Newspaper Industry Lifecycle and Market Strategies in the Context of E-Business: A Case Study

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Abstract

The Internet has impacted heavily the information and media industries, especially with the consolidation of the Web 2.0 phenomenon. The printed news segment was one of the most impacted and is currently facing a process of transformation and adjustment as consumer behavior changes with the new media. In this context, this article presents a study about the printed newspaper and the influences of e-business on this business. The analysis includes an assessment of the recent history of the product, the impact of the Internet on the traditional business model of the printed newspaper segment and a case study about business model innovation in response to the disruption caused by the Internet in a newspaper with great circulation in Brazil. The results are obtained through literature review, participant observation, statistical analyses on the influence of macroeconomic variables and semi-structured interviews with experts and managers of the company studied.

Keywords: newspaper, lifecycle, value chain, e-business, digital convergence

1 Introduction

In recent times, the information and media industries were strongly affected by technological developments such as digitization, resulting from the widespread diffusion of computers and new information technologies, and the consolidation of the Internet as the most important global channel of communication and information transmission. One of the segments most strongly affected by these phenomena is the printed news, particularly the daily newspapers sector.

In a general way, the Internet represents a new distribution channel for news . Compared with the printed paper, the distribution of digital content online is cheaper, practical, dynamic and immediate. As a result, readers change their expectations and news consumption habits. Due to all these factors of technological change and its multiple impacts, newspapers around the world needed to critically confront their traditional business models in order to adapt them to the new digital reality.

In this context, this paper focuses on the impacts caused by technological changes related to digitization and consolidation of the Internet in the daily newspaper industry. Specifically, the paper discusses business model innovation performed by a media company that owns a traditional daily newspaper of large circulation in Brazil. The aim of the paper is to investigate the process of business model innovation required to meet the demands of combining the physical and online formats that drives the current competitive environment in the newspaper industry. The empirical research is based on an exploratory case study, which uses semi-structured interviews with experts and managers of the company, as well as participant observation and documentary research.

2 Literature Review

Writz et al. (2010) define business model as a reflection of the company's operating system and its results. According to the author, a business model captures the way the organization operates and creates value. The model can be thought as a set of dimensions that describe, the firm resources used to create and deliver vaue, the way these resources are transformed into goods or services, how the product is delivered to the customer, how revenues are created and the way business partners collaborate in this process.

For Swatman (2006), the market for digital content, particularly online news, has changed significantly in recent

years with the entry of more and more competitors in most other segments. Characteristics that differentiate traditional business models from entrant business models in the news industry are presented in Table 1.

Business Models in News Industry	
Traditional	**New models**
Monopolized	Enterprise networks with an influent final consumer
Client only receives content	Client has alternatives
Single product	Product with different formats
Decline of traditional sources of revenue	Several sources of revenue
Traditional channels of sales	Online and mobile channels of sales

Table 1 – Comparison of traditional and new fashion business model in News industry – Adapted from Swatman, 2006

These changes in the news industry are strongly related to a profound and paradigmatic shift in the Web seen in recent years: from a linear structure of one-to-many content production, distribution and consumption to a participatory structure based on open, inclusive, collaborative and customizable applications that allow users to collectively create, share, evaluate and use digital content. In this new context, Web users transformed themselves from consumers of content provided by legitimate corporations that held power over the production and ranking of information consumed by the general public, into the producers of information and disseminators of this, becoming somehow competitors of those corporations (Mota, 2009).

With the spread of the Internet, there were changes in the way of production and consumption of information. In a society where speed, ease and interactivity began to dictate the rules of the market, there has been a global trend of declining sales, revenue collection and circulation of printed newspapers, mainly arising from subscriptions and advertising. Sant'Anna (2008) points out that "not only are fewer people reading newspapers, but that they do it for less time. The drop in circulation, the number of readers and the time spent reading newspapers coincides with the period of increased competition from other media, like the Internet". For Ferreira (2004, p. 9), "The Lifecycle Analysis (LCA) is a compilation and evaluation of inputs, outputs and the potential environmental impacts of a product system throughout its life cycle." Four potential stages are defined to explain, according to the sales level, the stage of the products. As stages of the lifecycle are considered the phase of introduction, growth, maturity and decline of the product. Table 2 follows the main characteristics that impact performance strategy for each period.

