



NO PAY WALL PANACEA, BUT THE BUILDING BLOCKS OF A NEW REVENUE MODEL

Monetising Digital Content
Consumer Publishing

June 2010

ocean 
STRATEGY

THE 30 SECOND BRIEFING

7 key takeaways on Pay Wall for consumer publishers

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1. The Pay Wall payoff is not content revenue

The search for new sustainable business models in consumer publishing has been intense, ever since news and information started to migrate onto the internet. Publishers have created reasonable online ad revenue, however, the structural shift to digital has squeezed print revenues. For the majority of publishers, the promise of growth through a purely ad-supported online business model has simply not materialised.

It is therefore no surprise that pressured publishers are tempted by the hope of the new consumer-focused opportunity of erecting Pay Walls around their sites and charging consumers.

However, a brief look at the history of Pay Walls (Fig.1) indicates that a limited number of publishers have seriously tried to erect Pay Walls, with many demolished soon after.

Paid content solutions have clear limitations – from the most obvious one: a significant cut in traffic to the website, resulting in lower ad revenues – to the severe difficulties in making consumers pay for content that is usually available free of charge.

Ocean’s opinion is that any attempt to judge paid content as a stand-alone effort fails to account for a critical effect - the potential to transform the publisher-consumer relationship through enhanced customer information.

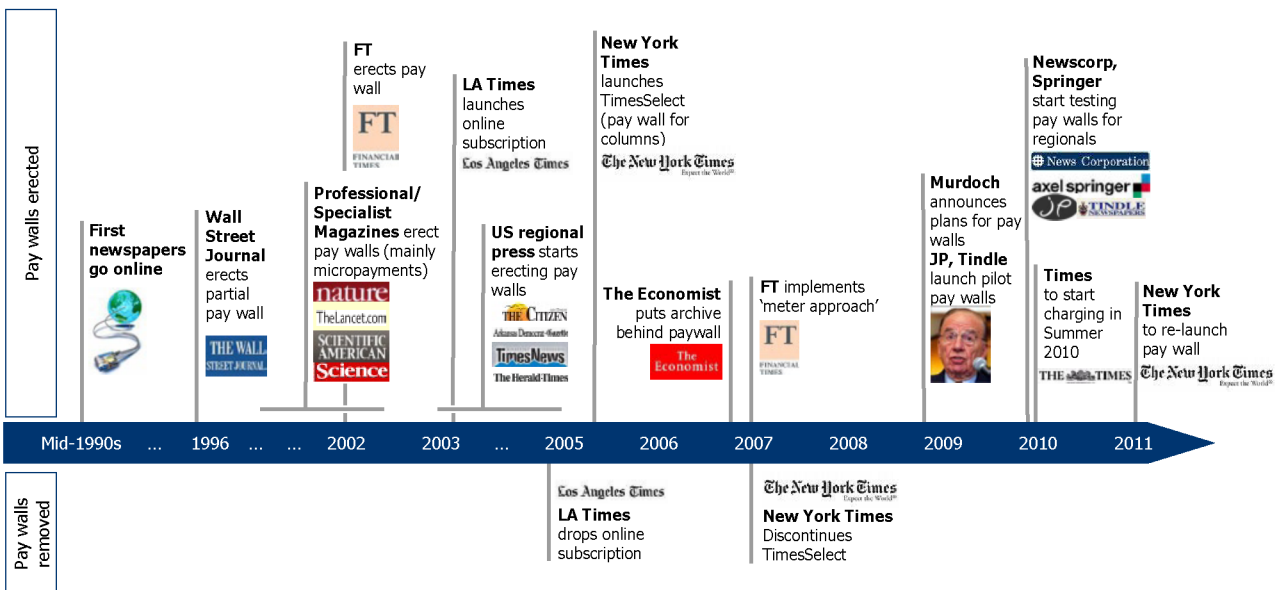
Publishing has already seen successful examples of monetising customer information, the most inspiring in the Business & Professional Media segment. Media companies in this segment have a long history of data exchange between publishers and customers, resulting in a customer-centred publishing model. Instead of ‘pushing’ standardised content to customers, content is tailored to customer needs with the help of integrated data and information solutions.

Now is the time for consumer media to move in the same direction. By redefining the publishing model from pure content provision to substantial content monetisation, publishers can embrace a variety of new revenue opportunities. Aside from content, loyal and devoted readers can be monetised through e-commerce, e-marketing and higher advertising rates, reflecting the ‘higher quality’ audience premium. By expanding the publishing model in this way, the industry can reinvent itself and embark on a sustainable growth path.

