

## News brands: Rise of membership as advertising stalls

Thomas Caldecott	thomas.caldecott@endersanalysis.com	+44 20 7851 0905
Douglas McCabe	douglas.mccabe@endersanalysis.com	+44 20 7851 0910
Alice Pickthall	alice.pickthall@endersanalysis.com	+44 20 7851 0922
Francois Godard	francois.godard@endersanalysis.com	+39 33 55 289 127
Joseph Evans	joseph.evans@endersanalysis.com	+44 20 7851 0915

# Brief overview

## *Print*

National quality newspaper print circulation decline has slowed on the back of an extraordinary newsflow in 2016, and because the structural transition to mobile has largely been absorbed

However, popular press decline has continued to be the main driver of total circulation falls as smartphone adoption for these demographics has been in full flow since 2013. This matters because it has helped accelerate the structural shift in newspaper advertising to digital advertising: advertiser and agency sentiment and trading have rapidly shifted (with quality titles suffering every bit as much as popular titles)

Saturday and luxury (magazine supplement) environments are substantially outperforming print media – a trend we believe will become more accentuated as time goes on

Print is still substantially the most attractive solution for immersing readers in news and features, a consequence of the disconnected device and inherent serendipity of its layout and package. As membership models develop publishers will invest more in designing and enhancing their tablet and mobile services

## *Digital*

News brands are losing market share to the tech and distribution platforms – we estimate 90% of UK digital display growth in 2016 was on Google and Facebook. As with print, high end, luxury and well-differentiated media are best placed

Services that can track users across devices will be particularly well placed over the next few years, as brands shift their attention from reach to targeting and attribution, enhanced by immersive engagement

## *Rise of member and subscription services*

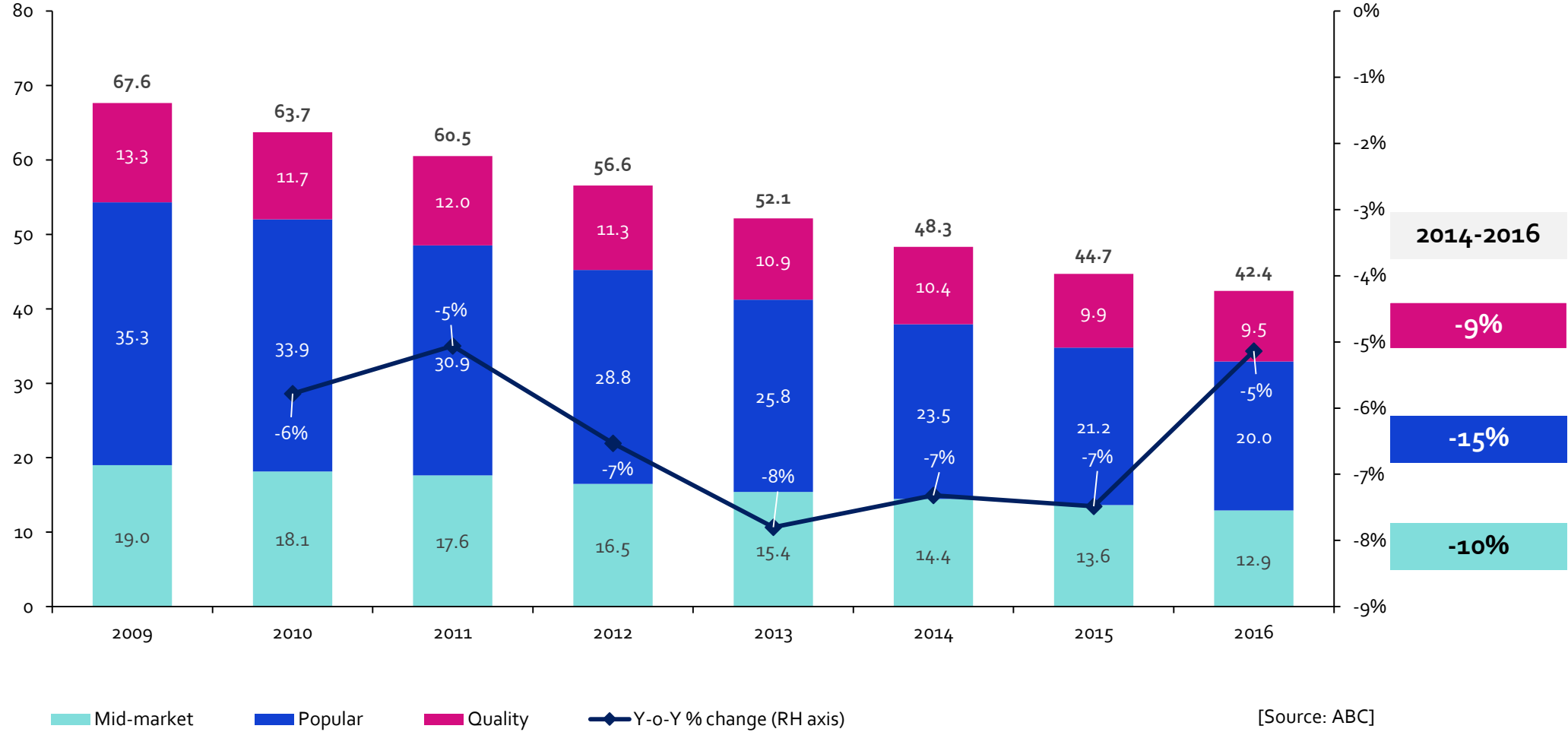
The rise of member and subscription services will diverge the marketplace: quality, immersive, partially closed experiences with membership fees; and open, scale services largely reliant on digital advertising

However, publishers are notoriously poor at *service*, undervaluing both the need to develop a holistic experience mindset (integrating data, design, tech and marketing) and the complexity and costs of deploying retailer skills effectively across the organisation

# National newspaper circulation trends: qualities stabilise, as decline transfers to the popular press

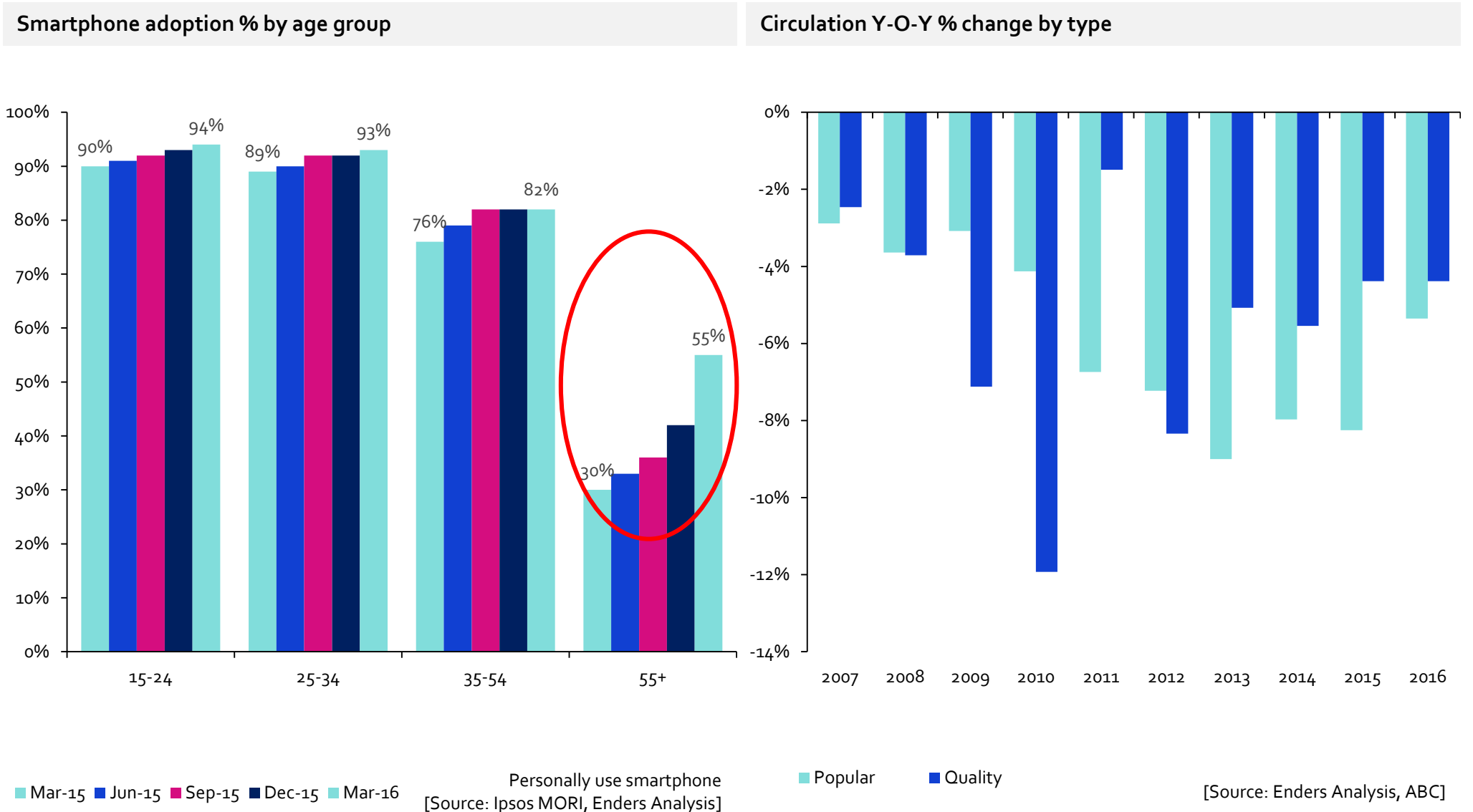
As decline in newspaper shifts from the high-end, low-volume quality press to the popular and mid-market press the aggregated decline in volumes has increased, producing inevitable challenges to the economics of physical wholesale and distribution

