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THE NEW NEWS ON PRINT MEDIA TRANSFORMATION

By Frank Arthofer, Niki Aryana, Anna Green, Alannah Sheerin, and Neal Zuckerman

Digital technology is no longer the disruptive force in print media—it is the driving force that shapes content creation and distribution. The distinction between print and digital is not relevant anymore: publishers have become, with varying degrees of success, digital media companies. But the industry continues to evolve, pushed by changing consumer behavior and business innovation. Transformation, therefore, remains an imperative for many companies.

In late 2012, BCG presented a transformation game plan for companies in the throes of a digital sea change in how people consume print media and how advertisers reach them. (See *Transforming Print Media: Managing the Short Term While Restructuring for the Future,* BCG Focus, December 2012.) Our framework involved three stages: near-term moves to raise cash for the journey; medium-term steps to establish new lines of business, primarily in adjacent segments; and longer-term actions to develop the skills and build the organization and culture the digital world requires.

This framework is still useful, but it's time to rethink specific steps. Most companies have made near-term and medium-term moves. Some of these efforts have worked, some no longer work, and some are works in progress. But consumer behavior and the industry continue to evolve. Companies need to take stock of changes in the competitive environment, the outcomes of the steps they've already taken, and the moves they should be considering to stay relevant over the longer term.

What's Changed?

Three developments in particular have shaped the print media landscape over the past three years.

More print media companies have been forced to stand on their own two feet. In the continuation of a move that began well before 2012, more media companies have separated their print and other media assets. News Corporation (News Corp) and 21st Century Fox split in 2013, Time Warner spun off Time Inc. in 2014, and Tegna and Gannett went their separate ways in 2015. Those transactions generally created value for shareholders, but they left print media companies to fend for themselves in the digitally disrupted marketplace.

Company performance has been mixed. Most print media companies are embracing digital or multichannel models. Hearst Magazines' US digital operations account for more than 30% of overall US profitability. The New York Times Company has set a goal of doubling its total digital revenue, including advertising and subscriptions, to $800 million by 2020. The company announced the addition of 67,000 digital subscribers in the first quarter of 2016, bringing its total to 1.2 million. Gannett has pursued an acquisition strategy, completing the purchase of Journal Media Group, and has added nearly 10% to its market capitalization. (Gannett also recently made an $800 million bid to acquire Tribune Publishing.) Time Inc. and News Corp have focused on adding digital assets, with Time Inc. acquiring Viant and HelloGiggles, and News Corp purchasing Storyful, Unruly, and Move, Inc., which operates Realtor.com and other digital sites.

But overall financial and stock performance among public companies has been mixed. Several have struggled to communicate their transformation strategy or have not yet shown financial gains. After modestly outpacing the S&P 500 in the first half of 2015, print media stocks as a group underperformed in the past year.

Digital incumbents, such as social media sites, are now a bigger competitive threat than digital attackers. Thanks in part to the rise of mobile as the dominant channel for media consumption, news media aggregators (such as Flipboard, Circa, Newsy, and Pocket) have given way to mobile-first social media platforms (Facebook's Instant Articles and Snapchat's Discover, for example). These platforms have become the go-to destinations for news, especially for younger consumers, and are therefore a material threat to traditional news media brands. A 2015 survey by the American Press Institute of millennials' sources for 24 news topics—including music, TV and movies, sports, crime and public safety, and national politics—found that Facebook was the number one source for 13 topics and the number two source for 7, meaning it ranked first or second for 20 out of 24. A 2015 survey by Pew Research found that more than 60% of Facebook and Twitter users get their news on social networks. BuzzFeed is a major source of news and information for 14- to 25-year-olds, and 75% of its traffic comes from social media, according to digital information clearinghouse DMR. Snapchat, through its Discover platform, has emerged as an important curated news source for millennials.