Pay Walls or user registration is the enabling keystone, with customer data acting as the binding mortar holding together the various bricks of a new mixed revenue model wall.

Fig.1 The Pay Wall Timeline

History of Pay Wall approaches with mixed results so far.



2. Paid content can succeed with a tight focus

When it comes to paid content solutions in consumer publishing media, wide-spread scepticism rules:

- Surveys indicate no more than 5-20% of consumers willing to pay for online news with lowest acceptance among older, less technologically savvy consumers.
- Existing 'best practice' examples end up arriving at the Wall Street Journal (WSJ) and the Financial Times (FT), neither of which represent 'general consumer media'.
- Scepticism is further fuelled by the free-rider issue: Any player not participating in Pay Walls would benefit from higher traffic and a higher share of advertising.

Consumers will pay for other media – online TV and Music being the most recent examples. It is also the case that dynamics and predisposition to pay can change – for example the transformation of UK Pay TV from a previously free to a successful paid-for model.

CASE: SKY TV

Until 1989, TV was universally accepted to be a free public good. This did not prevent Sky TV, after heavy initial losses, quickly penetrating 1/3 of UK households.

- Sky's success highlights consumers' willingness to pay for a unique and exclusive offering, such as Premier League football, and superior packaging like Sky + and HD.
- Equally important was marketing. By bundling channels, Sky was able to maximise revenue per customer.
- Instead of playing a wait-and-see game, Sky benefited from an early move, establishing itself in the market ahead of other satellite broadcasters at a time when cable television was still in its infancy.

3. Revenue lies beyond paid content and ads

It's much the same picture now in consumer publishing. Those who start experimenting early can gather invaluable experience and build a faithful user base ahead of competitors. Only by focusing on this core audience and addressing them

with new monetisation models, can publishers go beyond paid content to develop a range of additional revenue streams (Fig.2).

Fig.2 Revenue structure after Pay Wall implementation





3. Revenue lies beyond paid content and ads (cont.)

It takes a few steps to achieve a comprehensive content monetisation model:

In the **existing model**, publishers rely on a combination of legacy circulation and print advertising revenue. Online properties contribute only a small portion of revenues, primarily through advertising, often treated as a secondary stream and 'pushed' to advertisers through bundles with print.

With the launch of a Pay Wall and the registration of the user base, the revenue mix shifts to the **transitional model**:

- Naturally, **online paid content revenue** emerges as a new revenue stream. Publishers tend to set subscription prices at a heavy discount to print (based on perceived lower willingness to pay for online content) although current iPad apps are pushing this price boundary at present.

Furthermore, current Pay Wall examples show that only up to 5% of online users are willing to sign up for paid content subscriptions, even at regional publishers enjoying near monopoly in their communities. The expected low subscription price and limited number of paying subscribers will limit paid content revenue streams in the initial stage.

- The drop in traffic resulting from a Pay Wall will clearly have a negative effect on online advertising. Current examples show that the drop in page impressions after erecting a Pay Wall around significant parts of the editorial content is likely to be in the range of 10-40%, which usually translates into a similar decline in advertising revenue.

It is this sole focus on consumer content revenue and advertising revenue – and no other revenue streams – that makes paid content business models so controversial. Most media owners are worried that they lose more in advertising revenue than they can gain in online consumer subscriptions/content revenue.

Ocean sees the transitional model – based on consumer and advertising revenue – as only an evolutionary step towards the **comprehensive monetisation model** in which paid content is but one brick. In this third stage, the base of registered and loyal online subscribers offers opportunities to generate revenue in multiple ways:

- The most promising and already proven opportunity is **e-commerce**. However, at Ocean we think this opportunity is still far from mature for most publishers. While 'live' channels like business, news and sports look to have most potential in paid content, 'lifestyle' channels are better suited to e-commerce potential. Here publishers can leverage deep content to drive sales of corresponding product categories in a far more engaging way than traditional e-commerce.

The marriage of great content and product purchase is a clear differentiator for content owners. Publishers may also consider stepping entirely outside their traditional space

CASE: TIMES SELECT

Even the New York Times, after securing a subscriber base of 227K users and generating \$10m in consumer revenue, decided to discontinue Times Select in order to capture a share of the then booming advertising market (pre-recession 2007).

The more recent slump in the advertising market inspired the NYT and many others to revisit Pay Walls in their search for new, less cyclical revenue streams.

in the value chain to offer transactional online services to their consumers in specific verticals.