National newspapers circulation volumes per week (m)



# Smartphones are a critical driver of circulation decline

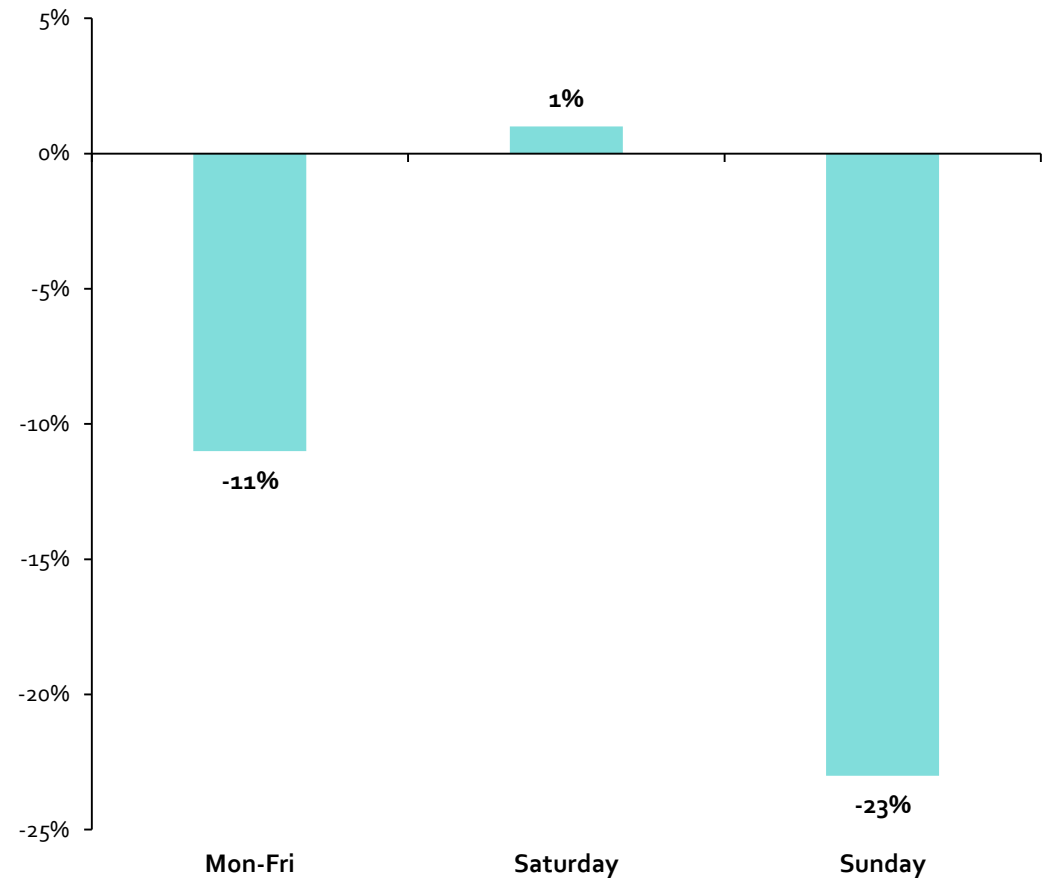
Smartphone adoption among the over 55s has grown exponentially since Q1 2015, and has been the main driver of decline in demand for daily print



## The clear weekly trend: Saturday wins

- Erosion in daily newspaper purchasing is well understood, but the weekend market is changing more dramatically. Quality Saturday titles are very steady, while Sunday titles have fallen substantially. Sundays are turning into “just another day”, and the weekly digest – a very successful format in print – sits more comfortably at the start of the weekend than the end
- Greatest resilience in print news media – such as The Economist, the Weekend edition of the FT, The Week – provide weekly digest/commentary in a trusted brand package, which is a highly relevant print product in a 24/7 news environment. Content that is not replicated anywhere online – Private Eye, for example – is relatively rare and also outperforms print media trends

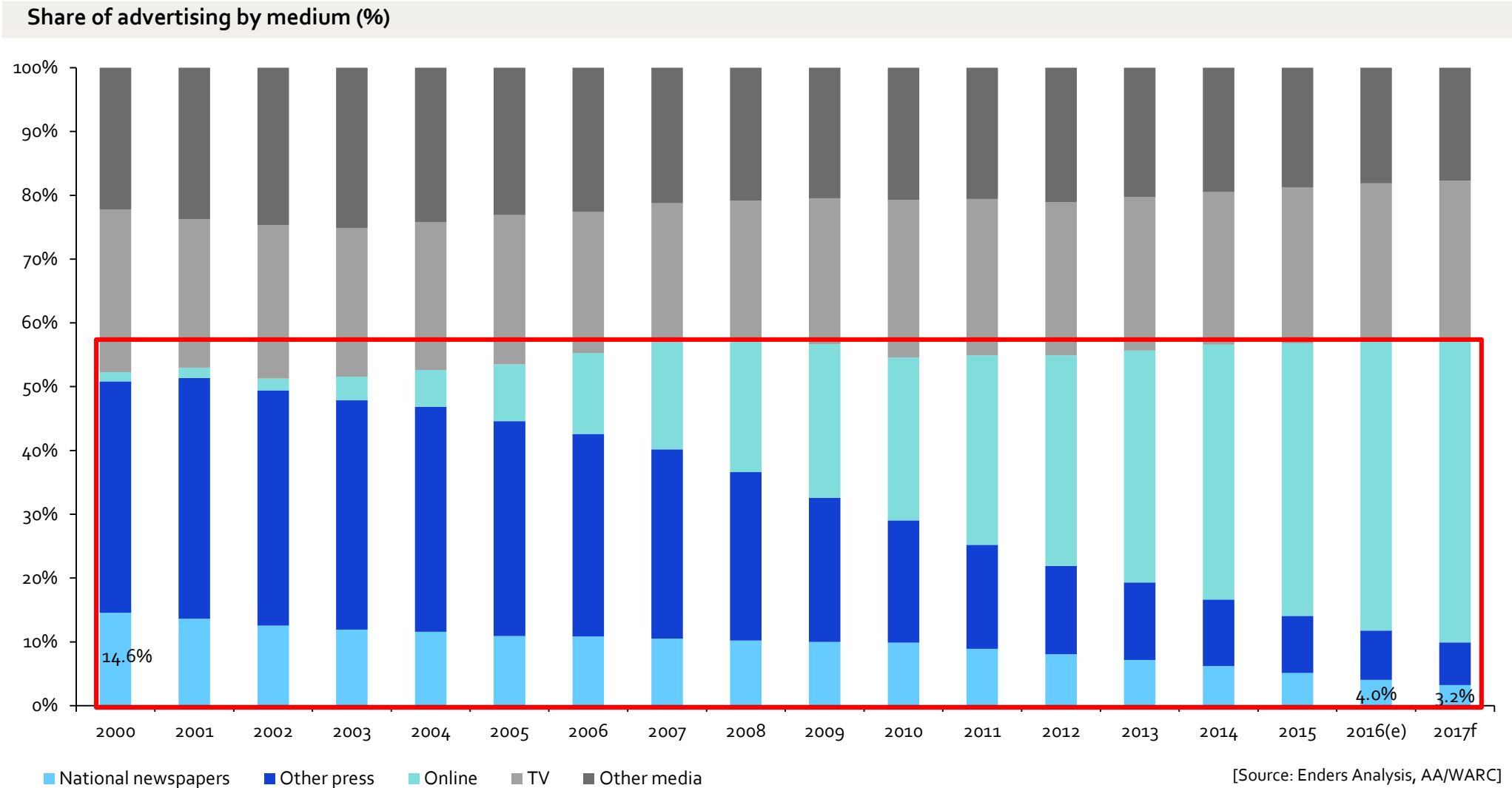
Sales volume growth, UK national quality press , 2012-2016