The incumbent news media brands have taken notice and are beginning to embrace these platforms: the *Wall Street Journal* made its debut as the first major US newspaper brand on Discover in early 2016, and approximately 20 other media outlets are now on that platform, including CNN, *Cosmopolitan,* and *National Geographic.*

Funding the Journey

In 2012, we described three categories of near-term moves that could help companies fund their transformations. It's fair to say that more than three years later, just about all the cost-cutting and short-term shareholder value levers have been pulled, particularly in the mature media markets of North America and Western Europe. In other, less developed markets, some room may remain. But many companies cannot cut further without affecting their products. They have taken the restructuring steps open to them, and they don't have the financial flexibility to significantly increase dividends or buy back shares.

That leaves revenue and its two principal sources: consumers and advertisers.

Consumer Revenue. To support subscription sales, many newspapers have erected paywalls, substantially reversing the decline in consumer spending for newspaper content—although it should be noted that one reason for the paywalls' success is the limited competition in many markets (particularly those that are small and midsize). Newspapers may not have much more room to increase subscriptions to existing offerings. Magazines, on the other hand, compete in a much broader competitive landscape—with one another and with digital players; they have not experimented as extensively, or had as much success, with paywalls. One notable exception is the *New Yorker,* which introduced a paywall in the fall of 2014 and generated more than 100,000 digital subscribers in the first year with no material decline in print subscriptions or unique digital visitors.

Some companies are also attempting to reinforce the value of their publications to consumers by bundling content with other products, such as consumer-focused events. Entertainment Weekly holds about a dozen events a year, including movie premieres at SXSW and the Toronto Film Festival. The Essence Festival attracts more than 450,000 people annually to New Orleans and is expanding to South Africa in 2016. The *New Yorker* is advertising the 2016 version of its annual festival as a three-day "eclectic lineup from the worlds of film, fiction, politics, comedy, science, fashion, food, and more."

Publishers are also bundling their content with that of other companies (including competitors) through consortia or third parties. Next Issue Media, which launched in 2010 (and was recently renamed Texture) offers consumers access to a selection of magazines for a one-month period in return for a flat fee. The newspaper industry has launched its own cross-title bundle, Blendle, which has nearly 1 million registered users after its first two years of operation in Europe and will launch in the US in 2016 with up to 20 titles.

Advertiser Revenue. Companies have made a number of moves to generate more revenue from advertisers and develop new revenue streams. Four of the most common—and successful—are the following:

- **Bundling Print and Digital Ad Sales.** Print media companies have grown more sophisticated in selling print and digital ad bundles that generate more revenue across publishers' portfolios and generate higher ROIs for advertisers. In many companies, print sales teams and digital sales teams, which used to operate separately, have been merged.

- **Restructuring Ad Sales.** Media companies are reorganizing ad sales teams to reflect their advertisers' focus on audience and consumer segments. Some publishers have realigned sales teams by industry (one team focuses on telecom, another on apparel, for example) rather than by brand to deliver customized solutions to advertisers. Newspapers have merged local and national advertising sales to provide a sufficiently large-scale alternative to other national media. Companies are also recognizing the need to recruit new kinds of talent, including people with analytical skills in areas such as programmatic sales and those who understand broader marketer needs and can deliver more comprehensive and more targeted marketing solutions.

- **Creating Private Markets for Programmatic Sales.** Many advertisers now believe that the programmatic buying of ads is the most effective—and most cost-effective—way to reach target customers at scale, and they are backing this belief with budget. Programmatic, or automated, spending on display advertising (desktop and mobile)—a $9 billion market as of 2015—is expanding by almost 30% a year. Spending is expected to exceed $30 billion in 2019. (See *The Programmatic Path to Profit for Publishers,* BCG Focus, July 2015.) Many large print publishers generated more than one-third of their digital ad revenue through programmatic sales in 2015. Publishers have built new capabilities and created new positions to capture opportunities in this growing market.

- **Developing New Ad Products.** Many publishers are aggressively investing in developing and selling new advertising products and capabilities. Native advertising—which integrates the sponsor's content substantively and stylistically with the editorial product—is showing particular success. Business Insider expects native-advertising revenues to reach $21 billion in 2018, from about $8 billion in 2015. Many publishers are using content recommendation services, such as Outbrain and Taboola, to shape and drive traffic to their native-advertising programs. They have also created studios to produce branded content for their clients. Time Inc.'s The Foundry is one example; Condé Nast's 23 Stories is another.

