Reinventing the business model of the newspaper industry: electronic business models and the newspaper industry The Wall Street Journal as case study

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“Disruptive technologies is a misnomer.

What it is, is trivial technology that screws up your business model.”

--Andy Grove, ex-CEO Intel

Abstract

In developing this thesis, we made an analysis of the newspaper industry in the United States, using *The Wall Street Journal* as a case study. This research project includes information and analysis on the evolution of Dow, Jones & Company (parent company of the newspaper) and its direct link to the *Wall Street Journal* from its initial days and along way this thesis highlights the changes that have been implemented between the 19th and the 21st centuries. This research addresses the troubled business model of the newspaper industry, asking why has it broken, how it broke, and essentially how can it be reinvented?

Our main research questions are: How did the old business model become damaged? How has The Wall Street Journal avoided the crisis? How are The Wall Street Journal's competitors responding to business model disruption? How can e-business models be adapted to assist the newspaper industry in reinventing its business model?

Along the way, research questions were refined based on readings and interviews as greater insight and understanding were obtained about the newspaper industry, its traditional business model, its present predicament, and the various viewpoints as to the current state of the industry, the future direction of the industry, and the e-business model of the WSJ. A qualitative analysis of the business practices of the WSJ and its competitors and trends within the industry has led to the understanding that while yes, the business model of the industry is definitely broken, this is not necessarily true for every news organization in the U.S. market, the region primarily focused on in this paper.

The rationale for using the case study approach is because The Wall Street Journal represents a unique and revelatory case in the newspaper industry. In the US market, the WSJ is one of the only newspapers that has a profitable e-business model. Using analytical generalization, a previously developed theory is used as a template with which to compare the empirical results of this case study. We use the *Financial Times* as a second example in this thesis because it occupies a similar niche in the newspaper industry as the WSJ appeals to a similar customer segment.

Although this case study focuses on the US market, we have also included information on newspapers in other markets such as Norway and the UK because *The Wall Street Journal* is an international newspaper, operating in a global marketplace, and to demonstrate how firms outside the US market have been changing and adapting their

business model. Information on the *Financial Times* has been included because it is one of the WSJ's closest competitors not just internationally, but also in the US market.

In terms of our research questions, we discovered that the current business model for US-based newspapers dates back to the 18th century and up until the mid-1990s, had barely changed. And that a combination of factors have contributed to the destruction of the traditional model of the newspaper industry including business model disrupters, changing consumer habits and audience fragmentation.

Among the conclusions draw from the research include, that in the 21st century, the business model of the newspaper industry will continuously face disruption due to changes in consumer habits and preferences as well as technology. Organizations need to adopt a framework that includes continuous innovation, simple rules, and more flexible processes applicable to its current customer segment and potential customer segment in order to ensure that they are able to remain competitive in this ever changing and shifting environment. Individual firms perhaps need to engage in creating disruption themselves and avoid complacency.

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Theoretical framework

In developing the theoretical framework of this thesis dependent and independent variables were identified in our research. The dependent variables are comprised of current issues within the newspaper industry. These consist of: falling circulation, decrease in advertising pages, declining advertising revenue, falling readership for print newspapers, and web advertising not making up for the loss of revenue from print advertising (Collis 2010, Franklin 2010, van der Beek 2005, Hillman 1999). The independent variables are comprised of issues outside the industry which are impacting news organizations and consist of: changing consumer habits, business model disrupters, audience fragmentation and the growing number of new sources and platforms available for acquiring news and information (Collis 2010, Huang 2009, Meyer 2009, van der Beek 2005, Hermida 2010).

In *Reinventing Your Business Model* by Johnson, Christensen and Kagermann (2008), the authors detail a framework for business model reinvention (e.g., when it should happen, why it should happen) that is used in this thesis. Their key assumptions utilized in this paper are:

1.) New business models are needed when there have been significant changes to the four key elements of the existing model, these core elements are comprised of a.) the customer value proposition (CVP) b.) profit formula c.) key resources, d.) and key processes
2.) Business models need to have the flexibility to change in their early years.
3.) Creating new growth requires venturing not only into unknown market territory but also into unknown business model territory.
4.) The new business model should be both new to the company and a game-changer to the industry or market

The key components of a business model are it's CVP, profit formula, key resources, and key processes. How does a newspaper firm know when it needs a new business model? Although Johnson et al believe that a new model is needed “When significant changes are needed to all four elements of your existing model,” yet the authors acknowledge that these four components are interdependent (Johnson 2008), therefore waiting for radical changes to each of the four components could result in catastrophic problems for a company. The concept utilized in this thesis is based on the theory that the four elements of a business model are interconnected (Johnson 2008).

And that it is better for an organization to be proactive and start implementing changes immediately so that companies can deal more effectively with business model disrupters.

Although the key components of a business model identified by Hedman and Kalling (2002) slightly differ from those identified by Johnson, Christensen and Kagermann, the core elements are the same and Hedman and Kallig acknowledge that the bits included in the model are dictated by purpose (Hedman, Kallig 2002). Both Johnson, et al (2008) and Hedman et al (2002) agree that the key components of a successful business model are the customer, resources and processes and that the components are all interrelated (Hedman, Kallig 2002).

Johnson et al identify "five strategic circumstances that require business model change:" the ones applicable to this paper are: 1.) the opportunity to bring a job-to-be-done focus where one does not yet exist 2.) the need to fend-off low-end disrupters and 3.) the need to respond to a shifting basis of competition.(Johnson et al 2008).

Johnson et el (2008) believe that business models are more likely to implement change and deliver acceptable results if the firm is "unfettered by the often negative influences of [the] core business." (Johnson et el 2008).

Aim

The aim of this thesis is to identify innovative business models for the newspaper industry and to provide the industry with a basic framework to promote flexibility and adaptability that will enable firms to continuously reinvent themselves and not only be able to respond to business model disrupters but also to become business model disrupters themselves.

In this thesis, the focus is on the US market and *The Wall Street Journal* is used as a case study in order to analyze the business model of the newspaper industry and because it is one of the only newspapers in the United States that has a successful business model for both its print and electronic editions. With this case study, the structure of the newspaper industry is investigated and the lessons drawn from this study are generalizable across the entire newspaper industry and could also be applied by other media companies in areas such as film and music (Yin 2009).

Literature review

When is a new business model needed? Changing trends, entry of low-end disrupters, the shifting basis of competition and the opportunity to bring a job-to-be-done focus to your plan are key signs of the need for business model reinvention (Johnson et al 2008, Sterling 2008, Evans 2007,Wirtz, et al 2010, Pew Research Center 2009).

This thesis, which focuses on business model reinvention for the newspaper industry, uses *The Wall Street Journal* as a case study and focuses on the United States marketplace. We have used the *The Wall Street Journal* because: it represents a unique case in the newspaper industry; it is the largest newspaper in the United States; and it is the only newspaper among the top 25 newspapers in this market with rising circulation and a successful e-newspaper business model (Collis et al 2010, van der Beek 2005, Editor & Publishers 2010, Audit Bureau of Circulation 2010).

There is an abundance of literature on approaches and classification of e-business models (van der Beek, 2005, Rappa 2004, Bambury 1998, Nel 2010), advise for counterattacks to business model disruption (Sterling 2008, Christensen 1997) and business model innovation and reinvention (Johnson et al 2008). There is a dearth of scholarly literature available detailing current e-business models utilized by news organizations (Francois 2010). In order to ascertain how the old business model broke and what has caused the newspaper crisis (Collis 2010, Francois 2010, van der Beek, et al 2005) requires an examination of the traditional and current business models and trends of the newspaper industry. Collis (2010), Francois (2010), and van der Beek et al (2005), as well as Picard (2002) and Hillman (1999) provide this information.

Hillman (1999) is rich resource on *The Wall Street Journal* and its interactive business model. Although the article was written in the late 90s, the e-business model of the newspaper is the same today as it was 11 years ago. Hillman (1999), who had direct access to key managers of Dow Jones & Company, parent company of *The Wall Street Journal*, clearly details the company's strategy regarding the WSJ.com in her case study. This is the most current scholarly article specifically on this newspaper which focuses on the WSJ.com. In this work, the author evaluates online competitors and provides an overview of the the newspaper industry in the US market. The information includes very little analysis but provides more of an overview of the state of *The Wall Street Journal* in 1999. Although her article pre-dates numerous business model disrupters which are currently adversely affecting the newspaper industry's revenue model, this paper is one of the few articles that provides background information on the interactive division of *The Wall Street Journal.* Wendt's (1982) book provides general background information about the company, the origins, and the business philosophy of the owners.

A comprehensive overview of the decline of the newspaper industry was provided by peer-reviewed literature that also presented background information on the the history of the newspaper industry and its traditional business model (Collis, et al 2010, Loebbecke 2000, Huang 2009, Franklin 2010, Peters 2010).

Although social networking platforms were in their infancy when van der Beek et al in *Creating Value From Digital Content* (2005) conducted their research on e-business models and the newspaper industry, the structures that the authors present, based on models derived from Rappa (2004, 2000) and Bambury (1998)'s taxonomy are still valid. The authors exhaustively detail available web-based business models for newspapers such as paid content, free online/advertising supported news, and metered news (van der Beek et al 2005). The structures of which are drawn from Rappa's taxonomy of internet business models which include the subscription model (paid content), the advertising model (free online/ad supported news) and the utility model (metered models) (Rappa 2004). The subscription model and the advertising model are used by WSJ.com while the FT.com uses a hybrid of the utility (metered/measured usage) model, subscription model, and the advertising model. Neither Rappa nor van der Beek identify the subscription and the advertising business model as being directly transplanted from what Bambury refers to as "real-world business models" (Bambury 1998). Featherstone and Ellis (2005) observed that "much of the existing e-business literature has been fashioned from a perspective which is external to the web...." This assertion is basically inaccurate. Rappa's taxonomy of e-business models also encompasses native internet business models—models that are not external to the web, such as the community/open-source and affiliate models along with his infomediary model that mirrors Bambury's information barter model, which is a native internet business model (Bambury 1998).

There is a dearth of peer-reviewed literature focusing on the affect of social networking and social media on the newspaper industry's business model. *Twittering the News: The Emergence of Ambient Journalism,"* (Hermida 2010) is one of the few academic studies currently available that explores this relationship between old media and micro-blogging yet his study primarily focuses on content and not business models. Hermida (2010) grounds his analysis of the effect social networking tools and micro-blogging websites are having on the journalism trade within the theoretical framework of human-computer interaction. His research complements studies on changing consumer habits in regards to media and information consumption (Collis et al 2010, Picard 2002, McKinsey 2009, Hermida 2010). Although McKinsey's empircal study is more a survey of the media consumption of teenagers.

Hermida argues that micro-blogging--the dissemination of information using 200 or less characters to an audience of minute or infinite numbers through a singular platform such as Twitter, are awareness systems that “...are always on and move from the background to the foreground as and when a user feels the need to communicate...” or receive information (Hermida 2010). His paper explores how technology is transforming journalism, the way in which journalists collect and disseminate news and information, and the changing consumer habits for information consumption.

Johnson, Christensen and Kagermann (2008) identify four primarily components that comprise the business model of a generic company: 1.) Customer value proposition (CVP) 2.) Profit formula 3.) Key resources and 4.) Key processes. Hermida (2010) does not set out to define parameters for a new business model for the newspaper industry or to recommend a new business model, but with in his theoretical frame work, he conveys how these always-on awareness systems can be utilized to improve key resources and the key processes involved in dispersing information to consumers, and presents ideas for a new CVP that provides consumers with the opportunity to consume information via an “...always-on asynchronous awareness system [that] informs but does not overburden” so that a user does not suffer from information over load (Hermida 2010). Since Hermida's (2010) focus is mostly on social networking and “always-on awareness systems,” which he refers to as “ambient journalism,” the author fails to explore how such systems and tools can be applied to the profit formula of a newspaper's business model. The author only envisions how these tools can be used to create value for the consumer but not how the tools and concepts can be used to create value for a firm.

Robert G. Picard, a widely referenced and renowned scholar and media expert wrote *Economics and Financing of Media Companies*, a definitive textbook on the financial side of media organizations that encompasses the newspaper industry (van der Beek et al 2005, Compaine 2003). Picard's writing as well as other available scholarly literature on the newspaper industry tend to deviate from rigorously examining business structures to rigorously examining the editorial content of newspapers (van der Beek 2005, et al, Sterling 2008, Picard 2002, Collis et al 2010, Franklin 2010, Hermida 2010). Literature emphasizing improving content as a solution to combating business model disruption is prevalent (Sterling 2008, van der Beek et al 2005) and using this approach as a way to improve a firm's profit formula (van der Beek, et al 2005). These are only strategies for improving the CVP component of a business model. Adding new sections and improving content is the tool newspapers traditionally have used to revitalize their print-business models (Huang 2009). The authors' solution for the current problems in the industry focus more on reinvigorating the old model and maintaining the status quo. Conversely Chesborough (2010) believes that "...when it is clear that the old business model is no longer working...business model experimentation becomes so important and this theory is supported by Johnson, Christensen and Kagermann (2008). *The Wall Street Journal* used this template of content improvement to revitalize the print newspaper at the beginning of the 20th century and in the 1950s (Wendt 1984). Johnson, Christensen and Kagermann (2008) believe that the core of a successful business model is its revenue model and profit formula, which most academic writing on this area fails to explore with the exception of Sterling (2008). Or in the case of Francois (2010), who only provides an overview of pre-existing models. Johnson, Christensen and Kagermann assert that only after identifying a value proposition for both the customer and the profit formula for the business, should a firm then preoccupy itself with its its key resources (Johnson, Christensen and Kagermann et al 2008).