[Source: Enders Analysis]

# Press to online advertising substitution is *very clear and accelerating*, with other media steady

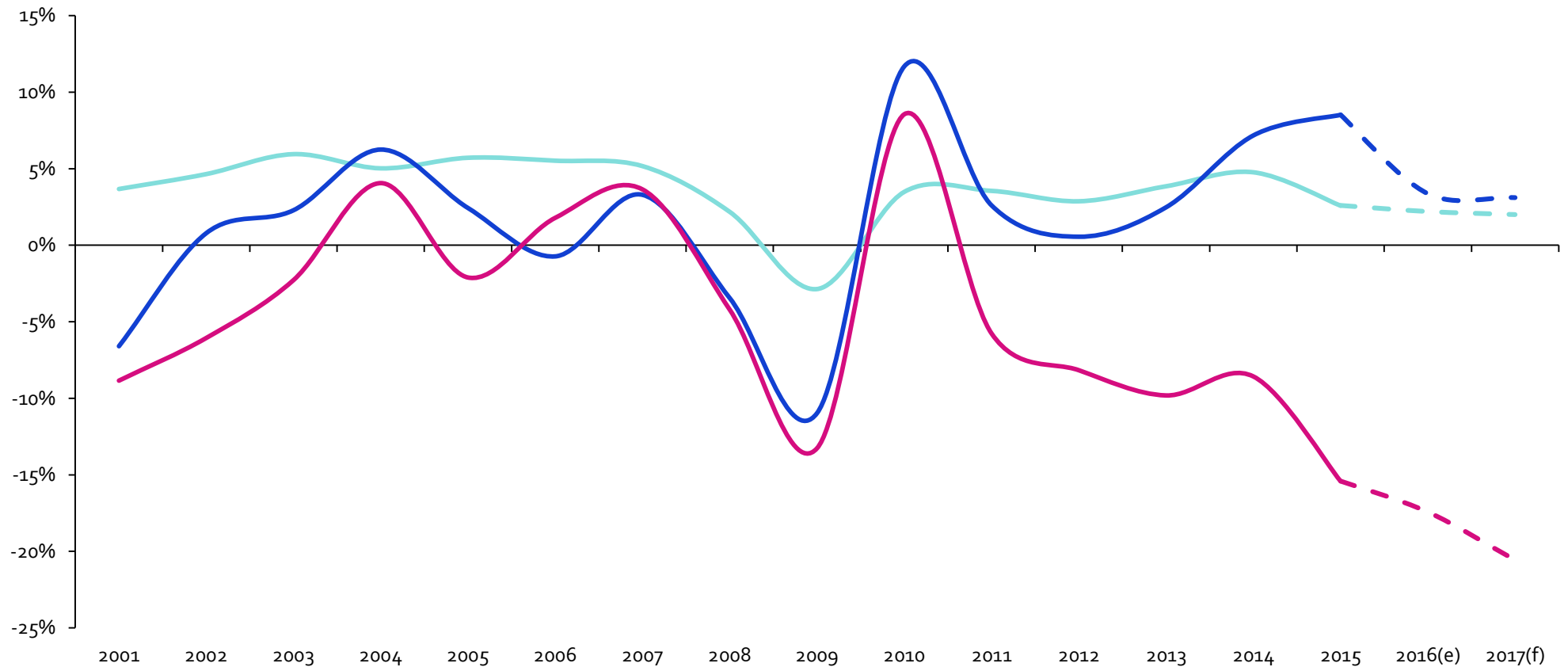
Substitution has been brutal: the growth of digital advertising has largely been at the expense of print media. For the first 10 to 15 years of this trend it was largely a story about print classifieds moving to general and specialist search (Google, Auto Trader). In the last two to three years, it has increasingly been a story about print *display* moving to digital platforms



# Advertising trends in newspapers are equally challenging

Print display advertising decline accelerated substantially in 2015, then again in 2016: a structural decline which has been decoupled from steady growth of consumer demand, and counter to what has been a highly resilient advertising market generally, with TV, outdoor and most other media performing well

Nominal UK display advertising, national newspaper print display advertising and GDP (Y-O-Y % change)

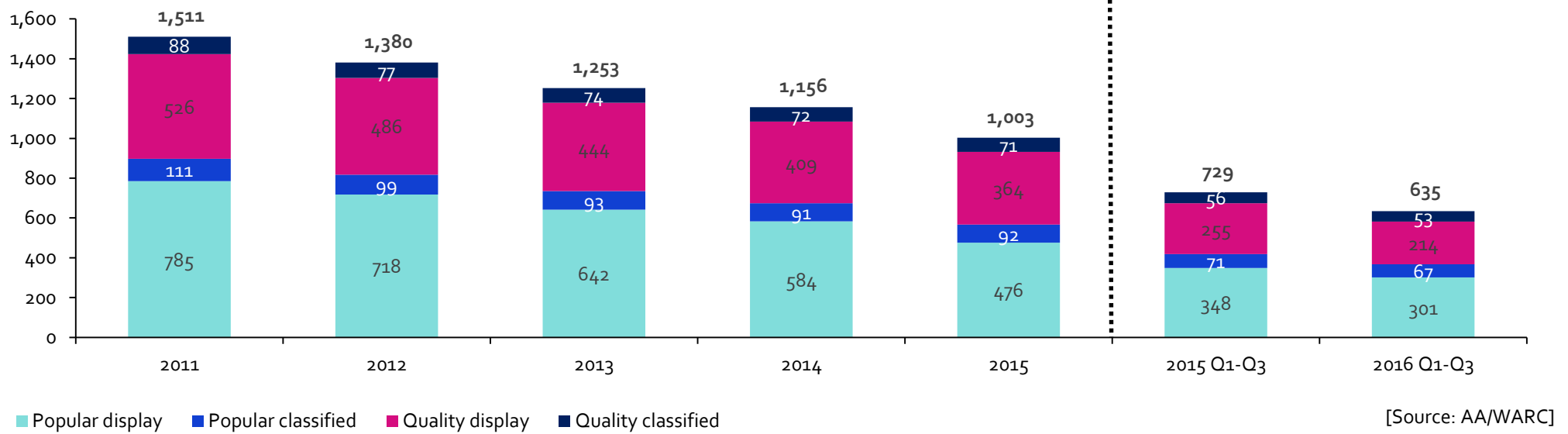


— GDP growth — Total UK advertising growth — Total UK national newspaper print advertising growth