Medium-Term Growth

Transformations are ultimately about establishing new sources of growth and profit, so print companies need to demonstrate new digitally aligned business models that rack up gains in the medium term (one to three years). Publishers have tried various moves in the past few years. In our assessment, entering adjacent areas that build on existing capabilities is still the best route to growth. Axel Springer is a prime example of this kind of success. The company has expanded into digital businesses such as content sites and online communities. Buoyed by its digital division, which accounted for 67% of revenue and 72% of earnings in the first quarter of 2016, Axel Springer reported sixfold year-over-year growth in net profit in that period.

That said, buying rather than building new businesses has been the more successful path for this kind of expansion. Legacy media companies often lack the technology and the marketing capabilities, and in some cases the digital audiences, to develop new businesses themselves. And they can struggle to create effective new digital channels that will attract new customers. Growth through acquisition, joint venture, or partnership is better suited to many companies' current circumstances and has allowed them to capture revenue more quickly. Hearst Magazines acquired digital agency iCrossing in 2010. News Corp bought social news agency Storyful in 2013 and digital real-estate-listings company Move, Inc. in 2014. Condé Nast's parent company, Advance Publications, acquired the data analytics firm 1010data in 2015.

Whether digital operations are acquired or built, they do best when they are grown and managed outside the core business. Emerging businesses need dedicated resources and, more often than not, new kinds of talent. The organizations, processes, and cultures of traditional publishing can stifle them.

A few growth areas in particular have been successful for print publishers.

Branded content has emerged as an important growth engine not only for the near term but for the longer term as well. Publishers such as The New York Times and Condé Nast have aggressively entered the branded-content business. And companies such as Unilever, GE, and Red Bull are actively building in-house media capabilities, pulling editors and journalists from publishing companies and working with agencies and publishers to develop content.

In our view, playing a role in the future of branded content is a big and multifaceted business opportunity for media companies. At the very least, they need to meet the growing demand of consumers and advertisers by developing a core offering that marries two capabilities: integrating native ads seamlessly into consumers' interactions with media and working with brands to develop creative content for distribution through media platforms.

To develop those capabilities, publishers are complementing their editorial expertise with people hired from advertising and other marketing companies, and editors are learning a new juggling act of managing editorial content and business considerations. Publishers considering this route should ensure that their branded-content ventures are transparent to advertisers and audiences alike and that the editorial brand and voice are closely aligned. We see attractive opportunities to build adjacent businesses in three areas related to branded content: full-service branded-content offerings, native-ad sales on media companies' private exchanges, and content management services for marketers. (See *Branded Content: Growth for Marketers and Media Companies,* BCG Focus, July 2015.)

Events have become a big hit for advertisers, too. In addition to profitable events for consumers, many publishers organize events for advertisers (business conferences and networking events, for example) that make money and contribute to brand building. Some are completely supported by sponsors; others have high ticket prices. For example, The Atlantic Ideas Festival includes events in New York City and Aspen at which thought leaders discuss a variety of topics.

Traditional print is far from dead—profitable business opportunities can still be found. For example, *T: The New York Times Style Magazine* celebrated its tenth birthday in 2015. Although print-advertising revenues slid overall in 2015, *T Design,* part of the *T* family of publications, increased ad pages by 57 pages, or 75%, year over year.

Publishers are offering new print products to drive incremental revenue, especially in the premium segment. Time Inc. launched a bespoke US edition of *Wallpaper,* a magazine that focuses on design, architecture, and culture, but has announced that initially it will be distributed only to a select group of affluent readers and targeted commercial venues. Another global newspaper player, recognizing that the majority of its print demand now occurs on the weekend, has bundled weekly special sections (such as City and Arts) into the weekend edition and has raised the subscription and newsstand price and advertiser demand for its transformed premium edition.