The majority of scholarly literature, business literature, and articles in newspapers and magazines focus more on strategies for preserving the old model of the newspaper industry rather than pushing for radical changes (Sterling 2008). Van der Beek, et al (2005) discovered through their research that "...news and content companies did not focus on their online business but rather used it as a support for the offline traditional brand." Franklin (2010) supports this argument by noting that "newspapers have responded to...digital and market challenges by supplementing print editions with an extensive online presence...." Johnson , Christensen, et al (2008) believe that this mindset is prohibiting firms from creating new processes. Franklin observes that even regarding the content side, the newspaper industry tends to revert back to the status quo —essentially, the obsession with preserving traditional processes and the way that key resources are administered. For instance, he notes that "...while readers' contribution to news has expanded considerably it has been 'absorbed' into traditional journalism practices with journalists retaining their gatekeeping editorial roles" (Franklin 2010).

The American Press Institute (API) model which Sterling uses to ground his argument for saving and maximizing the core of the framework of the newspaper industry is based on evidence that elements of the industry's traditional business model is still profitable (Sterling 2008) and that "[f]rom a reader perspective, the local newspaper has a quasi-public utility role within the community" (Sterling 2008). However Hillman (1999) observed that even in the 1990s the newspaper industry was faced with a future of flat or no growth and rising competition. Yet other scholars support saving and/or maximizing the industry's core (Entman 2010, Klose, Loebbecke 2000) and even Johnson, Christensen, et al (2008) concede that a reinvented business model could complement the old model although they also firmly believe that clinging to the old ways can hinder transformation (Johnson, Christensen, Kagermann 2008). Although *The Wall Street Journal* has been successful at preserving aspects of the traditional business model of its print newspaper, large city-based/regional papers that rely on a mass-market segment strategy like the *Los Angeles Times* and the *Houston Chronicle* have not (Collis 2010, Budd 2010).

The Audit Bureau of Circulation is an independent organization set up to monitor readership and demographic information for newspapers and magazines. It is one of the primary resources advertisers use when determining their marketing plans. The Audit Bureau of Circulation (US and UK) presents audited data on newspaper circulation numbers and audience information (demographic, etc.) and is supported by fees from media organizations. Circulation figures represent the number of physical copies sold of print newspapers and also include subscribers. The figures used are based on newspapers published Monday through Friday (the daily editions) and separate figures are reported for Sunday/weekend editions. ABC was developed to counter fraud in the reporting of circulation numbers. These numbers are used by advertisers and ad agencies to assist in determining where they will spend their advertising budgets. And is used by newspaper organizations to set advertising rates. This check and balance is supposed to support the accuracy of the information.

In the 6 month period up to March 31, 2010, circulation for the *New York Times* declined by 7.3 % (Audit Bureau of Circulation 2010). Although *The Wall Street Journal* is a bright spot in the industry, the overall trend is that of decline (Collis et al 2010, Hillman 1999). A similar trend can be found in the United Kingdom. Francois (2010), who examined e-newspaper models for 66 markets in the UK, writes that due to falling circulation, advertising revenues and profit margins, newspapers in the UK market "...need to look beyond their backyards and consider new ways of thinking about their business models...." Francois, in this study of innovation on online business models of UK news organizations identifies the structural problems prohibiting the industry from fixing its business model as: the marriage to old way of thinking, confusion about the web, and the traditional mindset (Francois 2010).

Firms can create new products and services "...that disrupt competitors without fundamentally changing their own business model" (Johnson, Christensen and Kagermann 2008). But "there are clearly times...when creating new growth requires venturing not only into unknown market territory but also into unknown business model territory" (Johnson, Christensen and Kagermann 2008). Scholarly literature advocates putting the customer at the center of business model reinvention (Johnson, Christensen and Kagermann 2008, Sterling 2008) as does business literature (Best 2009, Wendt 1982).

There is also a misunderstanding of the mechanics of the newspaper industry by some authors such as Loebbeck. Loebbecke writes that although readership for print newspapers has declined, the organizations have been compensated for this drop through increased website readership (Loebbecke 2000). Collis contradicts this theory that increased website traffic compensates for decreased print readership since the ad rates for print readership is higher (Collis et al 2010).

The Pew Research Center, a nonpartisan organization that provides information on issues, attitudes and trends by conducting public opinion polling and social science research, found through its research, which resulted in the report: *Newspapers Face a Challenging Calculus: Online Growth, but Print Losses are Bigger* (2009), that "overall newspaper readership declined in spite of an increase in the number of people reading online newspapers." This organization has published information on topics applicable to this thesis including audience demographics and newspaper consumption behavior. Nielsen is an independent organization that offers a similar service for most media platforms. Media companies utilize their demographic information along with ABC data to set advertising rates.

Scholarly literature supports that consumers favor non-traditional media to obtain news and information (Meyer 2009, Huang 2010, Hermida 2010), that consumer behavior in terms of news consumption is changing significantly (van der Beek et al 2005, Hermida 2010) and the average age of print-newspaper readers is higher than that of non-print news sources (Collis et al 2010, Hillman 1999). The continued movement of consumers to digital media platforms for obtaining information and consumers being more interested in news on demand and an "always-on communication system," have led to changing attitudes towards news consumption (Collis et al 2010, Hermida 2010).

Although Sterling (2008) acknowledges the "...increased fragmentation among information consumers and the declining penetration of traditional newspapers," he still implies that newspapers should cling to the past. He seems to underestimate the long-term effect of consumption trends on consumer information consumption habits and on advertisers. Which is a mistake because as Picard (2002) notes "...audiences and advertisers are becoming increasingly more familiar and comfortable with newer information and communication technology." Bennet observes that "circulation losses for the core product will continue particularly for marginal readers as (consumer) segments move to products and platforms most relevant to their interests and lifestyle as competition intensifies." (Bennett 2009). Newspaper readership began falling with the introduction of television, then held steady, then declined dramatically in the mid 1980s with the introduction of 24 hour cable news, and this decline has accelerated since the early 90s and the introduction of the world wide web (Pew Research Center 2009, Collis et al 2010, Huang 2009, Hillman 1999). Pew's study, which concludes that while the audience for news has fragmented across multiple channels, its size has not grown, points to one of the major flaws in van der Beek, et al's study(2005). They write that "TV and radio (were) not typically a competitor to the print media, but a complementary source of news. Consumers did not choose between reading newspapers and watching TV, but tended to use all forms of mass media to satisfy their desire for up-to-date information." (van der Beek 2005). This theory is supported by Picard, who writes "...newer media have not had a history of destroying more established media" (Picard 2002). Collis et. al (2010) takes a neutral stand on this argument, the authors characterize the relationship between radio, television, cable television, and newspapers as having been an "uneasy competitive equilibrium."

Another flaw in van der Beek's paper is in the research design. The paper uses 'expert talks' with a small sample of companies in the news industry. It is not clear if this sample is representative of the industry. We don't know the size of the sample, or the size of the companies in which these people work, nor do the authors specify which companies were surveyed, the titles of the people surveyed, or the level of experience of those who were surveyed. Having a job with a newspaper does not necessarily make one an expert on the newspaper industry. A journalist or an editor might be conversant about the editorial side and the content side of the enterprise but have limited or no knowledge about the financial side of the firm and vice versa.

There is a considerable amount of information on the decline of the newspaper industry, the bulk of which appears in non-academic publication. Of the peer-reviewed and more reliable literature, author, Robert G. Picard is the most renowned and most frequently referenced (van der Beek, et al, Collis) His book on the *Economics and Financing of Media* companies is used as a standard reference for media studies. His book and scholarly articles that encompass the newspaper industry, detail the financial side of the news industry (Picard 2002) and provides comprehensive information on the traditional business model of newspaper firms including the newspaper industry's advertising-based business model (Picard 2002).

Picard tends to fold information on the business side of the newspaper model into a wider conversation about mass media and leans more towards discussions on the content/editorial side of the newspaper industry. (Picard 2004, Richmond 2009). He revisits territory that has already been extensively discussed by other business thinkers (Meirzejewska 2007, Compaine 2003). But B. Compaine writes, "There was a time that I had to remind audiences and students that the business side of the media was critical for the vitality of the journalism and information we desire. No newspaper ever went out of business for lack of content' (Compaine 2003, Picard 2002).

To address the question regarding how newspapers are responding to business model disrupters entails identifying not only the business model disrupters but also establishing a defitinion of a business model, then revealing how the various components of the model have been affected by (and/or which parts are vulnerable to) business model disruption. As previously mentioned, Johnson, Christensen, et al (2008) in *Reinventing Your Business Model*, deconstruct the core elements of a business model. The business model structure presented by Hedman and Kallig (2008) is structurally similar and provides more extensive detail. While Johnson, Christensen, et al identify 4 components (CVP, profit formula, key resources, and key processes), Hedman and Kallig (2002) identify 7 (customers, competitors, activities and organization, resources, and factor and production input suppliers, and managerial and organizational, longitudinal process component). Many of the the components pinpointed by Hedman and Kallig can be absorbed into a single category to more resemble the 4 points of Johnson, Christensen, et al's model. For instance,the Johnson, Christensen, et al (2008) business model would consolidate customers, competitors and offerings under the single CVP category.

Although Johnson, Christensen, et al (2008) believe that the creation of a new business model does not automatically necessitate changing the current model and that a new and/or revitalized model can reinforce and complement the core business, this aforementioned theory contradicts one of the key tenanents of the authors' theory regarding how business model innovation can yield acceptable results: that an organization should be able to create a new business development process “unfettered by the often negative influences of [the] core business.” (Johnson et el 2008).

Although the website Craigslist.org is identified as the industry's key business model disrupter (Collis 2010), there is a dearth of academic literature specifically on Craigslist.org. The overwhelming majority of literature on the newspaper industry that mentions this website either speaks derisively of it and other online disrupters or fails to offer extensive analysis on Craigslist.org and/or other business model disrupters and their business models (Collis 2010, Sterling 2010, Murdoch 2009, Reina 1996). Information about Craigslist.org has usually been included within a larger research study on newspapers, although Rappa includes information on this organization on his website on the modern digital enterprise. Collis et al (2010) are sone of the only scholars who write extensively about this online company, that many believe has disrupted the revenue model and thereby the profit formula of the newspaper industry (Collis et al 2010, Sterling 2008, Carey 2009, Murdoch 2009). Yet the authors re-hash old information and fail to offer an alternative viewpoint. In this thesis we raise the possibility that perhaps a significant percentage of Craigslist.org customers are people who weren't previously newspaper advertisers and that their service has filled a gap in the market by offering a precise customer value –a straightforward way to 'get a job done.' This is one of the key elements of the American Press Institute (API) methodology championed by Sterling (2008) for transforming the newspaper industry– and the development of "...potential solutions to the identified need." And what Johnson, Christensen and Kagermann (2008) believe is the foundation of a successful business model.

To address the question regarding how e-business models can be adapted to help the newspaper industry find a new model, this thesis utilizes the e-business taxonomies laid out by Rappa and Bambury (1998) on web-based models and native internet business models, respectively. Rappa is renowned for his research on e-business models (van der Beek 2005, Hedman, Kalllig 2002). His and Bambury's classification systems have remained stable within the internet universe and are applicable to the newspaper industry and are transferable across industries. Elements of their classification systems can also be applied to digital formats beyond the web. Francois (2010) has developed a theoretical framework grounded in the taxonomies presented by Rappa to analyze the models most frequently utilized by newspaper in 66 cities in the UK market.

Collis, et al (2008) detail the history of the modern newspaper industry in the United States and provides insight on the origins of the current problems in the newspaper industry in their scholarly article *The Newspaper Industry in Crisis*. (Collis et al 2010). Collis is adept at describing the intricate layers that comprise the industry and clearly laying out its present problems and the origins of these challenges. His sources include interviews with newspaper publishers whose point-of-view regarding new technology and business model disruptors could be biased since it is their industry which is being negatively affected by the increase in competition. Yet Collis does acknowledge that newspapers in the United States used to have the advantage of operating as local monopolies which had contributed to generating profit margins of 20% (Collis et al 2010). Reina (1996) contradicts Collis and writes that the average net profits were 14%.

Collis et all draw conclusions about the cause and effect of the crisis in the newspaper industry. Two of the major shortcomings of the paper from Collis et al's (2010) is the failure to have interviewed representatives from organizations he has identified as business model disrupters and to include the point-of-view of these disrupters, as well as the overall analysis of the business models of these companies. Collis et al's analysis is filtered through the prism of the perspective of companies which are adversely suffering from these innovators/business model disrupters.

Van der Beek references an article by Krueger (2003) on e-business models using a regional newspaper as a case study. The paper looks at how regional newspapers have developed online business models and includes case studies on European news organizations in Germany, France and Italy but fails to include east European countries in this study. The authors acknowledged that the success of these models have not been proven. This paper only holds limited use for this thesis as it focuses on regional newspapers in the European market and our focus is on the market in the United States. And there is no information on the success of the business models which have been studied. (Krueger et al 2003).

Journalism Practice, a peer-reviewed journal devoted to the journalism profession published a special issue on the future of journalism. Most of the articles focus on content and looked at CVP as more like 'readers value propositions.' But Peters (2010), in *The Future of Journalism and Challenges for Media Development* writes about the moribund newspaper industry and argues that the traditional business model of newspapers in the developed world is no longer valid. Peters offers suggestions for a diversified revenue scheme based on government loans, advertising, and donations from listeners (Peters 2010). These models, dependent on government support, were challenged by the chairman of News Corporation, which owns the *The Wall Street Journal* in an editorial in the newspaper, as potentially jeopardizing the independence of the news media (Murdoch 2009).

In researching this thesis one-on-one interviews were conducted with a media expert and editor from *The Economist* and the Vice President of Audience Research with the Newspaper Association of America. The NAA is the major trade organization for he newspaper industry in the US market.