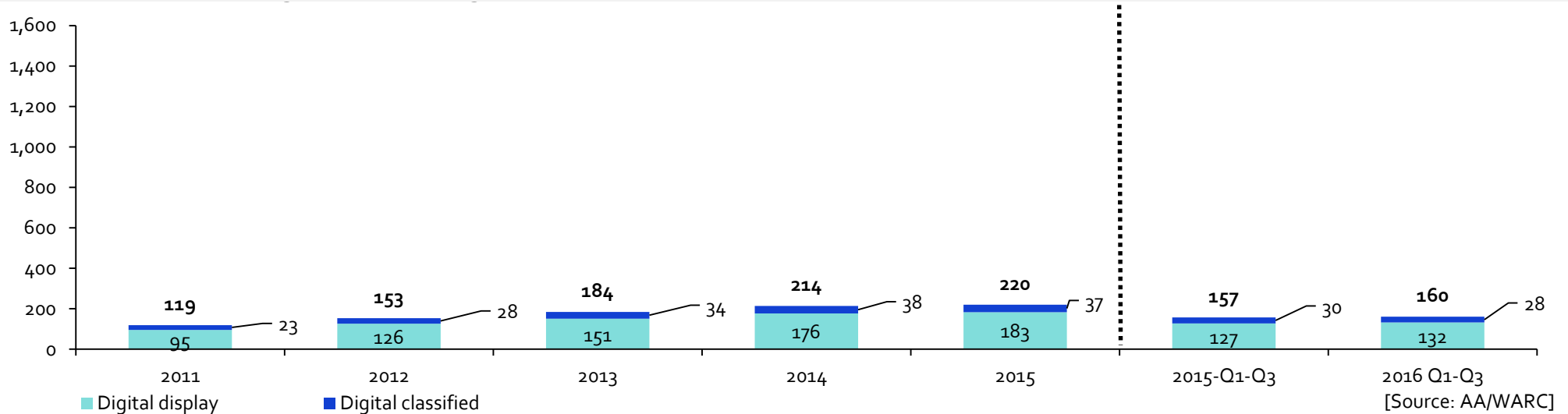
[Source: AA/WARC, ONS, BoE, Enders Analysis]

# £5.80 print revenue lost for every £1 gain in digital (much of *that* revenue indirect from platforms)

## National newspapers print advertising revenue (£m)



## National newspapers digital advertising revenue (£m)





## Trends were accentuated in 2015 – £31 in print lost for every £1 gained in digital

Digital growth almost stalled in 2015, and remained challenging in 2016 – this is the primary reason why some publishers have in the last year or two reviewed their membership, subscription or paywall options

New York Times switched its advert formats in part to thwart programmatic, and has accentuated the added-value *context* of its advertising model, now seen as a secondary revenue stream, not the joint core revenue stream

Digital gain versus print loss in national newspapers (£m)

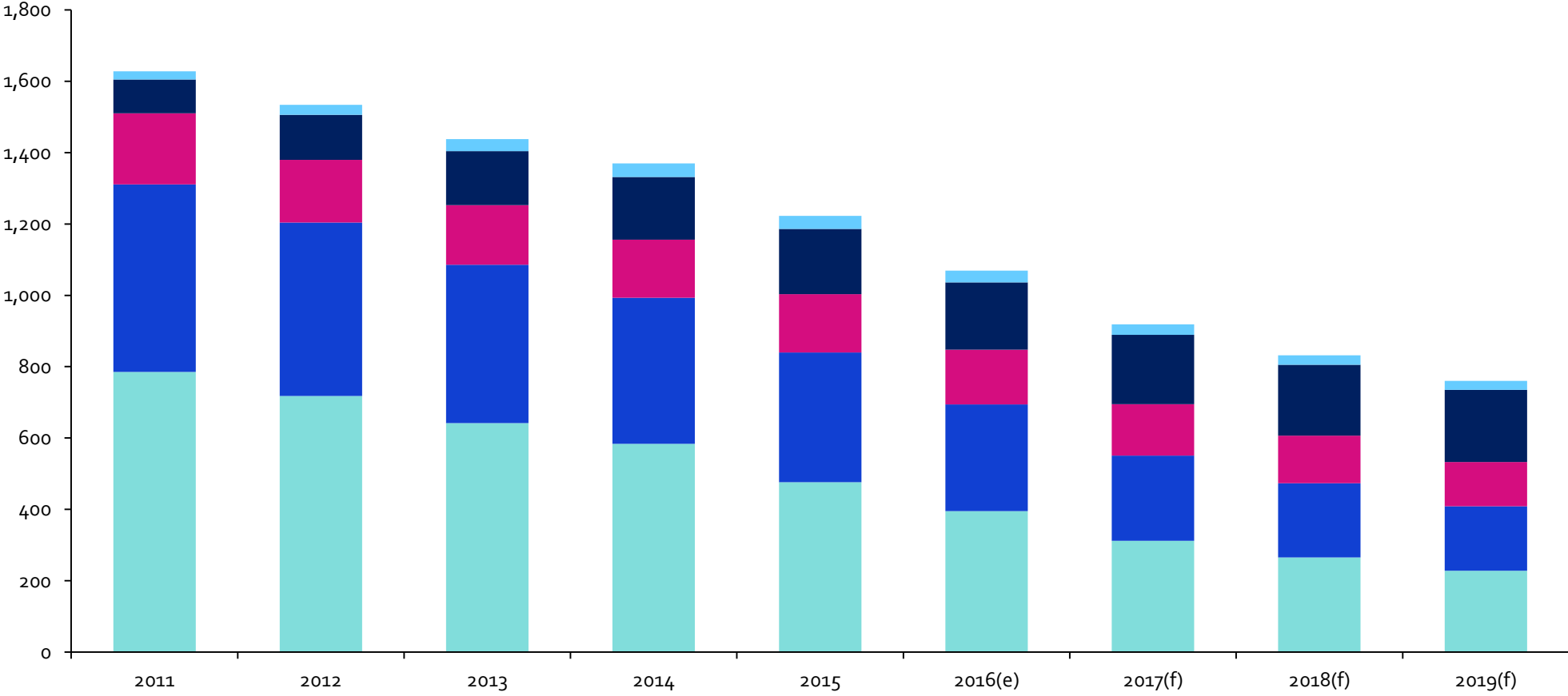


[Source: Enders Analysis, AA/WARC]

# National press advertising outlook

Our forecasts assume recent trends continue. Discussions with a wide range of advertisers and media agencies in the last few months have provided us with no indications that the transition from print to digital is going to slow down this year or next year – and could *accelerate* before any slow down occurs further out

**National newspaper advertising revenue (£m)**



[Source: Enders Analysis, AA/WWARC]

# National press advertising outlook

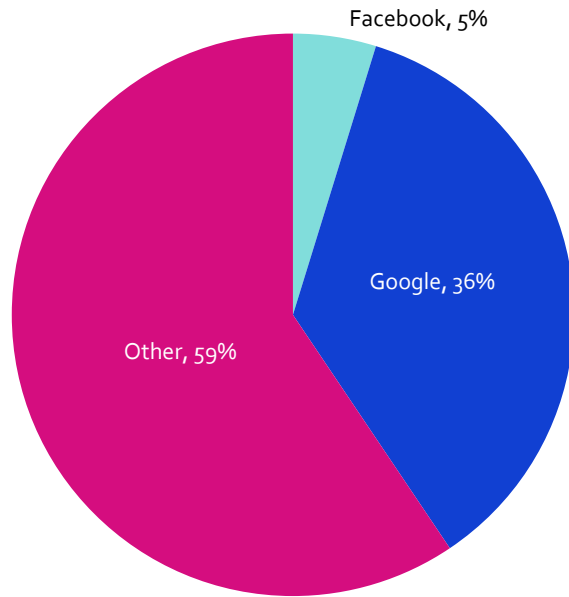
National press advertising outlook (£m)									
	2011	2012	2013	2014	2015	2016(e)	2017(f)	2018(f)	2019(f)
Print display - popular	785	718	642	584	476	395	312	265	228
Print display - quality	526	486	444	409	364	299	239	208	181
Print classified	199	176	167	163	163	154	144	134	124
<b>Total print</b>	<b>1,510</b>	<b>1,380</b>	<b>1,253</b>	<b>1,156</b>	<b>1,003</b>	<b>848</b>	<b>695</b>	<b>607</b>	<b>533</b>
Digital display	95	126	151	176	183	188	194	198	202
Digital classified	23	28	34	38	37	33	30	27	25
<b>Total digital</b>	<b>117</b>	<b>151</b>	<b>181</b>	<b>213</b>	<b>219</b>	<b>222</b>	<b>224</b>	<b>225</b>	<b>227</b>
<b>Total print and digital</b>	<b>1,627</b>	<b>1,531</b>	<b>1,434</b>	<b>1,369</b>	<b>1,222</b>	<b>1,070</b>	<b>919</b>	<b>832</b>	<b>760</b>