- E-marketing – selling customer information to third parties and leveraging the deeper consumer insight obtained on purchasing behaviour and needs is another viable option as long as brand values are upheld.
- **Online paid content revenue** streams can be further extended by improving the content offering to account for customer needs, based on a much improved knowledge and understanding of the registered core audience.
- Finally, by offering access to a more engaged and better segmented audience, publishers can expect higher yields for **online advertising**, although the industry has yet to find a way to reflect this effect in suitable metrics. Deeper vertical content strands may also open new specialist advertising categories.





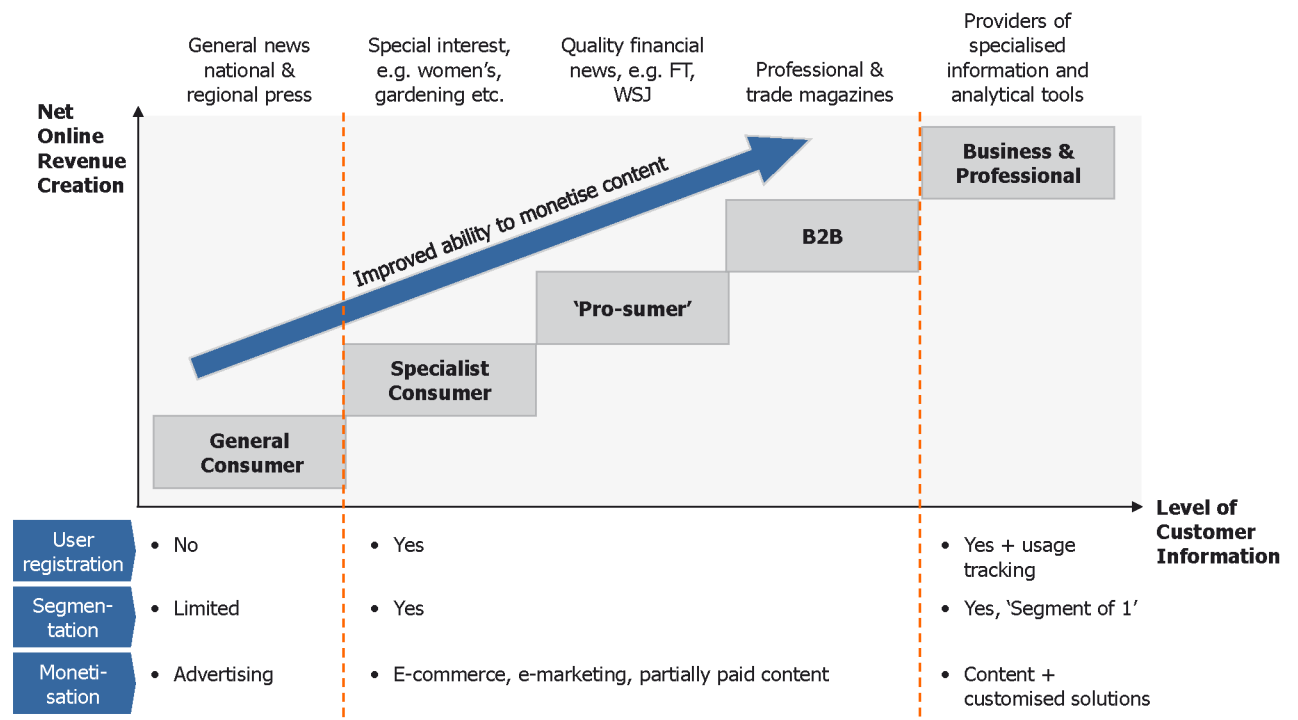
4. Pay Wall is the path to a customer data centred model

Publishers can launch most of the above on free websites, but a Pay Wall is important in maximising potential via the necessary registration and commerce platforms.

Successful titles have gathered a loyal and often passionately committed audience, yet so far failed to get to know their readers and monetise this relationship. By requiring site users to register, publishers can gather extensive data on users' demographic profiles, needs, habits and track online behaviour. The audience behind any such 'registration barrier'

will be much better researched, with information available on individual website and platform basis. It will also be a more engaged audience due to the self-selection processes – only loyal users will sign up for a paid or registered offering. The industry experience gathered so far confirms the dramatic impact customer information can have on online revenue streams. Across the spectrum, the ability to create online revenues is directly dependent on the level of customer information attained (Fig.3) with business and professional publishing and B2B/prosumer leading the way.