This paper contributes to academic literature on the newspaper industry because it is one of the few papers that focuses on a niche publication in the industry that has been pursuing a niche-segment strategy as opposed to most articles that focus on newspapers that pursue a mass-market segment strategy and this paper focuses more on the profit formula as opposed to the editorial side of the newspaper industry. Additionally, this paper is one of the few papers that focuses on profit formula transformation and not on improving editorial content. "We believe newspapers, in the quest to save their old business model have failed to capture the growth opportunities created by disruption." (Gilbert and Ure 2005). This paper looks toward the future and offers concrete recommendations for developing a viable profit formula.

In our reading we also explored the psychology of consumers and pricing as related to subscription models (Gourville, Soman 2002), the concept of relative thinking and pricing (Saini 2010) and consumers and price sensitivity (Wedel 1998). Gourville and Soman's paper seemed more applicable to this thesis. We concluded that Wedel and the

Gabor-Granger study on price sensitivity and the psychological effects of pricing would be more applicable to a study on the possible effects on the profit formula of a newspaper firm that is contemplating switching from a free e-newspaper model to a paid subscription model.

Methodology

The Wall Street Journal has been used as a case study for this thesis on reinventing the business model of the newspaper industry. Our primary focus is on the market of the United States. For this paper, an empirical investigation has been conducted using qualitative analysis and the inductive approach. Through data collection, interviews, observation, and the interpretation of qualitative data, using a case study strategy has enabled the authors to explore the existing theory, that newspapers in the U.S. Market are in decline as well as to offer an alternative perspective to this existing theory.

This paper utilizes professional literature, peer-reviewed journals, and secondary data. Professional data consists of United States census data, white papers, original digitized archival versions of *The Wall Street Journal* from the 1880s and 1900s, financial statements and annual reports from News Corporation (the parent company of the WSJ*),* an interview with the Media Editor of *The Economist,* who is a specialist on newspapers and media in the North American market, and an interview with the Vice President of Audience Research with the Newspaper Association of America. Secondary data consists of surveys, articles in peer-reviewed journals as well as newspaper articles.

All the interviews were one-on-one interviews conducted via telephone and email with additional follow up questions sent via email. The telephone interviews were recorded and lasted 90 minutes. Qualitative in-depth interview and semi-structured interview methods were used to rigorously explore topics. The open question method was used to obtain facts and let the participants describe events and situations while the probing question method was utilized in order to gain more detailed information. In order to reduce bias research questions were carefully prepared utilizing peer-reviewed articles, trade journals, and news reports. To promote validity, reliability, and credibility, as recommended by Saunders, Lewis and Thornhill (2003) in their book on research methods, relevant information was given to participants, prior to the interview, providing a general frame work regarding the themes to be dealt with in the interview.

An inductive approach has been primarily relied on, whereby research objectives and theories have been refined and fine tuned based on the qualitative data collected and analyzed. Due to using the exploratory method and the limited time allocated for.

developing this work, we analyzed data as it was collected. Theories regarding the newspaper industry and the WSJ emerged via the process of collection and analysis. During this time relationships between the information that was uncovered were identified, then more questions were developed and the initial questions were refined.

Utilizing an inductive approach has enabled the discovery of patterns and the causal connections between events and results in terms of the WSJ and the newspaper industry. In the case of the newspaper industry, this has produced a better understanding regarding why overall the newspaper industry is in its current situation (declining circulation, changes in consumer behavior, declining advertising revenue, greater competition).

As the research developed surrounding *The Wall Street Journal* and its business model, throughout the process we reflected, interpreted and presented our remarks and conclusions of this work. In this thesis we offer solutions, suggestions and recommendations for the reinvention of the business model of the newspaper industry.

Introduction

The newspaper industry operates in a mature market. Newspapers in the United States are in dire straits, they have been filing for bankruptcy protection and closing.[1] Profits are falling and outside competition continues to erode the organizations' traditional profit formula, whose foundation is an advertising-based business model.[2] This thesis uses *The Wall Street Journal* as a case study and focuses on daily newspapers (Monday-Friday editions) in the newspaper market in the United States. *The Wall Street Journal,* founded by Dow, Jones and Company and since 2007, owned by News Corporation, is a business newspaper that has spent over 100 years catering to the financial and banking industries. "Dow Jones and Co. was a global provider of business news and information. *The Wall Street Journal*, Dow Jones's flagship publication, was long considered the most respected source of business and financial news in the United States." [3]

Its headquarters are based in the United States. The global reach of the newspaper includes an Asia edition and an Europe edition. Using this particular newspaper as a case study presents the opportunity to analyze an organization whose slow and steady path coupled with its resistance to change in terms of its business model has ironically lead the company to build a successful e-newspaper. *The Wall Street Journal*'s decisions regarding its e-business model have up until the present been based on its traditional print model of generating revenue from utilizing both a subscription model and an advertising model, while its competitors have been pursuing an e-business model 100% dependent on an advertising model. [4]

In general, from year-to-year, the *The Wall Street Journal* circulation continues to hold steady and/or rise. According to WSJ.com --the online edition of *The Wall Street Journal* as well as the 2009 annual report of News Corp., the newspaper has a global circulation of 2.092M for its daily edition and 1.9M for its weekend edition[5] and its website, WSJ.com, has 1.1M subscribers. In Europe, the print edition has 75,000 subscribers and the Asia edition has 86,000 subscribers. In comparison, a general

1 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, p. 1.
2 Ibid. p. 8-9.
3 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, p. 2.
4 MA Rappa, '*The Utility Business Model and the Future of Computing Services,'* IBM Systems Journal, Vol 43, No 1, 2004, pp. 35 – 36.
5 Audit Buruea of Circulations, March 31, 2010.

interest newspaper such as the *Houston Chronicle,* saw its circulation fall 4.2% in 2009 (presently the 2010 circulation numbers are unavailable).[6]

The modern US newspaper is an 18th century invention and the contemporary business model developed in the mid-to-late nineteenth century--based on a mass-market segment strategy, appealed to a mass audience, while the preceding model was based on a niche-segment strategy.[7] Today the demand for news is met by television, radio, the internet, and mobile phones. Business thinker Peter Drucker once said, while *The Wall Street Journal* dominates the market for daily business news, no one could say that it has a monopoly on business news.[8]

Since the end of the 20th century, firms have had easier access to a larger, more international customer base. For the newspaper industry and organizations like *The Wall Street Journal*, business model disruption will be the one constant in an ever changing business environment.[9] Based on the findings of this research project it is recommended that companies should invest in research and development (R&D) and encourage innovation within their own organizations in order to counter and anticipate disruptive technology and to set these firms on a course to continuously pursue innovation and upgrade, adapt, and renew their products and services. Business model innovation will enable the organization to increase the value delivered to its customers and create profits for its shareholders. CEOs look towards this type of innovation to confront permanent shifts in markets.[10]

When a newspaper name such as the *Financial Times* or *The Wall Street Journal* is mentioned, we are discussing the print (physical) version of the newspaper, unless otherwise indication. When we write FT.com or WSJ.com, then we are discussing the e-newspaper. Circulation numbers reported in this thesis are all based on daily figures (Monday – Friday), unless otherwise noted. When we write about subscription models, we mean 'paid subscription models.'

Our main research questions are: How did the old business model become damaged? How has *The Wall Street Journal* avoided the crisis? How are *The Wall Street Journal's*

6 Audit Bureau of Circulations, March 31, 2010.

7 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 31.

8 P F Drucker, '*Management's New Paradigms',* Harvard Business Review, vol 162. Issue 7.

9 KM Eisenhardt, DN Sull, '*Strategy as Simple Rules,*' Harvard Business Review, Vol 79, No 1, p. 116.

10 MW Johnson, CM Christensen, H Kagermann, *'Reinventing Your Business Model,'* Harvard Business Review, December 2008, Vol 82, No 12, p. 62.

competitors responding to business model disruption? How can e-business models be adapted to assist the newspaper industry in reinventing its business model?

Chapter 1

The Wall Street Journal and its business model evolution

Historical background

Why is *The Wall Street Journal* presently the only newspaper in the United States with consistently rising circulation numbers for its print edition and a consistently profitable e-newspaper? Is it because the WSJ provides its readers with exceptional and or unique information and analysis that they cannot find elsewhere? Is it because many business people are able to expense the newspaper? The success of this financial newspaper includes a set of factors that are more complex.

The Wall Street Journal is currently the only US based newspaper with a successful e-business model. The 2009 Annual Report of News Corporation states that WSJ.com has over 1M subscribers, and its subscriber base continues to grow. Additionally, the print version of the WSJ also continues to grow, albeit at a modest rate. For the six months up to March 31, 2010, the daily edition (Monday - Friday) of the WSJ increased by .05% to 2.09M.[11] During this time, the daily circulation of the top 25 newspapers in the United States, which includes the *New York Times*, *USA Today*, the *Houston Chronicle*, and the *Minneapolis Star Tribune*, fell 8.7%. The *Journal's* circulation is 13% higher than its nearest competitor, *USA Today*. *USA Today* 's circulation fell 13.58% in this same period.[12]

The Wall Street Journal's circulation grew from 11,000 at the beginning of the 1900s to over 1M by the middle of the 20th century and its exponential growth has continued. The newspaper doubled its circulation from 1M in the 1950s to over 2M by 2010.

News Corp., now the parent company of the WSJ, owns four newspapers in the UK, two newspapers in the US and 146 newspapers in Australia. Newspaper and information revenues for News Corp., rose by 39% between 2007 and 2008, and increased by $1.8B. This dramatic increase is partially attributed to News Corp. including revenue from Dow, Jones & Company for the first time in its financial statements. Dow Jones, which was purchased by the firm in 2007, and contributed $1.1B of revenue to the

11 Audit Bureau of Circulation, March 31, 2010
12 Audit Bureau of Circulatoin, March 31, 2010

organization in 2008.[13]

Dow Jones & Co. has been providing business news and information since the late 1800s and its flagship publication, *The Wall Street Journal*, is considered the most respected source of business and financial news in the United States.[14] When *The Wall Street Journal* launched in the late 1800s, the newspaper industry was characterized by a large number of relatively small firms whose products mostly appealed to a mass-market audience.[15] In the early 1870s, Charles Dow, Edward Jones, and Charles Bergstress began issuing summary reports, published by their newly launched company, Dow, Jones & Co. These summary reports were precursors to *The Wall Street Journal.* During this time, there were 6,432 newspapers in the United States of which 507 were issued daily (according to the 1872 edition of Geo. P. Powell & Company's American Newspaper Directory).[16] This was about the time Dow, Jones & Co. was launched. In 1870 there were 0.000158 newspapers per person in the U.S. [17]

Charles Dow, Edward Jones, and Charles Bergstress together established their own news service offering succinct, factual information to their subscribers. “The business-versus-general interest focus of the Wall Street Journal kept it relatively immune from direct competitors until the expansion of UK-based the Financial Times in 1998.”[18]

The Wall Street Journal was not the first newspaper to offer financial information but after expansion in the early 20th century, the news organization became “the first national newspaper in the United States” and held this role until the launch of USA Today in 1985.[19] When Dow, Jones & Co. was founded, there were at least three financial newspapers based in Manhattan, New York, according to the Geo. Powell annual reference of periodicals in the United States.

The founders not only offered information but created a unique customer value

13 News Corporation Annual Report 2008

14 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, p. 2.

15 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School Publishing, January 12, 2010, p. 2.

16 Geo. P. Powell & Company's American Newspaper Directory, 1872, Geo. P. Powell.

17 US Census 1870, Library of Congress

18 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, pp. 3-4.

19 Ibid.

proposition by providing financial analysis that other competitors did not offer, such as the *Dow Jones Industrial Average.* "Charles Dow's...lasting legacy was creating and branding a market statistic at a time when many people thought the financial markets were so irrational or corrupt as to be essentially chaotic. He began publishing the combined average price of 11 stocks --mostly railroad companies --in 1884. The Dow Jones average of 12 industrial stocks appeared in 1896." [20]

Since its inception, *The Wall Street Journal* has been "considered the most respected source of business and financial news in the US."[21] Management has consistently taken small, deliberate steps in introducing change. *The Wall Street Journal* is not an e-business model pioneer. Its decisively traditional business-oriented approach to handling disruptive innovation has led to management transferring what Bambury refers to as a "real-world business model" to other platforms such as the internet including not only its profit formula, but also its CVP, key resources, and key processes and then to continuously make small adjustments and improvements in order to adapt to the new format. Throughout its lifespan, this approach, supported by a well defined CVP and strong brand image has enabled the WSJ.com to continue to grow and its parent company to be the only US based newspaper organization that has a successful e-newspaper.

Niche-segment strategy

Management guru Michael Porter believes that an organization's environment shapes the success of a firm and/or industry. For Dow, Jones & Co. and *The Wall Street Journal*, the environment they initially occupied was located in one of the centers of the global financial industry. Dow, Jones & Co. was founded one year prior to the Panic of 1873 when there was considerable volatility in the banking industry and the stockmarket.

Porter also believes that the initial environment in which a business operates as well as management choices are what, in the long-run, determine the ultimate success of an organization. He says "Decisions taken affect drivers...which build up activities, which in turn enable low-cost product or product differentiation, both of which enable

20 C Crossen, *'It All Began in the Basement of a Candy Store'*, The Wall Street Journal August 1, 2007.

21 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, p. 2.

specific strategies and positions in markets and industries and the success of the firm.[22]

When Dow, Jones & Co. was founded the firm distributed stock market news in a timely manner via summary reports. In these reports the organization included guides and stock market analysis and gossip from the financial industry. [23] The firm supplied daily financial news in the United States, occupying a unique position in the marketplace at that time. Although it served a niche customer segment and had a small circulation, it continuously laid the foundation for growth and a broader appeal by investing in new equipment as well as offering new sections.[24]

The Wall Street Journal's bulletin service had a daily circulation of 1500 and cost $15 per month. In 1902, the circulation of the newspaper reached 11,000 while the monthly rate of the bulletin rose to $20 per month. This daily bulletin had a gross revenue of $300,000 in 1902.[25] From this time period there is no information available about the gross revenue of the physical newspaper. The newspaper was published 6 days per week and the news bulletins were published approximately every 8 minutes.[26]

Initially, Dow, Jones & Co. derived its profit formula from the traditional business model of newspapers and magazines for generating revenue: subscriptions and advertising with ad rates dependent on circulation levels.[27]

Management guru Drucker notes that in the late 1800s, the newspaper publishers Adolph Ochs of the *New York Times* and William Randolph Hearst developed the advertising business model upon which modern newspapers still depend. “Advertising made it possible for them to distribute news practically free of charge, without the profit coming from the market.”[28]

Changes and readership expansion

Charles Barron, through his wife Jessie, purchased Dow, Jones & Co. in 1902.