[Source: Enders Analysis estimates and forecasts based on AA/WARC]

# Two thirds of national newspaper digital audiences come from Google and Facebook...

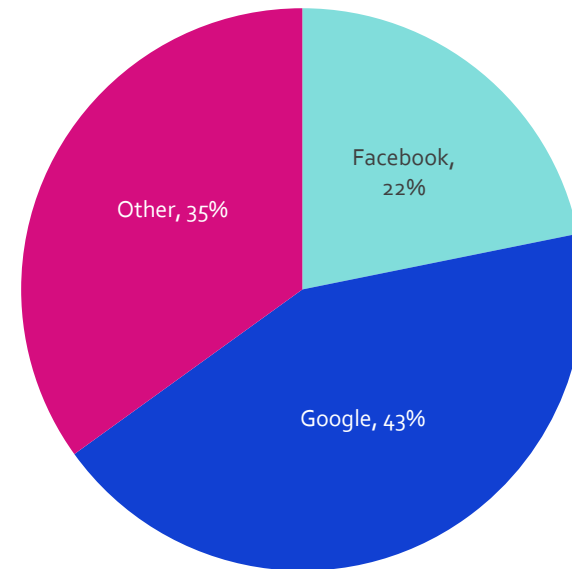
Google has grown in importance as a traffic source for news publishers over the last three years, but Facebook has grown between four and five times

National newspapers source traffic (July 2013)



[Source: Enders Analysis estimates based on comScore]

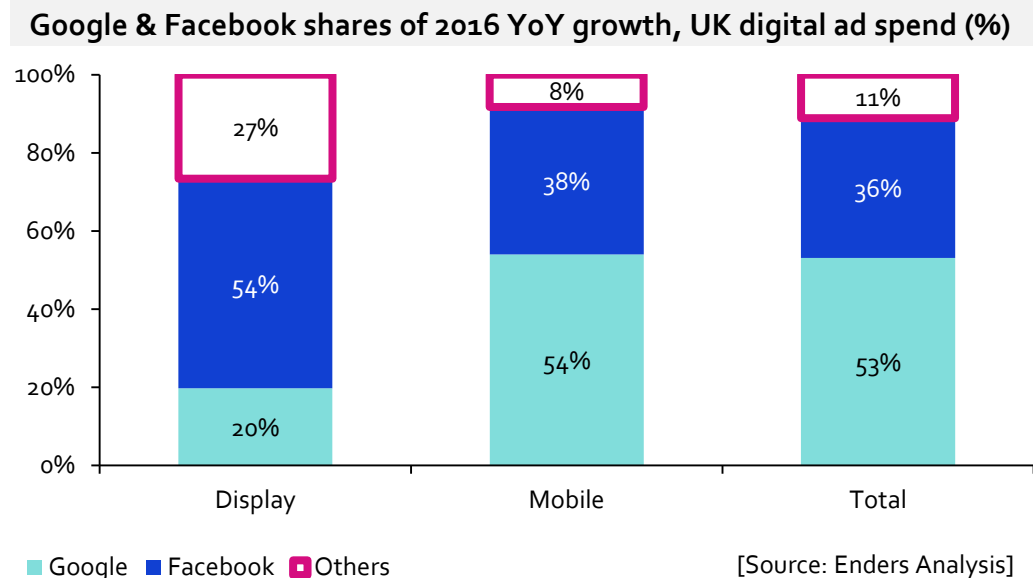
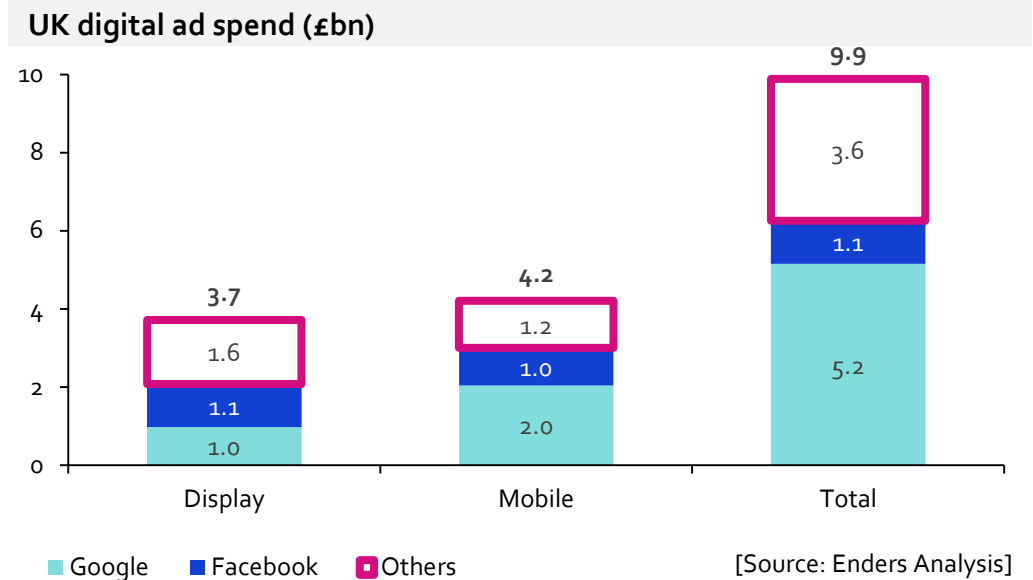
National newspapers source traffic (July 2016)



[Source: Enders Analysis estimates based on comScore]

## ...but 90% of digital ad growth is Google and Facebook, with news losing share

- Google and Facebook have unmatched user understanding and valuable owned inventory in mobile search, native and video
- Google and Facebook are also expanding digital advertising among SMEs: their self-serve platforms are easy to use, billing options are flexible, no minimum fees
- Their strategies are *marketing*, not advertising – that’s a critical difference for a wide variety of businesses, from corporates seeking short term transaction growth to Small and Medium Enterprises seeking precise targeting or cost-effective brand exposure
- Only a fraction of the ad spend on either platform goes through agencies
- Traffic acquisition costs apply (Google pays 20% of advertising revenue to publisher and distribution partners)
- **Amazon is coming:** excellent identity layer, user understanding (purchasing not just intentions) and control of the most valuable opportunity: at the moment of purchase intent
- **Snap(chat) is coming:** unique, high-quality formats; highly engaged audience. Could be Twitter-scale in the UK this year, but much better performance metrics
- But of course overall traditional display advertising is being replaced by short term direct response marketing measurement (see next)