		Stages			
		Introduction	**Growing**	**Mature**	**Decline**
Characteristics	**Product**	Basic	Improved	Differentiated	Unaltered
	Price	High	Moderate	Low	Lowest
	Distribution	Diffuse	Intensive	Intensive	Selected
	Concurrence	Few	Growing	Much	Declining
	Consumers	Innovative	Majority	Majority	Disinterested
	Cash flow	Negative	Moderate	High	Low

Table 2 – Characteristics that impact performance strategy for each period – Adapted from Garrido (2012)

3 Methodology

The objective of the research is to analyze the influences of the Internet, particularly the recent phenomenon of Web 2.0 and e-business in the marketing of printed newspapers, as well as to seek understanding about how these influences affect the company studied. According to Somekh & Lewin (2005) and Tharenou et al (2007) classifications, the present research is classified according to its type as applied, according to the general objective as descriptive; according to the technical procedure as a case study, and according to approach as a mixed problem, since it employs qualitative and quantitative procedures and data sources.

Data collection used semi-structured interviews (primary sources) and query databases and socioeconomic information about the Brazilian population and economy (secondary sources). In particular, for the semi-structured interviews, it was necessary to find people within the organization under study with extensive knowledge about the pointed scenario and about the company's position on the presented situation. A semi-structured questionnaire was designed so that respondents were free to talk about the issues approached in the interview. Adler & Clark (2011) also state that a personal interview is necessary when it is long and when high response rates are essential.

4 Results

Two kinds of sources were searched: secondary data coming from economic, financial and social research institutes and primary data generated through interviews with managers of the company studied. Analysis results generated by secondary data analysis are reported in the quantitative analysis section (4.1) while the results generated by the interviews are reported in the qualitative analysis section (4.2).

4.1 Quantitative Results

To find explanations gauge how the environmental context impacts the firm under study, six social and economic variables were analyzed. The interviews with managers generated subsidies for the choice of these six variables that were listed by investigators as possibly relevant for the consolidation of newspaper circulation in the case study. A correlation analysis was conducted using these six variables as independent variables, while newspaper circulation was considered the dependent variable

As broader variables were chosen national GDP (Gross Domestic Product) and the GDP of the State of Rio Grande do Sul (Banco Central do Brasil) because they are economic indicators widely used to point the financial health of a region; as support for the hypothesis of migration of audience from the physical format to virtual newspapers the variable households with Internet access (at both national and state levels) was chosen; to analyze the behavior of different generations of consumers were used values of the state population divided by age groups and to investigate the migration of revenue for the Internet the value of national e-commerce sales was used. All variables were assessed from 2005 to 2009.

	Daily newspaper circulation
Households with Internet access – Brazil	0,772553881
Households with Internet – RS	0,790406065
Studied newspaper national circulation (millions units/day)	0,500620514
E-commerce sales Brazil- U$ bi	0,758986051
GDP RS - R$ millions	0,760013776
GDP Brazil- R$ millions	0,779989676
State population 10-19 years old	-0,683878094
State population 20-45 years old	-0,970085538
State population 45 years old or more	0,73811089

Table 3 – Newspaper circulation correlation with macroeconomic variables

Assuming that the definition of the correlation values shows how much a variable increases (value between 0 and 1) or decreases (value between -1 and 0) following a certain pattern in relation to another variable, it was possible to identify evidences for an initial analysis for the issue of audience migration from the physical to virtual format. This audience is represented by the daily circulation of the newspaper under study (audience in physical format) and the number of households with Internet access, both at the state level (0.7904) and at the national level (0.7726). If the audience were significantly migrating to the Web channel, it would be expected that daily circulation would fall as Interned were being diffused. However, the two variables grow together over time and, although there is no relation of cause and effect in the correlation analysis, there is no automatic evidence that the simple diffusion of Internet access is hampering sales of the printed newspaper. The same logic

applies to the case of migration of revenues from physical to virtual format, since the daily circulation increased during the studied period even as internet sales values also increased (0.759).

Regarding the values of state GDP (0.76) and national (0.78), it is important to highlight that newspapers sales are historically dependent on these variables, since as it is not a product necessary for human subsistence, it tends to be eliminated from consumption in favor of commodities (food, hygiene) if there is economic recession and consequent expense retention by the population.

The most conclusive analysis comes from the stratification of the population by age group. While the state population in the 45 or older range accompanies the growth of newspaper circulation (0.7381), the younger ranges of state population seem to show an opposite behavior, with young people between 10 and 19 years showing negative correlation (-0.6839) with circulation newspaper in study and population between 20 and 45 years old (-0.9701) having near perfect negative correlation. These values generate subsidies that seem to corroborate an widely diffused notion in the industry, that is, that young people are leaving the printed newspaper audience over the years.

