,</p> <p>Regional: Etelä-Saimaa (31.222), Kouvolan Sanomat (27.959), Kymen Sanomat (24.216), Uutsivuoksi</p>	<p>Regional: Netherlands: De Stentor, Brabants Dagblad, Twentsche Courant Tubantia, BN/DeStem, Eindhovens Dagblad, Provinciale Zeeuwse Courant, De Gelderlander (156.000, all Wegener; Germany: Hamburger Morgenpost, Berliner Zeitung, Berliner Kurier</p>	
Magazines, Books etc	<p>> 300 magazines: National Geographic, Margriet, Men's Health, Cosmopolitan, Libelle, Donald Duck, VT Wonen, Story;</p> <p>Bookpublisher: education materials</p>	Non	
Digital media	<p>Netherlands: NU.nl (news); TVgids.nl, zie.nl (tv-guides); Bulgaria: Netinfo.bg (news); Finland: Helsingin Sanomat, Hs.fi, Iltasanomat.fi (online newspaper), taloussanomat.fi</p> <p>Search engines and portals, online marketplaces, games, e-commerce and virtual communities</p>	Mainly local newspapersites (app. 200 websites); business newssites business.dk; sports, computers, cars	
Radio and Broadcasting	<p>Radio: Nelonen Media: Radio Rock, Radio Aalto; Radio Helsinki;</p> <p>TV: Nelonen Media: Nelonen, Jim, Liv; pay-TV channels Nelonen Pro 1 and 1; Nelonen (Kino (movie), Maailma (documentary) and Perhe (family))</p> <p>Cable television Company: Welho</p>		

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Abstract

This report offers an in-depth analysis of the major economic developments in the newspaper publishing industry. It focuses on newspaper publishers, and encompasses the production and distribution of printed newspapers and their online distribution and the competition which they face from other online news providers. The analysis integrates data from the statistical report of this project; and includes a database of 10 EU and 10 non-EU companies plus two company case studies (Sanoma and Huffington Post).

The report is divided into five parts. Following an introduction (Chapter 1), Chapter 2 introduces the sector and its main economic and technological features. Chapter 3 analyses the value network of the European newspaper publishing industry, identifying the transformations taking place in the value network and in business model as a result of the on-going digitalisation process. Chapter 5 identifies the main regulatory issues affecting the economic position of newspaper publishers. Chapter 6 concludes the report by confronting the strengths and weaknesses of the European newspaper industry with the opportunities and challenges posed by digitalisation.

The study is based on a review and synthesis of the available literature and reports and on official (Eurostat) and unofficial (trade organisations and consultancies) data on the newspaper publishing industry.

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Key policy areas include: environment and climate change; energy and transport; agriculture and food security; health and consumer protection; information society and digital agenda; safety and security including nuclear; all supported through a cross-cutting and multi-disciplinary approach.