22 J Hedman, K Thomas, *'IT and Business Models'*, Copenhagen Business School, 2002, p. 107
23 L Wendt, *The Wall Street Journal,* Rand McNally & Company, 1982 p. 25
24 Ibid, pp. 65-66.
25 Ibid, pp. 41-2, 44.
26 Ibid, p. 47.
27 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, pp. 3-4.
28 P F Drucker, *'The Discipline of Innovation'*, Best of Harvard Business Review; 1983, p. 98.

He started his career in the newspaper industry by writing and publishing financial news. After assuming ownership of Dow, Jones & Co., Barron proceeded to take a hands-off approach, an approach, tradition and managerial process that was characteristic of the company's owners up until it was sold to News Corp in 2007.

Barron, like the original owners in the 1800s and the Bancroft family, who assumed ownership following Charles Barron's death, made innovative yet incremental changes to the newspaper. *The Wall Street Journal* has never been known as being at the cutting edge of innovation, but it was not exactly a follower either. Never-the-less, management introduced new graphics, photographs, charts and maps illustrating financial reports, added special columns, licensed comics for the newspaper for the first time and added play and book reviews.[29] This redesign and reorganization were implemented expand the appeal of the news publication beyond its core readership. Variations of these innovations would happen again throughout the 20th century and are being echoed again in 2010 as *The Wall Street Journal* begins to compete directly with the *New York Times* in the United States by expanding its general interest reporting.

In the early 1900s, the typical advertising clients of *The Wall Street Journal* such as banks, brokerage firms and manufacturers now included companies that produced consumer goods such as automobiles and cigarettes. By examining archival issues of the *The Wall Street Journal*, one can see that in the 1920s, the newspaper began running more consumer oriented advertisements by companies such as Fleischmann's Yeast. And in the 1930s and 1940s the newspaper had advertisements for consumer products such as a Radio-Phonograph made by General Electric in addition to its advertisements for the banking and financial services.

Creating classified advertisements

The Wall Street Journal also built on its profit formula by introducing an innovative advertising idea that became highly profitable and was widely imitated by other newspapers and other industries in the 20th century. "The Journal initiated a special classified section of display advertisements soliciting personnel for executive positions and highly skilled jobs, an innovation that would become a top revenue earner for the paper and would be adopted by general newspapers."[30] "In the late 1990s, classified advertising accounted for approximately 40% of ad revenues for a newspaper and

29 L Wendt, *The Wall Street Journal,* Rand McNally & Company, 1982 p. 122.
30 Ibidl, p. 123.

was the most profitable component of ad sales."[31] The company continued to develop its profit formula by pioneering another innovative revenue stream for the newspaper by insisting that publications that re-printed content from *The Wall Street Journal* had to pay a fee for it. These licensing fees were initially collected for the paper's stockmarket analysis section, the *Dow Jones Industrial Averages*. "The Wall Street Journal was the first publication to license content to other news outlets for a fee."[32] This revenue model is used by firms within the newspaper industry as well as outside this particular industry such as the *Associated Press*, which gathers and distributes news to newspapers around the world and by *Getty Images*, which licensies its photographs and video content to newspapers and magazines and other media outlets. It is also used by luxury goods makers that license their logos.

By 1920, *The Wall Street Journal* had a circulation of 20,000 and reported "...excellent advertising returns and good profits."[33] The internet had a particularly pronounced effect on classified advertisements.[34] The revenue model of the profit formula, based on classified advertising, upon which newspapers are still highly dependent, has been transformed by disruptive technology (the internet) and the entry of low-end disrupters and the shifting basis of competition .[35]

These low-end innovators, such as Craigslist.org, a barebones website which had 12 billion page views per month in 2008 and offered a similar service (classified advertising) that is free, are indicative of the shift in competition for the newspaper industry. [36]

"Newspapers were built on local-advertising monopolies. The internet deprived them of these monopolies. Less important than an individual's ability to access the BBC's news feed was his ability to access Craigslist's classifieds. In the Internet age, midsized

31 DJ Collis, PW Olson, M Furey, *'The Newspaper Industry in Crisis,'* Harvard Business School, January 12, p. 3.
32 L Wendt, *The Wall Street Journal*, Rand McNally & Company, 1982, p. 143.
33 Ibid. p.137.
34 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010 p. *5*.
35 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,'* Harvard Business Review, December 2008, p.57.
36 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010 p. *5*.

newspapers are inefficient. And they are being eliminated."[37]. The success of Craigslist is the result of an outsider with a keen sense of its CVP. The website looks at what a consumer needs to get done (e.g., selling an old car or buying a second-hand computer) and offers a simple process to solve the consumer's problem. "innovators...are able to perceive opportunities and more likely to pursue them."[38] The entry of this low-end disrupter and the shifting basis of competition is a clear sign that newspaper companies need a new business model.[39]

37 E R Goldstein, *'The Death of Newspapers'* The Chronicle of Higher Education, January 23, 2009, vol 55, issue 20.

38 M Porter, *'The Competitive Advantage of Nations,'* Harvard Business Journal, March-April 1990, p. 75.

39 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,'* Harvard Business Review, December 2008, p.57.

Chapter 2

Why is the current business model damaged?

How did the business model of the US newspaper industry become damaged?

In order to identify the source of the current crisis in the newspaper industry and answer how the business model of the newspaper industry became damaged, we should first start with a parameter for defining a business model. A business model, as defined by Johnson, Christensen and Kagermann are four interdependent components that together create and deliver value: the CVP, profit formula, key resources, and key process.[40] This chapter explores the newspaper industry's problems concerning its profit formula, which will be revisited later, and touches on CVP, which will be explored more extensively in another section.

Johnson, Christensen and Kagermann's profit formula consists of four sub-sections: the revenue model, cost structure, margin model, and resource velocity. The revenue model of the newspaper industry is explored in this section.

How did the business model of the newspaper in the US market become damaged? The newspaper industry operates in a mature market, circulation numbers are falling and consumer habits have changed and continue to transform. [41][42][43][44][45] There is "increased competition from news online, news updates distributed via mobile technology, news

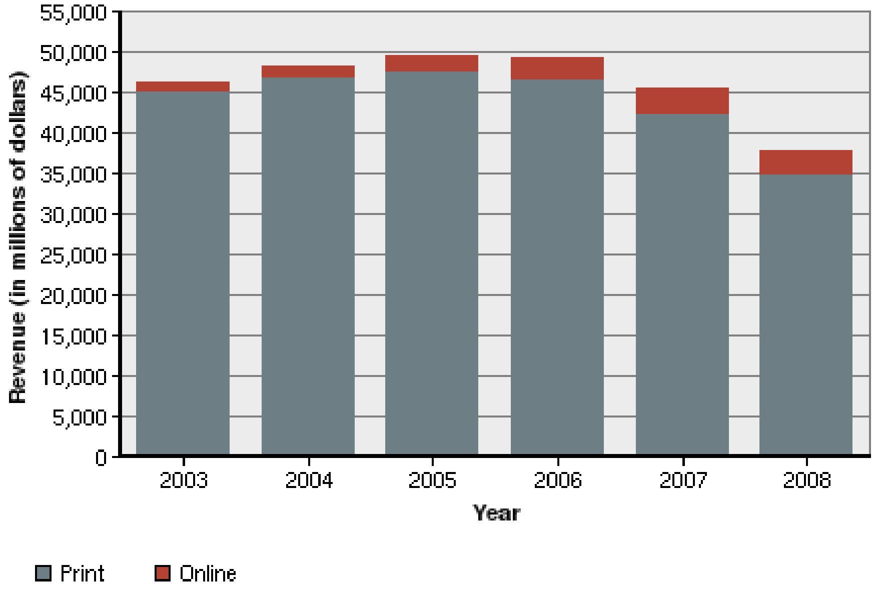
40 Ibid. pp. 52-54.
41 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, p 1- 11.
42 E Huang, '*Causes of Youth's Low News Consumption and Strategies for Making Youths Happy News Consumers,'* Convergence: The International Journal of Research Into New Media Technologies, July 18, 2010, Vol 15, No 1, pp. 107-108
43 C Loebbecke, H Hazard, M Falkenberg, '*Strategic Actions in German Newspaper Publishing: New Entrants Creating Turbulent Times for Incumbents,'* SMS 22nd Annual International Conference pp. 2-3.
44 RG Picard (2002), *The Economics & Financing of Media Companies,* Forham University Press, p.25
45 K van der Beek, P Swatman, C Kreuger (2005) *'Creating Value From Digital Content: e-business model evolution in online news and music*.' Proccedings of the 38th Hawaii International Conference on Systems Science. pp. 2.

aggregators such as Google News and micro-blogging sites like Twitter."[46] In 2008 40% of Americans got their news from the internet, up 16% from 2007.[47] In January 1993 52% of Americans got their news from printed newspapers about national and international issues. This number had fallen to 35% in 2008.[48] "The economic recession [of 2008] has accelerated and exacerbated the consequences of such revenue shifts and trends...." [49] The falling circulation numbers is not systemic—the trend already existed prior to the recessions of the early 00s nor the late 00s.[50] "The large metropolitan newspapers from Seattle to Boston [in the United States] saw circulation rates fall at fateful levels with ranges of 4.1% to 15.6% for the six months ending March 2006."[51]

The current business model of the newspaper industry for physically printed newspapers is based on obtaining revenue from four primary sources: advertising (also known as 'display' or 'retail' advertising), for product and services; classified advertising, targeted to local consumers; subscription (home delivery), a fee paid by the consumer for access to news; and per copy sales such as newsstand sales.[52] For international market, the aforementioned revenue model varies. For instance, in the United Kingdom, offering home delivery of a newspaper is a recent addition to the newspaper business model.[53]

46 B Franklin, '*Introduction,'* Journalism Practice, Vol 4, No 3, August 2010, p. 247.
47 Pew Reserach Center for People and the Press, '*Internet Overtakes Newspapers As News Outlet,'* December 23, 2008, pp. 1-2.
48 Ibid. p. 5.
49 B Franklin, '*Introduction,'* Journalism Practice, Vol 4, No 3, August 2010, p. 247.
50 S Bradley, N Bartlett, 'Where to Get Your News and Information: The Digital Disruption,' Harvard Business School Publishing, January 10, 2007, pp. 6-7.
51 Ibid. p. 7.
52 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, p.3
53 J Budd, Media Editor *The Economist*, interview

Print Advertising Revenue in Contrast to Online Advertising Revenue for Newspapers in the United States



Source: Business Analysis and Research, Newspaper Association of America Table 1

"The 19th century business model whereby news and editorial content was packaged and delivered to homes daily and paid for by national advertisers has been overturned by the internet and the corresponding immediate access to global information." [54]

Falling circulation

The frissure in the old business model of print newspapers in the U.S. Market is directly related to the decline in circulation. Traditionally, papers have been "...highly dependent on circulation sales for their income."[55] In 1880, advertising provided half of newspaper

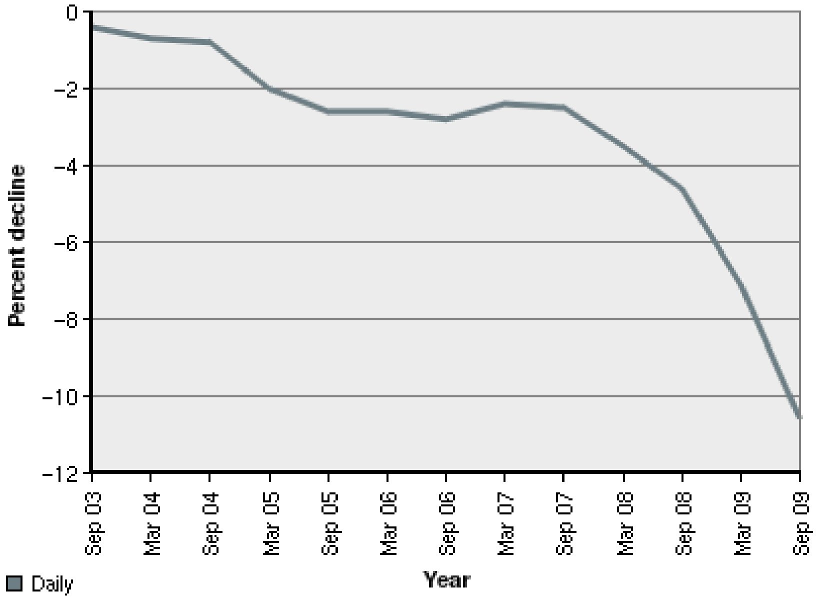
54 DJ Collis, PW Olson, M Furey, *'The Newspaper Industry in Crisis,'* Harvard Business Review, March 11, 2009, p. 24.