Fig.3 Role of customer information in creating online revenues



CASE: BUSINESS & PROFESSIONAL PUBLISHERS	CASE: B2B AND PRO-SUMER
At the higher end of the spectrum, Business & Professional Publishers have the deepest knowledge of their user base, often keeping track of each customer's needs and usage. Working with 'segments of 1', they can carefully customise content and develop workflow solutions appropriate for each customer.	B2B, 'Prosumer' Publishers (combining characteristics of Professional and Consumer media) and Specialist Consumer Publishers use a different model. With hundreds of thousands of subscribers, these publishers now have sufficient information to sub-divide their online audience into discrete segments. This can form the basis for successful e-commerce and e-marketing platforms.

Consumer Media lags behind other sectors in understanding readers' needs. Still seeing their online audience through a mass-market lens, most generalist publishers treat them as a homogeneous mass. Absence of log-in/registration prevents information collection, and thus only limited segmentation is possible. This explains the lack of any mature content monetisation models and their almost exclusive reliance on advertising.

Thus, to move further up the revenue generation curve (Fig. 3), erecting a pay/log-in wall can become a critical step for general consumer publishers who wish to upgrade their customer information knowledge and find new means of monetising their audience.

5. Paid content should fit within an integrated digital growth strategy

The pre-cursor to developing paid content revenue is to build an all-encompassing and integrated digital growth strategy which estimates the potential of paid content per publisher or product and resources it properly within the mix of new digital revenue opportunities.

6. Content can be monetised in three steps

Once a full digital revenue growth strategy is developed, certain publishers will be able to develop content monetisation but each publisher should assess and value their content in steps to ascertain the potential in this growth opportunity (Fig.4).

1. Audience Analysis

Any monetisation effort starts with detailed audience analysis. For identified key segments, publishers can create 'interest profiles' that serve as a basis for developing customised content packages and offerings.

2. Content Assessment

Next a detailed examination of content inventory to identify areas most suitable for monetisation. Successful Pay Walls show that users are only willing to pay for content that fulfils certain requirements: In general, content needs to be unique, 'sticky' and authoritative. Ocean has developed a framework built on successful benchmarks to assess content in terms of value to the consumer. Replicating the offline offer may work as a traffic driver, but is likely to fail as a paid online model.