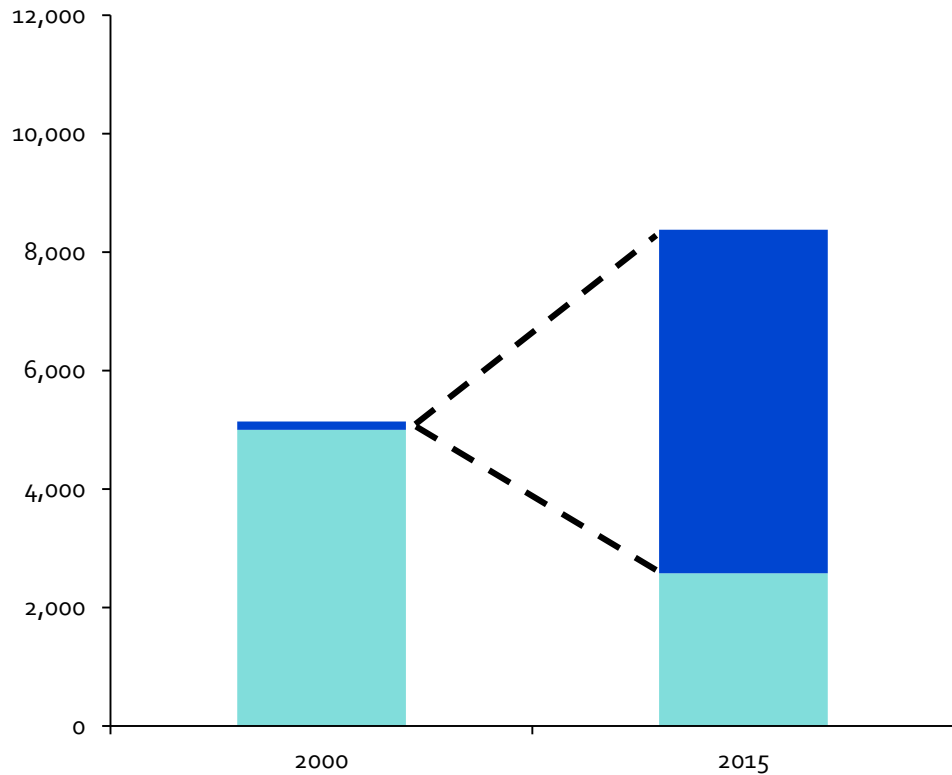


# Marketing objectives in digital are overwhelmingly direct response rather than display

Much of the recent structural decline in print display advertising has been at the expense of digital, with this advertising largely measured on direct response or other short term activation measures, rather than longer term awareness, emotional brand connections and reputation measures

Print media, which has always felt to advertisers and agencies more *tactical* than TV, has lost out in this transition, and we have seen some marketing data which suggests print media is now being undervalued in the media mix compared to its effectiveness, particularly long term brand benefits

Direct response ad expenditure (£m)

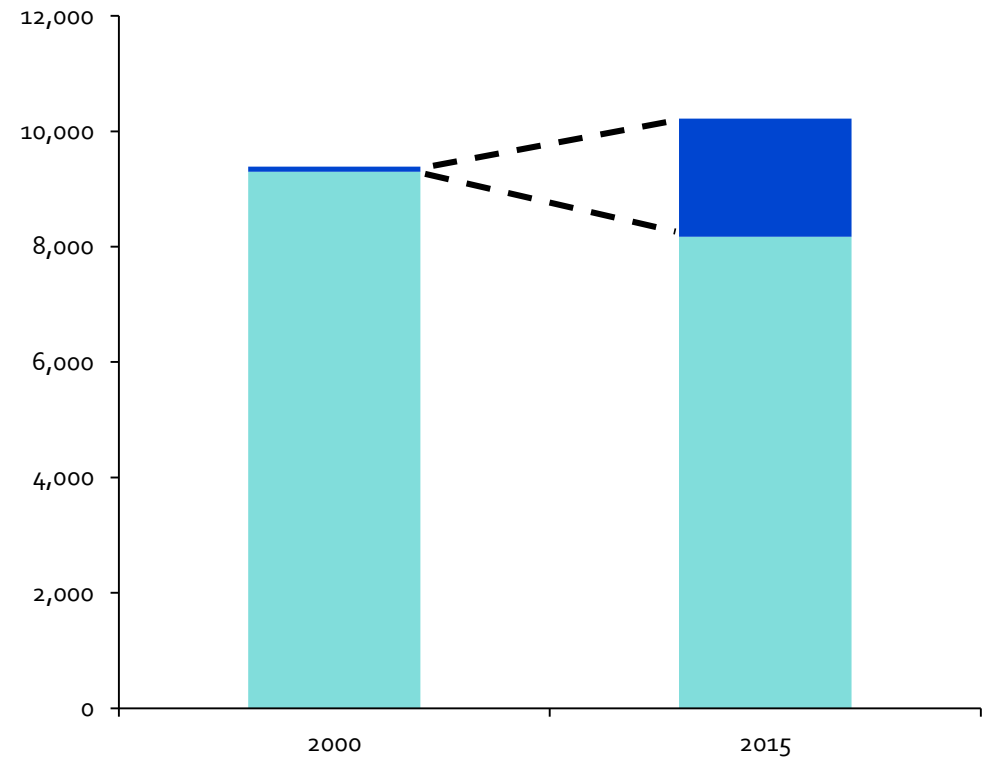


■ Analogue

■ Digital

[Source: AA/WARC]

Display ad expenditure (£m)



■ Analogue

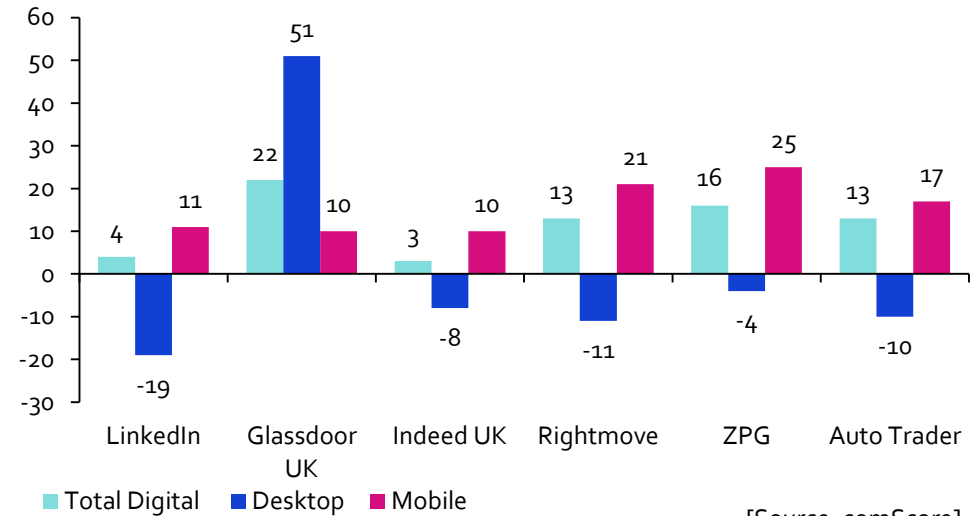
■ Digital

[Source: AA/WARC]

# Among specialist services the rise of mobile is enabling market leaders to cement their position

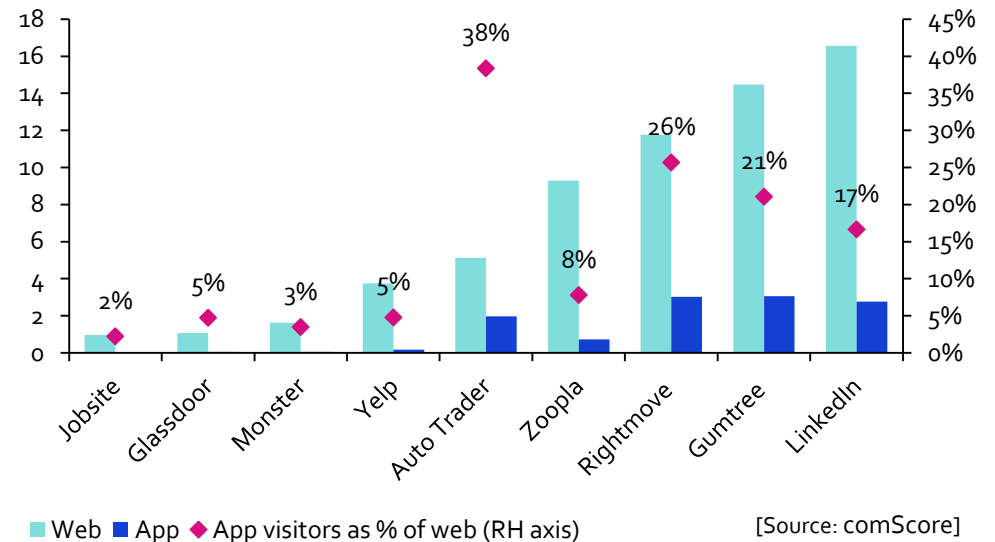
- As with general content platforms, specialist services – for example classified markets – are becoming increasingly reliant on mobile
- Consumer research and interaction are growing and have transitioned from desktop to mobile devices
- We observe that the range of services achieving scale success is declining as the desktop retreats, because consumers only download one app for each interest
- As a result, brand awareness is critical, mobile deployment quality needs to be excellent, but with these factors assumed the market advantage of leading sites is cemented by mobile