55 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 31.

revenue in the United States, 60% in 1910 and 80% in 2000.[56] The fall in circulation numbers (the number of papers sold to consumers, which includes subscriptions) is the result of the increase in consumer choice and changes in consumer preferences when it comes to acquiring news and information. Newspapers and television used to monopolize news distribution. [57] "Circulation has been falling in America, western Europe, Latin America, Australia and New Zealand for decades (elsewhere, sales are rising). But in the past few years the web has hastened the decline. Britons aged between 15 and 24 say they spend almost 30% less time reading national print newspapers once they start using the web." [58]The information revolution has contributed to an increase in consumer choice and the growth of customer fragmentation. The loss of readers has led to lower circulation for most newspapers in this market and loss of value to advertisers. Advertising rates charged by these firms are based on circulation as well as quality of readers.[59] Therefore the loss of readers has lead directly to a loss in revenue. Because the ad rates charged for online news is considerably lower. Print generates "$500 to $900 per year in revenue per print subscriber and $5 to $10 a year per unique website visitor."[60] The rise in online readership and a shift of advertisers to online advertising have not offset the decline in revene from print sources not only in the US market, but also in UK, where online advertising makes up 4.9% of total advertising revenue.[61]

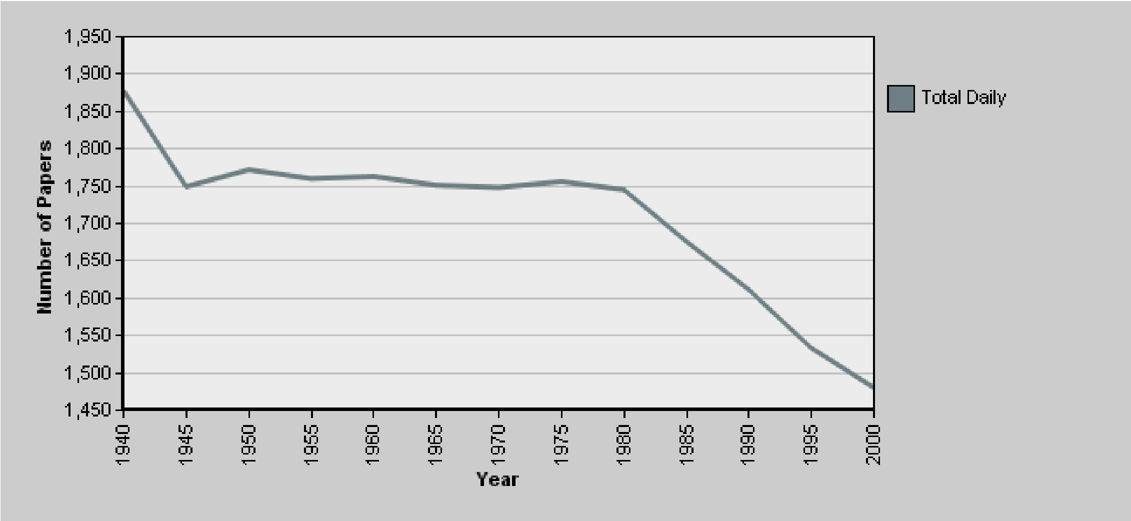
56 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 31.
57 L Downie, Jr, M Schudson, '*The Reconstruction of American Journalism,*' Columbia Journalism Review, October 19, 2009, pp. 28-52.
58 The Economist, '*Who Killed the Newspaper?*'August 26, 2006, Vol 380, No 8492, pp. 9-11.
59 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010 p. *8.*
60 Ibid.
61 F Nel, 'Where Else Is the Money: A Study of Innovation in Online Business Models at Newspapers in Britain's 66 Cities, Journalism Practice, Vol 4, No 3, August 2010, p. 363.

U.S. Newspaper Circulation Percentage Decline 2003- 2009



Source: Deutsche Bank Securities and Audit Bureau of Circulations Table 2

Daily Newspapers in U.S. 1940 - 2000



Source: Editor & Publisher Yearbook Data Table 3

In 2009, 105 newspapers closed in the United States[62] In 2008 the *Albuquerque Tribune*, the daily newspaper for the US city of Albuquerque, New Mexico, closed. Daily circulation of the newspaper fell from a high of 45,000 in 1985 to under 10,000 when it closed.[63]

The decline in circulation for print newspapers pre-dates the 2008 financial crisis. [64] Although the 2008 financial crisis has contributed to accelerating the process. Between 1999 and 2009, newspaper readership declined dramatically in the United States. In 1999, 72% of people over 65 stated they had read a daily newspaper yesterday. This number fell by 10% in 2009. During this same period, in the 25 – 34 demographic, newspaper readership declined from 44% to about 28% percent. Although the rate of decline is lower in the 45 – 65 age groups, the overall pattern of decline is consistent across all age groups.[65] This dramatic drop in readership correlates with the decline in newspaper circulation and supports the theory that the the old business model of the newspaper industry has been severely damaged. The traditional business model of printed newspapers heavily relies on advertising. One key element that determines

62 D Anderson, '*Is the Great American Newspaper Dead?*' Nielsen Wire, June 1, 2009 .
63 T Davis, '*When Heart Isn't Enought,*' American Journalism Review, 2008, pp. 20 – 22.
64 Downie, Jr, L, Schudson, M, '*The Reconstruction of American Journalism,*' Columbia Journalism Review, October 19, 2009 pp. 28-52
65 Scarborough research survey data, 2009

newspaper advertising rates is daily circulation. “Competition for advertising among newspapers is based upon circulation levels, readership levels, reader demographics and advertising rates, and advertising results. ...[the] newspaper industry has experienced difficulty increasing circulation volume and revenue.”[66] Falling circulation has lead to lower revenues. These changes are attributed to increased competition from new media formats and sources for advertisers and shifting preferences among some consumers. [67]

Declining advertising revenue

Print

Print display advertising in newspapers fell by more than 27% in 2009, down $10 billion from 2008.[68] Table 1 shows that print advertising in newspapers peaked at $49.4 billion in 2005. The combination of falling circulation, decreasing advertising revenue, and increased competition has affected newspaper profitability.[69]

“... the economic foundation of the nation's newspapers, long supported by advertising is collapsing, and newspapers themselves...are shrinking... the hegemony that near-monopoly metropolitan newspapers enjoyed during the last third of the twentieth century, even as their primary audience eroded, is ending.”[70]

Although this thesis exclusively focuses on the US market, in Japan, newspapers have not been “immune to the internet's cannibalization of ad revenue.... In this market, display ad rates dropped by more than 50% by the end of 2008. [71]

Since the launch of WSJ.com, Dow, Jones & Company, have maintained a hybrid subscription/advertising based e-business model.At the beginning of he 21st century, their competitors began to make 100% of their content available for free on the internet,

66 News Corporation 2009 Annual Report, p. 25.

67 Ibid.

68 Chittum R. 'Newspaper Ads tumbled to 1963 Levels Last Year,' Coumbia Journalism Review, March 25, 2010

69 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, p. *8*.

70 L Downie, Jr, M Schudson,'*The Reconstruction of American Journalism,*' Columbia Journalism Review, October 19, 2009, p. 28.

71 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,* Harvard Business School, Janaury 12, 2010, p.10.

believing that "the internet forms the foundation for a future role in the online advertising marketing."[72] Now, the internet consumer is conditioned to receive free information, therefore generating revenue from online content has been difficult and and advertising has not been successful online.[73] "While the move online presented great cost savings in manufacturing and distribution...newspapers generated $500 to $900 a year in revenues per print subscriber but only about $5 to $10 a year per unique website visitor. Despite increased readership, the internet still accounted for less than 10% of most newspapers' revenues. With free access to newspaper websites, subscription revenue disappeared."[74] Van der Beek, et al support these findings that online newspaper advertising is still not a big portion of total advertising expenditures for advertisers although it is growing.[75] Quality of readership is also a factor when calculating the rates newspapers charge advertisers and accurate and reliable demographic information on readers is difficult to determine when a newspaper offers its online content for free.[76] Registration partially offsets this problem. But a subscription provides more quantifiable customer data.

72 K van der Beek, PMC Swatman, C Krueger, '*Creating Value From Digital Content: eBusiness Model Evolution in Online News and Music,* Proceedings of the 38th Hawaii International Conference on System Sciences, 2005, p. 5.

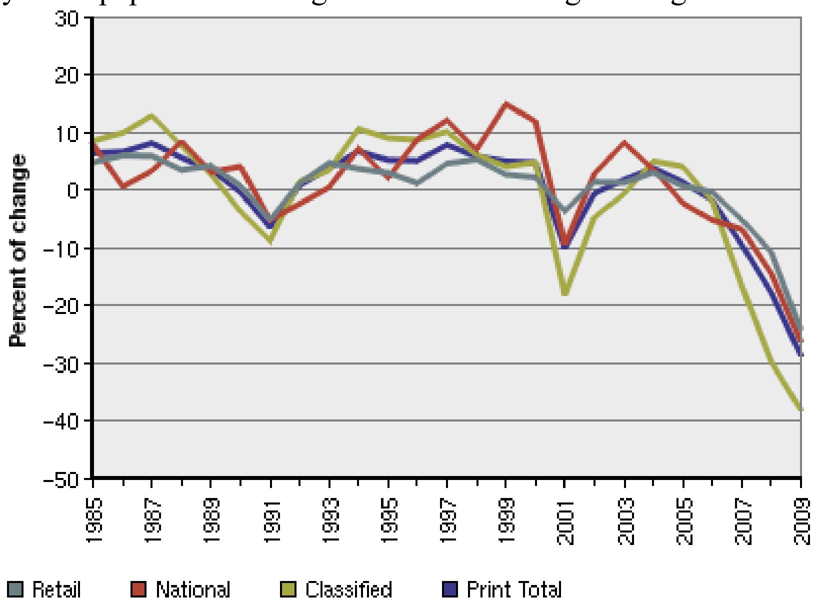
73 Ibid. pp. 4-5

74 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010 p. *8.*

75 K van der Beek, PMC Swatman, C Krueger, '*Creating Value From Digital Content: eBusiness Model Evolution in Online News and Music,* Proceedings of the 38th Hawaii International Conference on System Sciences, 2005, p. 5.

76 *K van der Beek, PMC Swatman, C Krueger, 'Creating Value From Digital Content: eBusiness Model Evolution in Online News and Music, Proceedings of the 38th Hawaii International Conference on System Sciences, 2005, p. 5.*

Daily Newspaper Advertising Revenue Percentage Change 1985 - 2009



Source: Newspaper Association of America Table 4

Classifieds

Classified advertising primarily consists of ads for automobiles, real estate and recruitment. Between 2000 and 2008, auto ads in this category for print newspapers fell from $5B to 1.3B in 2009. Real Estate ads fell from 3.2B to 1.4B and recruitment fell the most dramatically, going from 8.7B in 2000 to 2.2B in 2008 to 0.08B in 2009.[77] In 2000, recruitment advertising, a form of classified advertising used by firms to advertise available jobs in an organization and recruit new employees, was 18% of newspaper revenues.[78]

77 Newspaper Association of America, 2009.

78 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010 p. 5.

In the United States, local newspapers in small towns are still quite profitable and still attract classified advertising. [79]National newspapers such as the *New York Times* and the WSJ, which were never as dependent on this revenue stream, have not suffered as much as the mid-sized newspapers such as the *Houston Chronicle* or the *Los Angeles Times*.[80]

Due to the proliferation of free news content available on a variety of platforms as well as chaing consumer preferences, large near-monopolistic news organizations are no longer the dominant platform for consumers or advertisers.[81]

Craigslist.org was launched as a non-profit on-line 'classified' website in 1995 that would let users post advertisements such as for car, employee recruitment, new and second hand computer equipment, etc, free of charge. In 1996, *Editor & Publishers,* a B2B newspaper for the industry, reported that classified advertising was the newspaper industry's most profitable area, adding up to $13 billion in annual revenue, making it the most critical piece of a firm's profit formula.[82] During that time, newspapers received over 37% of their advertising revenues from classifieds, the average net profit for the average newspaper was 14% , and it was estimated that a 25% loss in classified revenue would have a substantial impact on a paper's profit formula, reducing its net profit to 9%. [83]During the 1996 meeting of the Newspaper Association of America, it was noted that business model disrupters were emerging that could threaten this lucrative part of the newspaper industry's business model. It was noted that "if newspapers fail to act decisively, they could lose 50% of classified revenues, and profits could collapse to only 3% in ... five years."[84]

An opinion piece in *The Wall Street Journal* on the industry's business model and disrupters notes:

"The old business model based mainly on advertising is dead. Let's face it: A business model that relies primarily on online advertising cannot sustain newspapers over the long term. The reason is simple arithmetic. Though online advertising is increasing, that increase is only a fraction of what is being lost with print advertising. This is not going to change, even when the financial markets are rising and the economy is in a boom period. The reason is because the old model was founded on quasi-monopolies

79 J Budd, Media Editor, *The Economist,* Interview, April 2010.
80 Ibid.
81 L Downie, Jr, M Schudson,M, '*The Reconstruction of American Journalism,*' Columbia Journalism Review, October 19, 2009 pp. 28-52.
82 L Reina, '*Facing the Crisis in Classified Advertising,'* Editor & Publisher, 129:34, August 24, 1996. p 23.
83 Ibid.
84 Ibid.

such as advertising, which has been decimated by new cheaper competitors such as Craigslist, Monster.com, and so on. In the new business model, we will be charging consumers for the news we provide on our internet sites. The critics say people won't pay. I believe they will, but only if we give them something of good and useful value."[85]

Changing consumer habits

This section focuses on the shifting of consumer habits in terms of the consumption of news and information. The newspaper business in the United States is in "...a state of intense, chaotic change, brought on by the digital information revolution. This is a vast event...a transformation from a universe dominated by well-defined, centralized news production and distribution organizations to diverse constellations of news gatherers large and small, with powers of instantaneous global distribution."[86] This information revolution goes beyond the digital realm. It has altered consumer habits for consuming news and information which has in turn directly contributed to the decline of print newspapers. This decline has been accelerated by the over saturation of information, the increase in consumer choices, and the shifting preferences among consumers when it comes to consuming information.[87] Social networking sites which let users directly interact and immediately disperse information to an audience "...are part of a range of internet technologies enabling the disintermediation of news and undermining the gatekeeping function of journalists..."[88] Social networking and micro-blogging websites are awareness systems, which are defined as computer-mediated communication systems which are "always-on and move from the background to the foreground as and when a user feels the need to communicate."[89] These platforms are transforming consumer habits and "...enabling citizens to maintain a mental mode of news and events around them.[90] Collis argues that the independent variables that have affected consumer