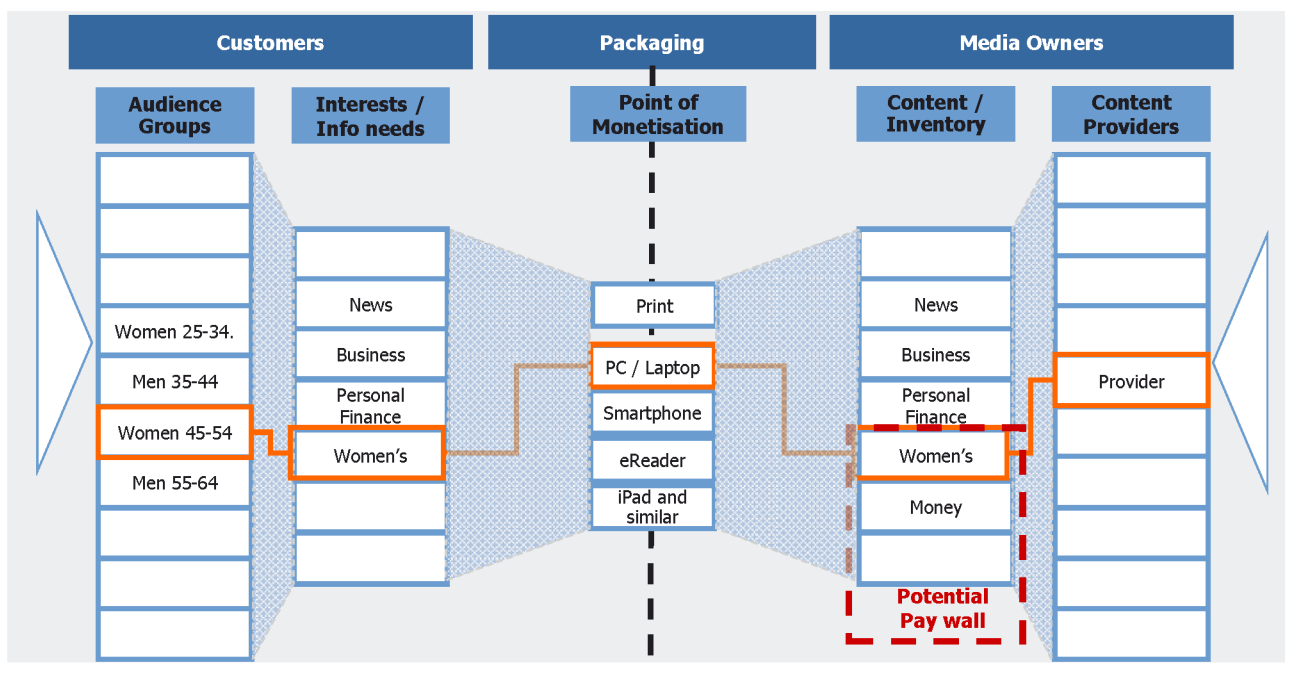
3. Effective Packaging

To connect audience and content, publishers need to develop effective packaging at the point of monetisation. In addition to the 'traditional' desktop internet, the audience might access the publisher's content through a variety of new options: Smart phones, eReaders and tablet computers (e.g. iPad).

Apps development for smartphones, iPhone and iPad has the benefit of clear monetisation models, but revenues will be small by comparison to print, likely to cannibalise - and strategically the loss of control presents difficulties with intermediaries controlling the key consumer relationship.

A critical task for publishers is to preserve the direct link to consumers and prevent powerful technology providers from monopolising digital platforms, avoiding the replication of an 'iTunes scenario' in news or consumer publishing.

Fig.4 Content monetisation map

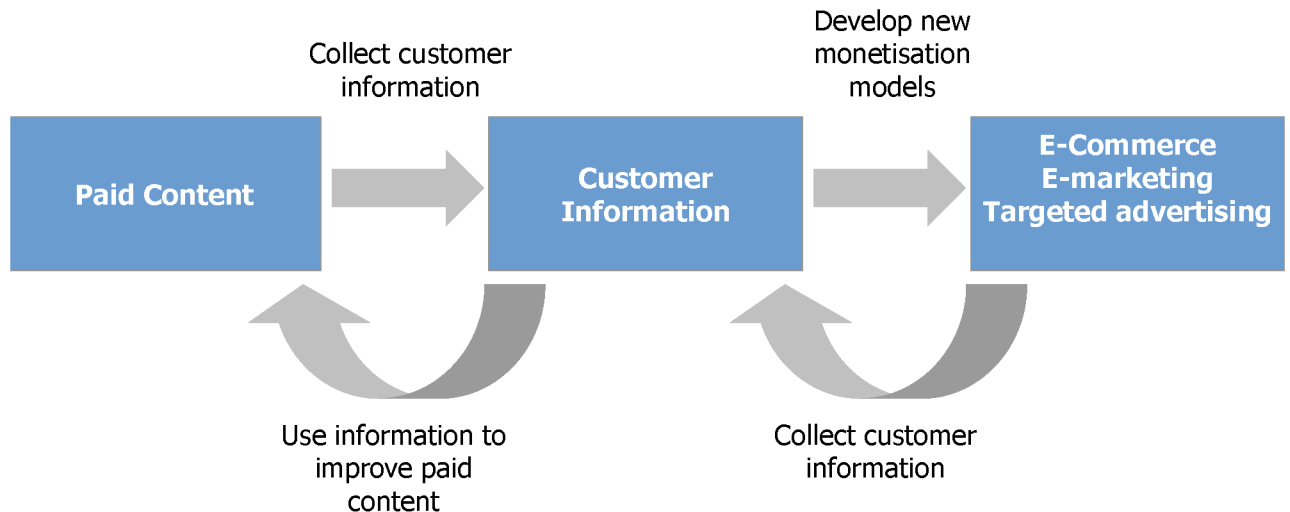


7. Pay Walls are no panacea, but a catalyst for growth

Pay Walls are no universal solution – a careful implementation of the above-mentioned steps will result in a strategy suited to each publisher’s needs. A specialist business publisher should develop and market its paid content differently from a general consumer publisher. In all cases Pay Walls assist, acting as a catalyst, and another brick in the wall of a new revenue model.

Pay Walls have limitations and involve risk. Yet, for a consumer media company, passive observation is even riskier. Only venturing into experiments will enable quick learning based on trial-and-error and trigger a ‘virtuous cycle’ (Fig.5).

Fig.5 ‘Virtuous cycle’ in general media



By introducing a Pay Wall, publishers start collecting vital customer information. This information, in turn, helps them improve their product, enabling them not only to develop paid content, but also launch effective e-commerce, e-marketing and targeted advertising. These streams, in turn, further support information collection.

Experimenting with paid content is thus a way to start a journey that can lead to a complete transformation of the revenue model and sustainable future for the publishing industry.



Ocean Strategy advises leading media owners and in the last year has regularly assisted consumer publishers in the development of their digital growth strategy.

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