Classified sites % change unique visitors Sep-15 to Sep-16



[Source: comScore]

Classified sites mobile unique visitors (m)

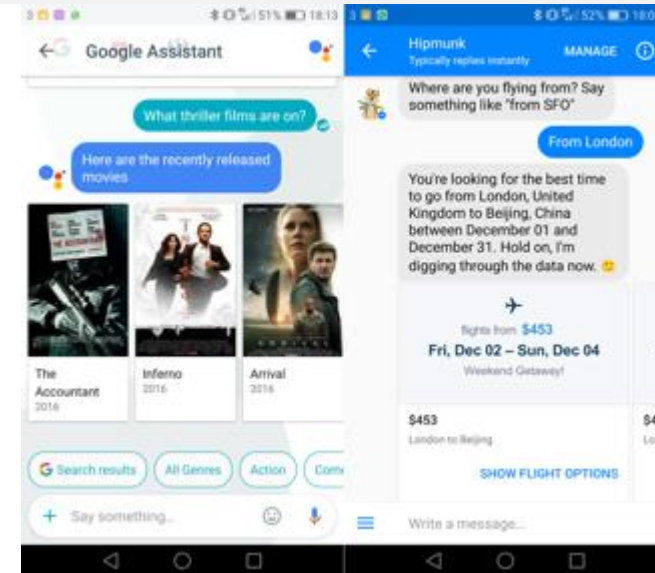


[Source: comScore]

## The future: from media to context and audience

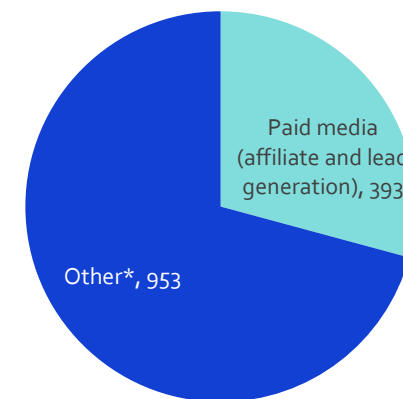
- Over the next few years, advertising and other marketing will converge. Paid media will become less well defined
- **Content marketing** is a good example of these trends. The majority of spend is on owned media – will premium paid media lose or gain share?
- The rise of **messaging** (at the expense of social)
  - Combination of automated (business) and human interactions
  - It will fulfil ad-like functions on top of customer relations and a sales channel
  - It will involve few, probably no display units – no advertising *per se*
  - The billing model will be flexible, including entirely earned and organic, paid-for prominence, and pay-per-interaction, as well as billing by performance
- Affiliate links are another, more prosaic form of overlap – not paid media, but a potential revenue source for publishers and marketing expenditure for retailers (although with its own potential for abuse)

### Google Assistant (l), flight search bot in Facebook Messenger (r)



[Source: Enders Analysis screenshots]

### Est. 2015 UK affiliate and lead generation spend, online (£m)



\*Price comparison and aggregator sites, gaming affiliate networks, B2B lead gen. etc.  
[Source: PWC/IAB Online Performance Marketing Study 2015]

News brands: Rise of membership as advertising stalls [2017-011]

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# Future of marketing: B2B techniques shift to consumer markets, and rise of native services

## *Decline of paid media*

- While we expect total digital marketing investment to continue to grow, options other than paid media are growing in importance
- Voice interfaces and AI assistants will provide new opportunities for sponsorships, affiliate models and customer acquisition marketing – outside current paid media and search advertising models
- Related to all this is the growing importance of data management platforms and “marketing clouds”, systems which help blend together customer relationship management, marketing and advertising
- These models are expanding from highly personalised B2B marketing to consumer marketing



[Source: Google, Amazon]

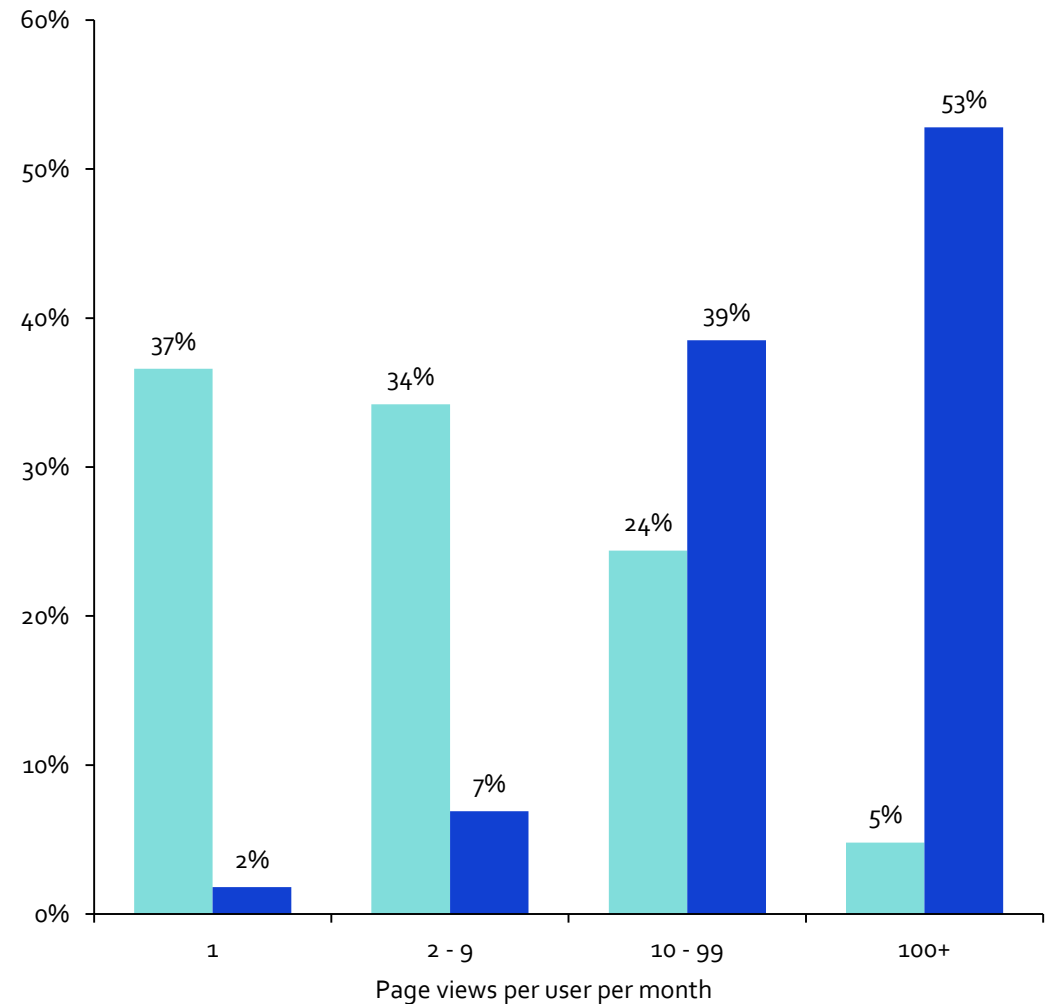
## *Decline of traditional media*

- The attraction of high-traffic services with uncontentious editorial-native solutions – think of Tastemade which has sponsored food and travel short videos distributed across social and even broadcast media, or Vice – will grow substantially in the next few years, undermining spend with some traditional media

# For news services a strategic shift (back) from reach to quality audiences and engagement

- Over the years Enders Analysis has assessed a large spread of content and access models, observing a *general failure to create closed, immersive and engaging user experiences*
- User engagement is key to
  - sustain news operations independent from platforms
  - build a critical reading volume, encouraging membership
  - create a quality advertising environment
- Most publishers to date have delivered a strategy that assumes brand strength, audience scale and user engagement grow together in a virtuous circle
- *Digital scale is a mirage*: digitalisation has increased “readership” by an order of magnitude...
  - generates advertising revenues – but fails to cover costs
  - weakens brand differentiation and positioning
- For a typical German online newspaper (see chart), less than 5% of users generate more than half of contacts – a ratio similar to that of 200,000 circulation against 10m unique users
- A focus on core users’ experience rather than on scale could grow subscriptions and a more valuable advertising space
  - The New York Times changed advertising formats, creating some programmatic friction, but emphasising the quality of its environment and the engagement of its attractive audience
- Will more curated tablet apps emerge, with rich (video?) brand advertising rather than direct response marketing?