85 R Murdoch, *'Journalism and Freedom'*, The Wall Street Journal, December 8, 2009.
86 K Klose, '*A Federal Bailout for Papers?*' American Journalism Review, March 2010 p. 2-3.
87 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010 p. *4.*
88 A Hermida, 'Twittering the News: The Emergence of Ambient Journalism,' Journalism Practice, Vol 4, No 1, p. 300.
89 A Hermida, 'Twittering the News: The Emergence of Ambient Journalism,' Journalism Practice, Vol 4, No 1, p. 301.
90 A Hermida, 'Twittering the News: The Emergence of Ambient Journalism,' Journalism Practice, Vol 4, No 1, p. 301.

habits in terms of news and information consumption include SMS (short message service/text messaging), social networking websites, and video games which collectively have lead to young people wanting “news on demand.”[91] With a platform such as micro-blogging, pioneered by the company Twitter, news can be posted online from various sources such as a computer keyboard or a mobile telephone and "displays abstract information in a space occupied by the user. In this system a user receives information in the periphery of their awareness. The system is always-on and does not require active attention, but a passive awareness.”[92] Reading a print newspaper requires more active engagement. van der Beek defines these consumers as "news grazers."[93] Hermida argues that if micro-blogging is defined as an awareness system, this “represents a shift in the consumption of news and information amongst consumers.[94]

Changing consumer habits is one of the key independent variables that has lead to the decline in print newspapers. Peter Drucker wrote, newspapers have never monopolized the news yet Peters in *The Future of Journalism and Challenges for Media Development,* notes that newspaper companies monopolized distribution for almost 60 years in the United States and had a stranglehold on the advertising market in the country, which is no longer the case, as now advertisers have more viable choices.[95]

Changing consumer habits for information consumption, whether it be from digital devices such as computers, tablets, mobile telephones and their corresponding platforms, have lead to audience fragmentation which preceded the 2008 financial crisis and the previous recession. “Already before the economic crisis, too many platforms competed for the advertising market.”[96]

91 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School Publishing, January 12, 2010, pp. 1-21.
92 A Hermida, 'Twittering the News: The Emergence of Ambient Journalism,' Journalism Practice, Vol 4, No 1, p. 301.
93 K Van der Beek, P Swatman, C Kreuger (2005) 'Creating Value From Digital Content: e-business model evolution in online news and music.' Proccedings of the 38th Hawaii International Conference on Systems Science. pp. 1-10.
94 A Hermida, 'Twittering the News: The Emergence of Ambient Journalism,' Journalism Practice, Vol 4, No 1, p. 303.
95 B Peters, '*The Future of Journalism and Challenges for Media Development,'* Journalism Practice, Vol 4, NO. 3, July 8, 2010, p. 271.
96 B Peters, '*The Future of Journalism and Challenges for Media Development,'* Journalism Practice, Vol 4, NO. 3, July 8, 2010, p. 270.

Although the introduction of new platforms has lead to audience fragmentation and greater choice for advertising, the internet has not increased the overall news consumption of Americans.[97]

In 2006, Americans spent 67 minutes getting news from television, radio or newspapers. In 1996 people on average spent one minute less obtaining news from the same sources and the percentage of Americans who skip the news entirely has not declined since the 1990s. [98]Although the latest information is from 2006, the numbers seem to be consistent from 1990 to 2006. This study proves that news consumption has remained constant, although now it is spread over a larger number of platforms. Therefore, this the crux of the problem for newspapers, not the internet.

The psychology of consumer consumption

In their study on pricing and the psychology of consumption, John Gourville and Dilip Soman discovered that customers are more likely to consume a service and renew their subscription when they are aware of its cost to them personally as a consumer, meaning how much they pay for a product or service.[99] This argument was used to suggest pricing and subscription policies for products and services that require membership and/or subscription fees. Gourville, et al's research showed that consumers were more likely to renew, for instance, a club membership if the person pays for a service or product such as, season tickets to a sporting event, or a yearly membership to a fitness center, on a monthly payment plan rather than paying an upfront annual fee. The researchers also discovered that consumers using a monthly payment plan were more likely to consume the product on a regular basis and later renew their memberships because the person could see the direct cost to him.[100] The authors concluded, a periodic pricing plan is more likely to create loyal customers.

Based on Gourville et al's findings, in terms of news organizations, one could conclude that in the case of newspapers readers are more likely to consume content and renew their subscriptions if they are made aware of its cost to them personally as a consumer. This theory explains why both the WSJ.com and FT.com have had success with their e-

97 Pew Research Center, '*Online Papers Modestly Boost Newspaper Readership,'* Pew Research Center, July 30, 2006, http://people-press.org/

98 Ibid.

99 J Gourville, D Soman, '*Pricing and the Psychology of Consumption,'* Harvard Business Review, 2002, Vol 80, No 9, 90-97

100 Ibid.

business models. Both websites have consistently used a paid business model using a combination of Rappa's subscription, advertising, and metered/utility models. For every industry, customer retention is important and it is cheaper, and the acquisition costs of new customers are higher than the cost of retaining present customers. “It is five times more expensive to replace a customer than to retain one.”[101]

In the newspaper industry, churn, is defined as the number of subscriptions that a newspaper has to sell every year in order to keep the circulation level the same. Having this information in hand assists firms in separating the loyal from the casual readers.[102] The renewal rate for both the print and the e-newspaper of *The Wall Street Journal* is high and the churn rate is considerably lower than the industry average.[103] For the most recent figures available, the print version of the newspaper had an 80% renewal rate and WSJ.com had a 75% renewal rate.[104] For the same period the average churn rate for newspapers in the US was 54.5%.[105]

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101R Best, 'Market-based Management,' Pearson, New Jersy, 5th edn, 2009, p. 472.

102Newspaper Association of America, 'Subscriber Retention,' Newspaper Association of America, p. 14.

103 A Hillman, 'The Wall Street Journal: Print Versus Interactive,' 1999, Richard Ivey School of Business, University of Western Ontario/Havard Business School Publishing, p.p 10-12.

104 Ibid.

105Newspaper Association of America, Subscriber Churn Down,' Newspaper Association of America, September 2009.

Chapter 3
How have competitors transformed the old business model and e-business model innovation?

In 2010 only 1/3 of total marketing expenditures will be on advertising and less than 10% will be on newspaper advertising. Advertisers have been choosing alternative, more direct forms of reaching consumers for the last 30 years and digital media is accelerating this process and the need for newspaper companies to change their business model.[106]

In terms of daily news sources available in the US, internet news audiences have significantly grown since 2006, while all other media (minus cable television) is stable or declining.[107]

News Sources for the US Market

	2008	Increase between 2006 and 2008
Newspapers	9.00%	n/a
Local television	51.00%	-4.00%
Cable television	40.00%	6.0%
Internet	31.00%	9.00%

Source: Gallup, 'Cable, Internet News Sources Grow in Popularity', December 15, 2008. Table 5

According to Nielsen, an independent auditing agency that tracks media usage in North America, Yahoo.com get 40.8M unique visitors per month and Google News is the 6th most popular website on the Internet.[108]

106R Bennett, J Chisholm, '*Going fo Growth,*' January 2009, Newspaper Association of America, p. 35.
107L Morales, '*Cable Internet News Sources Grow in Popularity,*' Gallup, December 15, 2008.
108Nielsen Netview, Nielsen Company May 10, 2010.

Advertising e-business model

The web advertising business model is an extension of the traditional newspaper model. Advertisements, such as banner ads or sponsored links appear on the website. This model is most effective when the number of visitors (traffic) to the website is large or specialized.[109] This structure could incorporates portal, classified, query-based paid placement, contextual, and/or content-targeted advertising.[110]

The Drudgereport (www.drudgereport.com), a news aggregator (a service that collects news and reposts it), claims that it has more than 12M unique visitors per month.[111] The site is free and utilizes the advertising business model.

Subscription model & utility model

With the subscription model, users are charged a periodic fee to subscribe to a service. Fees are not dependent on usage rates.[112] The utility model (on-demand model) is based on metered usage (pay-as-you-go approach). Metered services are based on usage rates. This model is used by utility companies (electricity, telephone). This subscription model allows subscribers to purchase access to content as portions (e.g. number of page views per person).[113]

These aforementioned business models are favored by the newspaper industry. For instance, *The Wall Street Journal* utilizes a subscription model which also has premium content while the *Financial Time*, based in the UK, presently uses a combination of the subscription model and the utility model[114].[115] The Wall Street Journal is a partial pay wall, "[Which means] some content is free. Some content is always free to non-subscribers. Some content is off limits. The other model is the Financial Times model. And I think more people are looking at The Wall Street Journal model and its the model

109MA Rappa, '*The utility business model and the future of computing services,'* IBM Systems Journal, Vol 43. No 1, 2004, p. 35.
110Ibid.
111 M Drudge, www.drudgereport.com
112Ibid. p. 37.
113Ibid.
114J Budd, Meda Editor, *The Economist,* interview
115MA Rappa, '*The utility business model and the future of computing services,'* IBM Systems Journal, Vol 43. No 1, 2004, p. 37.

that News Corporation is attempting to roll out to [its] American newspapers," said Joel Budd, Media Editor, and media expert on the US market with *The Economist*.

The *Financial Times* is an international newspaper that primarily focuses on finance and the international business community. Its parent company is Pearson. The metered system adopted by the firm allows users to read a maximum amount of articles per month free of charge, with registration required after a pre-determined number of articles have been read. For any more FT.com content, the annual subscription fee is between 99 pounds and 199 pounds. The website also offers other subscription possibilities.

In 2003, the *Financial Times* reported that its website had 53,000 subscribers. While the number of daily unique visitors was 203,582. [116]As of 2003, the *Financial Times* print edition had an average monthly circulation of 447,216[117] In 2003, the Financial Times had sales of 203M pounds dropping by 9% from 2002, when sales were 224M pounds.[118] In 2003, the FT.com had 203,582 daily average unique users in January 2003. This number held steady between 2003 and 2006, rising to 291,662 in 2007. In 2008 this number jumped to 407,923 and in 2009 it rose to 626,385.[119] In 2009 the Financial Times announced a 43% increase on subscription revenues for FT.com and that the company has 126,000 digital subscribers.[120]

Community Business Model

The community model is based on user loyalty and creating a community of engaged users.[121] This model lets users develop deeper relationships with current readers, potential readers, and commercial customers.[122] Users are emotionally invested in the community. With this model, revenue can be based on selling ancillary products and services or revenue could be tied to contextual advertising and subscriptions for

116Audit Bureau of Circulation http://www.abc.org.uk
117 Ibid.
118Financial Times Group, Pearson Annual Report 2003.
119 Audit Buruea of Circulation, http://www.abc.org.uk,
120 R Greenslade, 'FT.com subscription revenue up 43%' *The Guardian,* March 4, 2010, available at http://www.guardian.co.uk
121MA Rappa, '*The utility business model and the future of computing services,'* IBM Systems Journal, Vol 43. No 1, 2004, p. 37.
122 F Nel, 'Where Else Is the Money: A Study of Innovation in Online Business Models at Newspapers in Britain's 66 Cities, Journalism Practice, Vol 4, No 3, August 2010, pp. 367.

premium services.[123] The internet is conducive to developing community business models as seen by the present popularity of social networking.[124]

A good example of how this model could be adapted by the newspaper industry is the example of the Germany based newspaper *Bild Zeitung* available mostly in German speaking markets like Switzerland and Austria. The newspaper has a daily circulation of 12M, making it the largest newspaper in Europe.[125] The newspaper has a dissimilar readership from *The Wall Street Journal* and caters to a mass audience. In 2009 the newspaper opened an online video store on its website that allows its readers to rent a selection of a few hundred thousand films that are streamed directly to their computers, thereby rendering itself a business model disrupter to the video rental industry. Over the past few years, to build reader loyalty, the newspaper has offered to pay readers a fee for photographs if they are published on their website or in the print edition. Axel Springer, the newspaper's parent company, has also become a more rounded multimedia company by building partnerships with domestic internet service providers and mobile phone companies. It has created Bild Mobile in conjunction with Vodafone.[126]

A portal such as Yahoo.com utilizes elements of this model along with Bambury's native internet business models such as his website hosting and internet services model and the information barter model. The company's revenue model is based on selling ancillary products and services and is also tied to contextual advertising, target advertising, and subscriptions for premium services.

Other

To counter business model disruption, the Associated Press (AP), a news wire service that supplies content including articles and photographs, to newspapers around the world, is expanding their CVP. Their traditional business model is a B2B model based on obtaining revenue from licensing fees. To counter weblogs (blogs) using their content without permission, AP has introduced an new payment system and innovative way to track copyright infringement of their stories:

123 MA Rappa, '*The utility business model and the future of computing services,'* IBM Systems Journal, Vol 43. No 1, 2004, p. 37.
124 Ibid.
125 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, p.10.
126 Ibid.

"The Associated Press is moving ahead with plans for a system to detect unlicensed use of its content and potentially create new ways for the 163-year-old news cooperative and other media to make more money on the Internet.

As part of a strategy approved Thursday by the AP's board, the cooperative will start by bundling its text stories in an "informational wrapper" that will include a built-in beacon to monitor where stories go on the Internet.