Regarding audience migration and revenues, it cannot be said that the studied newspaper has been strongly affected so far, at least not in the same manner that other newspapers have been. The advent of the internet, because it is a relatively recent phenomena, may be more precisely assessed in future studies, as there will be greater Internet access in the region. On the influence of age groups, it can be said that the behavior of different ages may be noticing the physical newspaper in different ways, which can significantly influence the continuance of media over the years. In section 4.2, are made notes about how the case study has been adapting to possible changes in consumer habits and new news consumers.

4.2 Qualitative Results

The studied case has relevance in the market in which it operates, being one of the largest circulating newspapers in the country. The business model of the physical newspaper in study has been traditionally successful, according to the managers interviewed. It happened because new competitors would have a barrier to entry into the market of the printed newspaper, which was based on the following logic: producing quality content allied with a high-quality printing process and the management and operation of the logistics chain generated high cost for any company entering the market, while the incumbent already had all the assets in place. Obviously, this entry barrier is strongly rooted in the product's physicality. Once digital news content starts to be produced and distributed online, at much lower costs, the barrier erodes and potential disruptive competition becomes feasible, thus menacing the firm's business model. In the view of the current management this has not yet happened, and growing daily circulation figures do seem to support this view. However, since the issue of online competition is so prominent in the printed newspaper segment all over the world, firm's management stated that they are aware of the risks for the near future.

According to one of the company's managers, the organization is changing significantly its business model in response to this threat since 2000. The creation of an Internet portal generated the expectation that it would have a greater audience than the printed newspaper, but at the same time there was no longer a barrier to entry for smaller competitors. So the online competition has greatly increased and, at the same time, consumer behavior changed, as less valued was assigned to extensive and qualified coverage of events. Instead, shorter but more immediate news coverage was preferred.

The advent of the internet has generated the idea that companies would migrate from traditional media to digital media over the years taking with them their audiences. In fact, this was not verified in part because the business model implemented by Google emerged as an audience aggregator, assisting in the growth process of new entrants: the more agile players (those that published news first) and those that would cover the user's important subjects (such as local or specialized news) would have larger audience (figure 3). This new situation complements the idea presented in section 4.1 about the hypothesis of migration from printed to virtual media, which however was not confirmed in the studied case. With this model, Google today controls a great part of the online advertising revenue in Brazil.

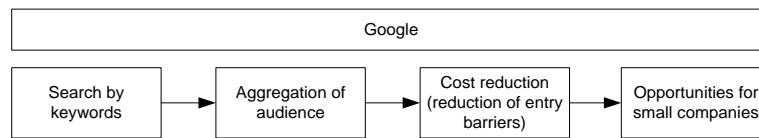| Google			
Search by keywords	Aggregation of audience	Cost reduction (reduction of entry barriers)	Opportunities for small companies

Figure 3 – Google Business Model

Following the trend of the new entrants, the interviews pointed out that the studied company is widening its delivery channels. For instance, it is now possible to purchase monthly subscriptions and single issues of the newspaper on the iPad edition, which is aligned with a reported higher willingness to pay for digital content by tablet owners as well as the offering of a better consumer experience, in line with the micropayments newspapers market started by the New York Times.

Regarding the product lifecycle, the printed newspaper product referenced in this study is clearly in its mature stage. The product is distributed intensively every day and holds the largest market share in the region. Thus, organic growth in audience is difficult. However, the company invests in its differentiation of content, believing that adds value to the product and therefore does not reduce product price. The widening of delivery channels is seen, thus, not only as a strategy to overcome or prevent audience migration to the Web, but also as a way to improve audience, particularly in demographic groups that are not traditional consumers of printed news.

5 Conclusion

The company did not emerge as a pioneer in the digital media market, but it has taken reactive actions to maintain its existing customers from traditional media that migrate (partially or totally) to digital media, as well as attract potential users interested in regional news - in this case the customer portfolio is geographically wider than the printed newspaper.

Besides the introduction of the product in digital media, the physical product is consolidated as a symbol of the social and cultural identity of the region in which it is distributed. With the increased life expectancy of the population and increasing purchasing power explained by the expansion of the class C, the physical newspaper, that is currently in the maturity stage, retains its strength and seems well poised in terms of continuity.

The overall strategy adopted by the company includes the belief in maintaining the public's newspaper, what is based on strength and assurance of quality information that has generated throughout its history. Thus, it is expected that the digital format indicate the path for future strategies, however, the region's population still identifies with the content in physical format, which continues as a major focus of the organization.

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