Newspaper online usage pattern



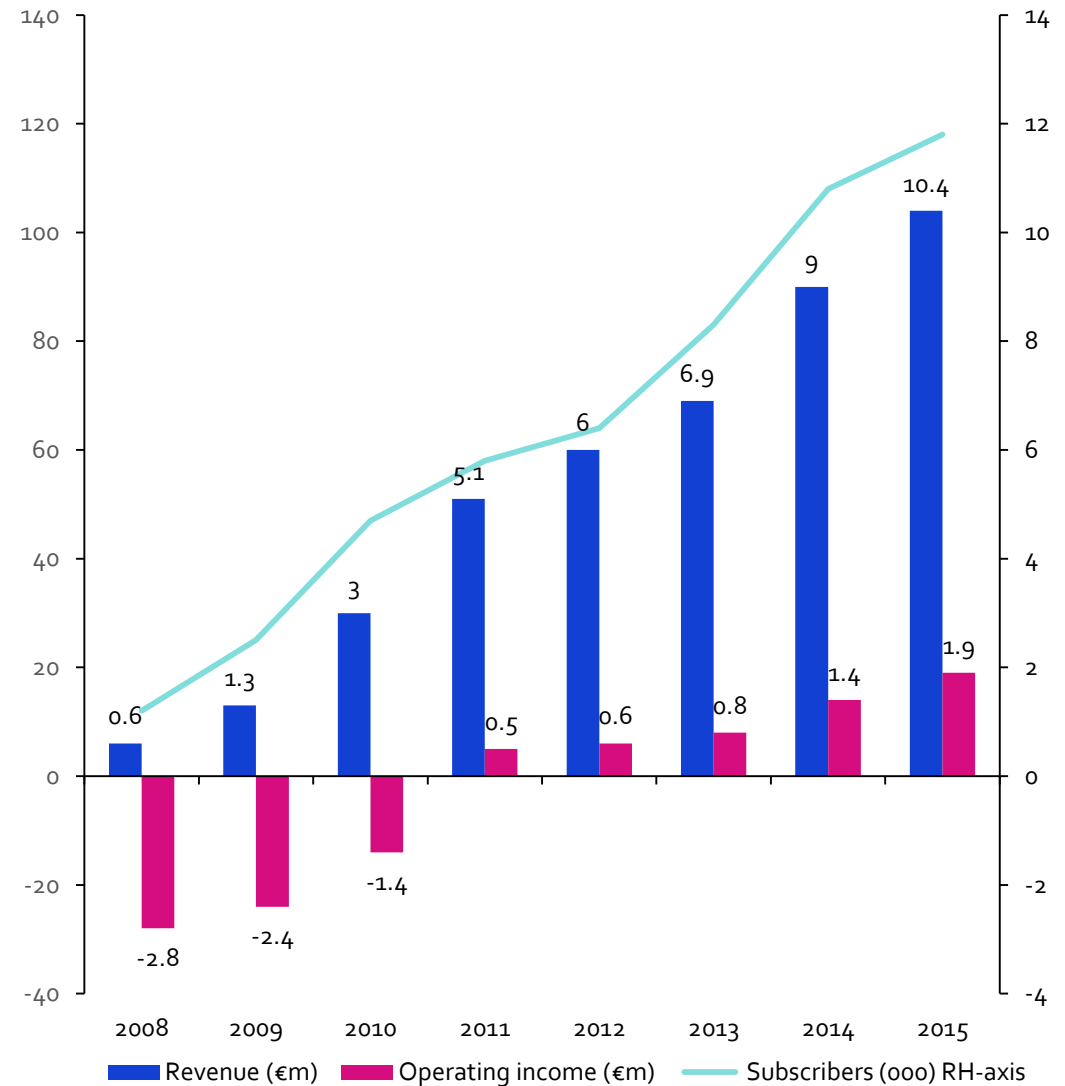
■ Share of users (%)  
■ Share of page views (%)

Based on an anonymised newspaper, September 2014  
[Source: Enders Analysis from AGOF/Zeitung 2014/15  
Bonn: Bundesverband Deutscher Zeitungsverleger (p.170)]

# Médiapart – a case study in paid native digital news provision

- Created in 2008 by former Le Monde journalists, Médiapart is a subscription-only news site without advertising (€11/month)
- The service focuses on investigative and opinionated journalism
- High profile journalistic scoops have greatly helped brand recognition and sampling by readers
- With 65 staff including 39 journalists, Médiapart generated a €10.3 million turnover and €1.9 million operating income
- The subscriber count has increased steadily to 118,000
- Médiapart strives to create a community around its brand through printed publications, forums, blogs and events
- Médiapart has had notable impact on French politics – but its resources are thirty times smaller than Le Monde’s or Le Figaro’s
- We believe three factors are essential for consumers to consider paying for content media services
  - Perception that the content matters, and therefore has value, and the access price feels commensurate to the value
  - Perception that the content cannot be acquired any other way, at least not for free
  - Convenience and other customer service factors
- We note publishers have a poor track record at customer service, often undervaluing its importance, and underestimating the complexity and associated costs of deploying retail prowess across the business

Médiapart: subscribers (000), revenue (€m) and operational result (€m)



[Source: Enders Analysis from Médiapart]

## Rise and rise of membership, and the challenge of micropayments

- The New York Times has added >500,000 digital subscriptions in the last year, and more than half of those in the weeks around the US presidential election
- In the UK digital models are changing
  - The Guardian has grown its members to some 200,000, while maintaining entirely free access
  - The Telegraph has adjusted its meter model to optimise usage and conversions
  - The FT introduced a free trial period to encourage *immersive* usage, again to encourage conversions
  - On the other hand, The Sun abandoned its paywall: this was always a very challenging solution for a content business that invented a hugely influential form of social media long before the internet
- Our thesis is that membership models will grow in the next few years
  - The dream of an advertising-funded free access solution for scale newsrooms looks increasingly dubious
  - As the branded package comes under threat we believe smaller-scale, more specialist (narrower editorial remit) services may gather traction – Mediapart, Politico
  - Large news brands may be able to have it both ways – Times Business, Telegraph Politics, Guardian Society, Sun Bingo, Mirror Football
- Micropayments remain a challenge, even if the consumer use-case may be gathering traction and there is no longer a technology hurdle. Two levels of friction remain – industry and consumer
  - Industry options include (1) shared industry wallet; (2) a supplier with everyone's cards on file to be a wallet provider (while taking a 0% cut to keep it profitable for publishers); (3) wait for every consumer to get bitcoin. The likelihood of these happening feels inversely proportionate to its chance of success if implemented
  - Certainly nothing will work for consumers unless publishers – newspaper, magazines and beyond – all use the same service. Jamatto and others are intuitive and pretty frictionless, easy to deploy and flexible in terms of variable publisher imperatives
  - But even successful solutions elsewhere – such as Blendle – will find the UK a difficult market. Publishers are fiercely competitive, there is no deep language moat and there is just too much free content

# Disclaimer

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