The beacon is meant to be a policing device aimed at deterring Web sites from posting AP content without paying licensing fees. The AP and its member newspapers contend unlicensed use of their material is costing them tens of millions of dollars in potential ad revenue."[127][128]

Suggestions for business model reinvention

The follow sections examine the four components of a business model. Johnson, Christensen and Kagermann write that new business models are needed when significant changes have occurred to the four elements, that "major changes to any of these four elements affect the others and the whole. [and that] Successful businesses devise a more or less stable system in which these elements bond to one another in consistent and complementary ways."[129]

CVP

CVP, one of the components of a business model, not only identifies customers and potential customers, but also the specific offering and is cognizant of the firm's competitors and what they are offering their customers and potential customers[130] [131] Disruptive competitors, such as Craigslist.org, by offering its customers a basic website with an easily-to-navigate GUI (graphical user interface) and a straightforward way to get a job done--to reach the potential customers for their products and service, have

127 M Liedtke, Associated Press website, July 23, 2009.

128 R Chittum, '*More on the Associated Press Copyright Movie,*' Columbia Journalism Review, July 27, 2009

129 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,*' Harvard Business Review, December 2008, p. 53.

130 J Hedman, T Kallig, '*IT and Business Models: Concepts and Theories,'* 2002, Copenhagen Business School Press, p. 114.

131 Ibid. 54.

adversely affected the CVP portion of the newspaper industry's business model..[132] This service has redefined the value that can be offered to advertisers.[133] Recruitment websites, such as Monster.com, have simplified the employee search process for human resource professionals and firms. Both Craigslist.org and employee recruitment websites offer services that create unique value for their customers, "...solve important problems or fulfill an important need for the target customer."[134] Craigslist.org offers B2B, B2C and C2C solutions for its customers. Monster.com provides solutions for human resources professionals and consumers by simplifying the employee recruitment and job search process and "...the promise of reaching a specific, targeted audience."[135][136] "It is not possible to invent or reinvent a business model without first identifying a clear customer value proposition."[137] A successful business model starts with the customer and therefore management should initially identify and define their CVP asking: who is our target audience, what is our customer proposition what do our customers need to get done and how are we able to facilitate this need? [138]

Economic value, relative performance and relative price are also indicators of customer value. When evaluating a product or service for its customer value, firms often need to go beyond economic and price-performance measures and incorporate customer brand perception, since perception impacts customer value. [139]

A company's reputation, its brand identity and its brand image with the public are other sources of perceived customer benefits that add value to a company and its offerings.[140] *The Wall Street Journal* is perceived as a premium brand. [141] The *New York Times* and

132 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, p. 5.

133 Ibid.

134 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,*' Harvard Business Review, December 2008, p. 54.

135 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, p. 5.

136 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 52.

137 Ibid. p. 54.

138 J Sterling, '*A Plan for a US Newspaper Industry Counterattack Against Disruptive Innovators,'* Strategy & Leadership, Vol 36, No 1, 2008 pp. 24.

139 RJ Best, 'Market-Based Management,' *Pearson/Prentice Hall,* 2009, (5th edn) Upper Saddle River, New Jersy,USA, pp. 120-121.

140 Ibid. pp. 122-123.

141 B Franklin, *'Introduction,'* Journalism Practice, Vol 4, No 3, August 2010, p. 251.

the *Guardian* newspapers are perceived as influential since they are, respectively, the number one and number two, most widely read English-language newspapers.[142] Traditionally, newspapers have used a mass-market strategy "...paid for primarily by revenue from advertisers attracted by access to a mass audience."[143] *The Los Angeles Times* and the *Houston Chronicle* are examples of city newspapers with mass-market segment strategies. The foundation of a mass-market segment strategy is a generic value proposition that is built around core customer needs and the business's generic positioning strategy. [144]

Large, city-based newspapers in the US market are faced with "...record alarming collapses of readership and plummeting advertising revenues." [145] A newspaper like the *Los Angeles Times,* whose parent company filed for bankruptcy in 2008,[146] might consider deviating from its generic positioning strategy and adopt a multi-segment strategy which would "opens doors to multiple market-based strategies and greater marketing efficiency."[147]

The *Los Angeles Times* is a daily newspaper that holds a monopolistic position in the Los Angeles market. This city has a population of 9.8M.[148] In terms of demography, 48.0% have a Latino origin , 54.1% speak a language other than English at home and 25.4% are under 18 years old.[149] *La Opinion*, a Spanish language newspaper available in Los Angeles county, serves a niche audience and has a daily circulation of 83K [150] There are no newspapers in the Los Angeles area that cater to children.

142 Ibid. p. 252.

143 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School Publishing, January 12, 2010, p. 2.

144 RJ Best, 'Market-Based Management,' *Pearson/Prentice Hall,* 2009, (5th edn) Upper Saddle River, New Jersy,USA, p 157.

145 B Franklin, *'Introduction,'* Journalism Practice, Vol 4, No 3, August 2010, p. 248.

146 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School Publishing, January 12, 2010, p. 1.

147 RJ Best, 'Market-Based Management,' *Pearson/Prentice Hall,* 2009, (5th edn) Upper Saddle River, New Jersy,USA, p 159.

148 United States Census Bureau, available at: http://quickfacts.census.gov/qfd/states/06/06037.html

149 Ibid.

150 Audit Bureau of Circulation, 2010, (cited March 31, 2010) available at: http://abcas3.accessabc.com/ecirc/newstitlesearchus.asp

Given the demographic composition of its market, the *Los Angeles Times,* could adopt a a multi-segment strategy and spin-off a multi-lingual version of the newspaper with a digital strategy offering multiple language options for its websites latimes.com. In this way, the newspaper could “fulfill an important need for the target customer.”[151] This would enable the company to also attract a more international readership which would present a new value proposition for advertisers.

Whether developing a new business model or revitalizing a staid one, a company always needs to first identify its CVP.[152] [153] “The more important the [job-to-be-done] is to the customer, the lower the level of customer satisfaction with current options for getting the job done, and the better your solution is than existing alternatives at getting the job done...the greater the CVP.”[154] For instance, Craigslist.org, offers a free classified section that is regionalized and possesses an international reach (and only charges for certain B2B and B2C services). In 2008, the site received 12B page views per month.[155] Therefore the probability that a consumer will be able to connect with a buyer is higher than if the person had advertised in their local print newspaper. A successful offering not only fulfills a need, it is also defined by how a product or service is sold. [156]

Profit formula

The profit formula of a business model is comprised of the 1.) Revenue model 2.) Cost structure 3.) Margin model and 4.) Resource velocity.[157]

“The profit formula is the blueprint that defines how the company creates value for itself while providing value to the customer.” [158] This section focuses on the revenue

151 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,*' Harvard Business Review, December 2008, p. 54.

152 E Ofek, L Wathieu, '*Trends That Could Shake Up Your Business?* Harvard Business Review, July-August 2010, pp. 125-126.

153 J Sterling, '*A Plan for a US Newspaper Industry Counterattack Against Disruptive Innovators,'* Strategy & Leadership, Vol 36, No 1, 2008 pp. 22.

154 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 52.

155 D Collis, P Olson, M Furey, *'The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, 9-709-463, p 5.

156 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 54.

157 Ibid. p. 53.

158 Ibid. p. 52.

model and how it has been damaged.

Changes in the profit formula affects the business model of an industry.[159] The financial/cost characteristics of print newspapers consists of high capital requirements, high fixed costs, high production costs, high distribution costs, low marketing costs, high first-copy costs, moderate variable costs and rapidly declining average total costs.[160]

The financial/cost structure of online media firms which van der Beek calls 'Pure Play' online companies that do not have an offline equivalent, is characterized by: low capital requirements, low fixed costs, low production costs, low distribution costs, high marketing costs, no variable costs, and rapid declining costs.[161] Although both the *Financial Times* and *The Wall Street Journal,* like most newspaper in the United States, have online presences, they both receive the majority of their revenues from their physical newspapers.[162]

“Profitability is crucial to all media companies because it allows firms to produce their own financial resources and makes them more attractive to lenders and other capital sources when they require additional financing to support their strategies and activities.”[163]The foundation of the revenue model of both print and online newspapers is the advertising model. For print newspapers, revenue comes from classified and display advertising as well as subscriptions. “The advertising model on the web is an extension of the traditional media broadcast model. [These advertising] models include portals, query-based paid placement, contextual advertising and content-targeted advertising.”[164]

Advertising revenue for newspapers is falling. One area that has been particularly hard hit has been “...recruitment advertising, which in 2000 accounted for some 18% of all

159 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, pp. 11-12.

160 Ibid. pp. 16-17.

161 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 17.

162 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, 9-709-463, pp. 1-20.

163 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 7.

164 MA Rappa, '*The Utility Business Model,'* IBM Systems Journal, Vol 43, No 1, 2004, p.35.

newspaper revenues. From a peak of $8.7B in 2000, print [employment] recruitment advertising garnered revenues of $3.5B in 2007."[165] "...a firm that does not operate profitably falls into a spiral of decreasing financial resources that continually reduces its ability to produce or acquire quality content, invest in personnel, upgrade equipment, or engage in marketing to attract audiences and advertisers."[166]

Innovative technology, business model disrupters, and audience fragmentation coupled with changing consumer habits and societal shifts are some of the independent variables that have contributed to the transformation of the newspaper industry and have affected its profit formula.[167] Projections show that in 2010 only 33% of total marketing expenditures will be on traditional advertising and less than 10% on newspaper advertising.[168]

After identifying a CVP, a firm can think about how to deliver value to its customer. But reinventing the business model of the newspaper industry not only requires a new CVP but also the reconstruction of a profit formula which also will enable the firm to deliver value to the company. After identifying its CVP and determining its profit formula the organization should decide what resources and processes are needed.[169]

Key resources

Key resources can be tangible and intangible and include knowledge workers, technology, equipment, distribution channels, and facilities.[170] Tangible assets are physical substances—they are items that can be physically touched such as equipment and facilities. Conversely, intangible items lack a physical form. These include brand identity, goodwill, trademarks and patents. From an accounting perspective, employees are not considered assets, but costs and are regulated to the expense category of a firm's income statement.

165 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, pp. 3-5.

166 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 7.

167 B Franklin, '*Introduction, Journalism Practice*,' Vol 4, NO 3, August 2010, pp. 246-247.

168 R Bennett, J Chisholm, '*Going for Growth*',January 2009, Newspaper Association of America, p. 35.

169 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p 53.

170 Ibid.

But Johnson, Christensen and Kagermann, in terms of business model strategies, consider people as part of the "key elements that create value for the customer and the company."[171] The newspaper industry's key resources include its knowledge workers, products/services (physical newspaper, e-newspaper), equipment (printing presses, servers, etc.), information, channels, partnerships, alliances, brand image and brand identity. Investing in R&D would enable a traditional news organization to develop new key resources applicable to the 21st century, such as patents.

Disruptive innovators such as Craigslist.org, Google—which allows information consumers to read a digest of news free of charge, and other "pure-play" information companies have aversely affected traditional newspapers and the industry's old business model. While the introduction of radio then television and later the introduction of 24-7 (twenty four hours, seven days per week) cable news channels such as BBC World News and CNN in the 20th century, affected newspapers when they were introduced, the four industries were able to live side-by-side and complement each other despite the relationship being an "uneasy competitive equilibrium."[172] "The popularity of online news provision has increased rapidly, as people's hunger for the latest information continues to grow. Value in the traditional media market is delivered by print newspapers and although these companies also have an online offering, new value-adding players such as info-brokers have emerged."[173] There is competition from a variety of information-brokers and distributors such as mobile telephones; news aggregators such as Google News, Breitbart, Yahoo, and the Drudge Report; and micro-blogging websites such as Twitter.[174] The migration of consumers from traditional news outlets (print newspapers) to alternative sources is a reflection of changing consumer habits and preferences as well as the rise of competition.

Key processes

The foundation of a successful organization is the "...operational and managerial processes that allow [it] to deliver value in a way they can successfully repeat and

171 Ibid.

172 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,'* Harvard Business School, January 12, 2010, 9-709-463, p. 4.

173 K van der Beek, PMC Swatman, C Krueger, '*Creativing Value From Digital Content: eBusiness Model Evolution in online News and Music, '* Proceedings of the 38th Hawaii International Conference on System Sciences, 2005, p.4.

174 B Franklin, '*Introduction, Journalism Practice*,' Vol 4, NO 3, August 2010, p. 247.

increase in scale."[175] Well developed processes assist a business in locating "new opportunities and recognizing important threats" and leads to "a systematic evaluation of the market and internal capabilities...."[176]

News organizations must not only redefine their CVP and develop new profit formulas, but also identify their key resources and processes.[177] Key process not only include managerial and operational processes but also rules, metrics, and norms.[178] Process reinvention goes hand-in-hand with embracing a simple rules strategy. The organization, that utilizes this strategy would "...pick a small number of strategically significant processes and craft a few simple rules to guide them. The key strategic processes should place the company where the flow of opportunities is swiftest and deepest,"[179] thus enabling news organizations to increase their flexibility and adaptability, to "...capture unanticipated, fleeting [business and strategic] opportunities...."[180]

When a firm considers reinventing its business model, the company needs to ensure that it has the flexibility to change in the early stages.[181] Rules, metrics and and norms are sub-sets of key processes[182] and by focusing on a few strategic processes and establishing simple rules—essentially guidelines, this will enable a firm to "capture unanticipated, fleeting opportunities," and deal directly with uncertainty and business model disruption.[183] These guidelines could dictate how a company responds to business model disrupters, the direction information flows throughout the company, how a company identifies potential opportunities. A web-based newspaper and/or an ancillary service facilities a more direct, interactive relationship between newspaper readers and the product and amongst the readers themselves than print newspapers, therefore news

175 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, pp. 52-53.

176 RJ Best, 'Market-Based Management,' *Pearson/Prentice Hall,* 2009, (5th edn) Upper Saddle River, New Jersy,USA, p 413.

177 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, pp. 52-53.