Some new business lines are not working as well. The notion of using media properties as the basis for building commerce businesses (in the oft-discussed three-pronged digital business model of "content, commerce, and community") has not paid dividends for companies that have pursued it. Differentiation is difficult, and persuading consumers to move beyond visiting a site to actually making a purchase is harder still. Even for successful e-commerce businesses, margins are typically razor thin.

Plenty of media companies have tried to build over-the-top and subscription video models, but it is early days yet, and few companies have found that linking print brands to television and film businesses leads to financial success or increases their audience. About 20 traditional print brands currently have streaming Roku channels, but most are ad supported rather than subscription based and so require large audiences to operate profitably. While many of these companies have hired talented video executives to lead their efforts, high-caliber video requires capabilities that newspapers and magazines generally lack.

People, Organization, and Culture

In 2012, few print media companies had the right people, organization, and culture to embark on a successful digital transformation. After taking some steps to address these long-term concerns, companies are in much better shape, but they need to keep pace with a fast-changing industry and marketplace.

People. Many print media companies have experimented with leaders from outside their traditional ecosystem, hiring top talent from the TV, digital media, and even consumer product industries to help propel ad sales teams, run titles and brands, and create businesses outside of core print properties. Roles on both sides of the editorial-publishing divide continue to evolve, and the divide itself at many companies is so blurred that it's unrecognizable.

For example, magazine editors are increasingly playing new internal and external roles. In the former, the editor is an integral member of a brand team, instrumental in both the editorial and commercial sides of the business. He or she needs to maintain a close relationship with the publisher; together, they present a united front to the industry and to advertisers by partnering on the development of an editorial environment shaped by both editorial content and advertisements. Externally, the editor is taking on the role of lead ambassador through interviews and appearances at consumer and advertiser events and in branded social media activities. As one advertiser put it, “You want an editor who transcends what the brand stands for.” And an executive at a leading ad agency said, “The next-generation editor is balanced between consumer and marketer—running a business in partnership with a publisher.”

Organization. Publishers have come a long way, but most have yet to embrace an editorial model that fully integrates print and digital. An integrated newsroom, in which a piece is written once and published multiple times in multiple places, is the next frontier. Integrating editorial teams, creating a distinct center of excellence in one place as opposed to multiple locations, and eliminating cross-property duplication are all crucial to effective and efficient editorial output.

Publishers also need to hire more data and analytics experts and integrate them into their organizations. Collecting and analyzing data have become the key to determining how to acquire audiences and make money from them, but data and analytics have also become critical to producing the insights that publishers need in order to develop content. For example, understanding which topics and formats work in which distribution channels has become a prerequisite for publishers looking to increase engagement.

Culture. Speed is a digital necessity, as is the ability and willingness to test (quickly) multiple new ideas and concepts, recognizing that some will fail. The most successful publishers today place lots of small bets and double down on those that show promise. Organizations must learn to celebrate not just the big successes but also the calculated failures that provide lessons and direction. They need to develop ideas that not only add to the bottom line but also reenergize a brand.

Corporate transformations in industries undergoing disruption are rarely one-time undertakings. Technologies continue to advance, consumers and companies embrace new applications, new (and some old) players bring innovative ideas to market. The disruptive impact spreads and evolves. Companies need to revisit their circumstances and strategies in order to keep up. Progress must be followed by more progress. If anything, forward-looking companies should have a greater sense of urgency today to develop new services and solutions and build the organizations and cultures they need in an evolving environment.

About the Authors

Frank Arthofer is a principal in the New York office of The Boston Consulting Group. You may contact him by e-mail at arthofer.frank@bcg.com.

Niki Aryana is a senior partner and managing director in BCG’s London office. You may contact him by e-mail at aryana.niki@bcg.com.

Anna Green is a partner and managing director in the firm’s Sydney office. You may contact her by e-mail at green.anna@bcg.com.

Alannah Sheerin is a principal in BCG’s New York office. You may contact her by e-mail at sheerin.alannah@bcg.com.

Neal Zuckerman is a partner and managing director in the firm’s New York office. You may contact him by e-mail at zuckerman.neal@bcg.com.

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