178 Ibid. 53.

179 KM Eisenhardt, DN Sull, '*Strategies as Simple Rules,'* Harvard Business Review, January 2010, Vol 79, No 1, p. 109.

180 Ibid. p. 108.

181 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 56.

182 Ibid. p. 53.

183 KM Eisenhardt, DN Sull, *'Strategy as Simple Rules,* Harvard Business Review, January 2001, Vol 79, No 1, p. 108.

organizations should consider revisualizing the managerial and operational systems that deliver their value propositions.[184]

Customer segmentation

A detailed description should be made of the customer segment, industry and competitors. And profiles developed on present and targeted consumers.[185] This information would include demographic data as well as tastes and trends within the particular consumer segment(s). For instance, UK consumers in the 13 – 18 age group (teenagers) are consuming more media, but in entirely different ways than in previous generations and the members of this age group are "...most certainly not prepared to pay for it."[186] These teens "...resent intrusive advertising and are happy to chase content and music across multiple platforms and devices (e.g., mobile phone, internet, gaming consoles). Print media such as magazines and newspapers are considered irrelevant by this age group."[187]

Since its founding, *The Wall Street Journal* has occupied a unique niche in the business and financial services industry. The paper is "considered the most respected source [for] business and financial news in the US."[188] From its inception, management has clearly identified its customer segment and effectively laid out the individual needs of this segment. This was spelled out in an editorial published in the WSJ in 1899. "When we founded The Wall Street Journal...we supplied a relatively small circle of readers. While the WSJ was recognized from the first as the best daily financial newspaper published and as occupying a unique position, it was also looked upon more or less as a 'class' paper of necessarily limited circulation."[189]

184 F Nel, *'Where Else Is the Money: A Study of Innovation in Online Business Models at Newspapers in Britain's 66 Cities,'* Journalism Practice, Vol 4, No 3, August 2010, pp. 362.
185 J Hedman, T Kallig, '*IT and Business Models: Concepts and Theories,'* 2002, Copenhagen Business School Press, p. 114.
186 E Hill-Wood, P Wellington, J Rossi, *Media & Internet, How Teenagers Consume Media*, White Paper; Morgan Stanley Research Europe, July 10, 2009.
187 Ibid.
188 A Hillman, The Wall Street Journal: Print Versus Interactive, Harvard Business Review/Richard Ivey School of Business, 1999, p. 2.
189 L Wendt, 'The Wall Street Journal', Rand McNally & Company, 1982, p. 26.

Small-segment and niche-segment strategies

"As the changes continue in the twenty-first century, changing audience and use patterns for newspapers will continue. One can expect that there will come a time when newspaper readership will look more like its initial position rather than the position at its mid-twentieth-century height,"[190] when newspapers primarily appealed to a specialized audience and not a mass audience.[191]

A niche-segment strategy carves out a specific area within various similar segments and the firm focuses all its key resources including people and marketing budgets on the specific needs of this particular audience.[192] A small-segment strategy is a single-focus strategy that lets a firm compete in the smallest of segments, such as luxury.[193] *The Wall Street Journal* having traditionally focused on a readership drawn primarily from the banking and financial services industries, is a good example of a niche-segment strategy[194] Both the niche and small-segment strategies let firms effectively utilize key resources such as knowledge workers and equipment and support its CVP because in order to design a successful niche-segment or a small-segment strategy, a firm would need to precisely define the key elements of its CVP.[195]

Both the *Financial Times* and *The Wall Street Journal* are models for their industry, as they have transferred their niche-segment strategy to their e-newspapers and successfully adapted variations of their print (subscription) business model to the internet.[196][197] The success of the e-business model of these particular publication points to a pattern dating back to the 1960s in the US market of highly specialized publications with narrowly directed advertising thriving. [198]

190 RG Picard, The Economics and Financing of Media Companies, *Fordham University Press,* 2002, Fordham University Press, USA, p. 31.

191 Ibid.

192 R Best, *Market-Based Mangement,* 2009, Pearson.New Jersey, USA p. 161.

193 Ibid.

194 L Wendt *The Wall Street Journal: The Story of Dow Jones and the Nation's Business Newspaper,* Book Sales, 1984 New York, NY USA p.**

195 M Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model,'* Harvard Business Review, December 2008, pp. 52-54.

196 Joel Budd, Media Editor, *The Economist,* April 2010.

197 K van der Beek, PMC Swatman, C Krueger, '*Creating Value From Digital Content: eBusiness Model Evolution in Online News and Music,* Proceedings of the 38th Hawaii International Conference on System Sciences, 2005, p. 5.

198 P Meyer, ' *The Influence Model and Newspaper Business*,' Newspaper Research Journal, Vol 25, No 1, Winter 2004, p. 70.

News organizations with mass-market strategies should narrow their focus in orders to develop services targeted to a more well-defined customer segment.[199] [200]

Spotting opportunities

The profit formula of all business models is "the blueprint that defines how the company creates value for itself while providing value to the customer." [201] Being able to spot opportunities and leverage their core business or create new business models requires management to "understand their existing business model –the premise behind its development, its natural interdependencies and its strengths and limitations." [202]*The Wall Street Journal* from the beginning intricately identified and understood its business model especially its CVP and profit formula. *The Wall Street Journal* transformed the profit formula of the newspaper industry by introducing the innovative concept of licensing content for a fee and set the standard for licensing content to other media outlets which continues to be a model imitated not only by their competitors in the newspaper industry but also in industries such as book publishing, film, television, cable, radio, music, and luxury goods.[203]

As less and less consumers read print newspapers and more and more consumers get their information from rival platforms such as mobile telephones and the internet, newspapers should shift from a mass-market audience strategy to a small-segment strategy, multi-segment, or a niche strategy and rely on a hybrid of e-business models to diversify their revenue base based on the web utilizing business models identified by Rappa such as the subscription, community, advertising informediary and utility/metered models and determine the most appropriate strategy and framework based on customer relationships.[204] City newspapers with generic propositions have to adjust their business models to so that revenue doesn't continue on its downward trajectory. [205]

199 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 55.
200 Ibid.
201 *MW Johnson, CM Christensen, H Kagermann, 'Reinventing Your Business Model*,' Harvard Business Review, December 2008, p53.
202 Johnson, 'Reinventing Your Business Model,' p. 52.
203 L Wendt, *The Wall Street Journal*, Rand McNally & Company, 1982, p. 143.
204 MA Rappa, '*The Utility Business Model,*' IBM Systems Journal, Vol 43, No 1, 2004, p.35.

205 Van der Beek p. 5 - 6

The internet and new media marketplace

E-bay and Amazon utilize brokerage e-business models, acting as facilitators in a supply and demand scenario, assisting in a B2B, B2C, and C2C capacity.[206] They are the meeting place for buyers and sellers. E-Bay earns revenue by taking a percentage of each transaction conducted via its platform. Amazon is an ever-evolving marketplace that facilitates the transaction between buyers and sellers and generates revenue via a diversified profit formula that includes direct sales and commissions.

Industries such as print publishing (newspapers, magazines, journals), could adopt Rappa's brokerage model for web-based enterprises. In this model, the newspaper would act as a broker (a market maker) bringing buyers and sellers together and facilitating transactions. This model would satisfy either a B2B or a B2C need.[207] Newspapers have valuable resources in the form of archives, equipment, and brand image. Their archives could be monetized by offering specialized search or information databases targeted towards a specific customer segment.

Google's expertise lies in IT and business architecture, experimentation, improvisation, analytical decision making, and other non-traditional forms of innovation and the company balances out chaos by drawing on rigorous, data-driven methods for evaluating new ideas. [208] Newspaper companies could adopt and adapt this structure to innovation and product/service creation within the structure of Rappa's brokerage or infomediary business model to develop innovative services that could tap-into their valuable resources. Rappa's infomediary model, driven by data collection, is the foundation of Google's business model. This information-intermediary model is based on collecting consumer data and their consumption habits which is then used to develop targeted advertising campaigns as well as customer loyalty programs [209] that are used to solidify this unique relationship between the company, the consumer, and between the consumers themselves.

One frustration consumers have with web search is that when one conducts a search through these platforms, most of the information obtained is unusable--the information

206 MA Rappa, '*The Utility Business Model and the Future of Computing Services,'* IBM Systems Journal, Vol 43, No 1, 2004, p.35.
207 Ibid.
208 I Bala, TH Davenport, '*Reverse Engineering Google's Innovation Machine,*' Harvard Business Review, Arpil 2008, p. 59.
209 MA Rappa, '*The Utility Business Model and the Future of Computing Services,'* IBM Systems Journal, Vol 43, No 1, 2004, p.35-36.

is from an unverified and/or unreliable source or the links no-longer exist. An organization such as Wikipedia, an open-access encyclopedia, has tried to remedy its content's reliability gap by introducing a color-coded feature that lets users gauge the trustworthiness of an entry. A newspaper such as *The Wall Street Journal* or the *Financial Times* could bridge this search engine reliability gap by developing a ranking algorithm and offering a specialized search function aimed at the financial services. This algorithm would return results that rely on accuracy and instance reduction techniques. An instance-based learning algorithm would assess the usefulness of sorting instances—how many times something appears.[210] The relevance measure given by a ranking of instances would be useful in determining which information is more relevant within the database of a newspaper's archive.[211] This would be useful to a news organization seeking to monetize its archives beyond charging users to access its backfile. This algorithm could mirror Google's learning algorithm, which alters and refines itself based on a users search history.

One strategy newspaper management could pursue is not to run from business model disrupters such as Google or Yahoo, but to compete directly with them by utilizing an information-intermediary model like Rappa's infomediary e-business model which incorporates audience measurement tools. Consumer data is valuable information for marketers and independently collected data about firms as well as their products and services are useful to consumers prior to making a purchase.[212] In Norway, the Schibsted publishing company has integrated its online and print activities. It receives 35% of its operating profits from its online presence and has utilized a native digital business model that incorporates its newspaper, other websites and its own search engine. 75% of the traffic to its website comes from its own services rather than Google, which allows the firm to charge advertisers a higher ad rate.[213]

The Newspaper Association of America (NAA) recommends that its members focus more investments on marketing services offered to advertisers and taking advantage of multimedia platforms. This could be in the form of a B2B strategy that provides specialized services to advertisers and has a strong CRM (customer relationship

210 CG Vallejo, JA Toryano, FJ Ortega, '*InstanceRank: Bringing Order to Datasets,*' Science Direct, Pattern Recoginition Letters, Vol 31, No 2, January 15, pp. 133-134.

211 Ibid.

212 MA Rappa, '*The Utility Business Model and the Future of Computing Services,*' IBM Systems Journal, Vol 43, No 1, 2004, p.35.

213 C David, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School, January 12, 2010, p. 9.

management) program based on Rappa's community e-business model. The foundation of this model is user loyalty and can be utilized for B2B or B2C solutions. Newspapers could provide advertisers with access to data mined from the backend of their websites in order to track the preferences and habits of anonymous consumers only identified by demographic information such as age, sex, and postal code/zip code.

The NAA reports that growth in marketing services for advertisers has been locally based such as direct marketing, B2B and B2C services.[214] "By 2010, only one-third of total marketing expenditures will be on advertising and less than 10 percent on newspaper advertising. Advertisers have chosen alternative, more direct forms of marketing for 30 years, and the emergence of digital media as an extension of this trend is accelerating the need for newspaper companies to change their business model."[215]

Appeal to advertisers

In order to halt the departure of advertisers, the NAA recommends companies create products that are locally based in print, digital and marketing services. Their research shows that direct marketing and custom publishing appeal to advertiser groups that are presently being lost.[216] The advantage, for instance of specialized search targeted to a niche audience is that organizations could deliver a more precise demographic to advertisers.

B2B

"One way to generate a precise customer value proposition is to think about the four most common barriers keeping people from getting particular jobs done: insufficient wealth, access, skill, or time."[217] For entrepreneurs, a basic problem is finding investors. A news firm could appropriate Rappa's brokerage model, that brings together buyers and sellers, that is ideal for B2B as well as B2C and C2C services.[218] *The Wall Street Journal* that would provide the platform, based on the brokerage e-business model, for entrepreneurs and business owners to connect with potential investors and to set up a process that would allow users to interact directly but independently from the newspaper and charge a commission. By expanding the initial vision of Charles Dow

214 R Bennett, J Chisholm, *'Going for Growth'*,January 2009, Newspaper Association of America, p. 35.
215 Ibid, pp. 35-36.
216 Ibid. p. 36.
217 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. 55.
218 MA Rappa, '*The Utility Business Model,'* IBM Systems Journal, Vol 43, No 1, 2004, p.35.

and his business partners, the WSJ could offer its customers and potential customers a consistent and reliable platform to search for capital and to locate appealing investment opportunities. This would enable the company to move further towards the financial services industry and help a news organization diversify its revenue model.

It is the customers' perception of *The Wall Street Journal* and its brand attributes that would be transferred to the new service it would offer if the firm were to launch an internet marketplace based on the brokerage model, these brand attributes would be transferred to the new offering.[219] By capitalizing on its brand image, the firm could parlay this into the launch of innovative platforms and lucrative ancillary revenue streams.

Native business models

One of the key assumptions for business model invention as espoused by Johnson, Christensen, and Kagermann is that "there are times when creating new growth requires venturing not only into unknown market territory but also into unknown business model territory." [220] Bambury's classifications of native business models introduces the newspaper industry into more adventurous business model territory.

The native business model is not based on traditional economic theory whose foundation is the concept of scarcity. Conversely, "...the native economy of the internet is not based on scarcity but on abundance".[221] The concept that information is abundant and largely free is the basis of the concept of the native internet economy. [222]

Firms such as Yahoo and Monster.com, have grown out of the native model. Both companies "took advantage of the unique interactive nature of the internet."[223] Yahoo

219J Hedman, T Kalling, 'IT and Business Models',Copenhagen Business School, pp. 107-108, 109, 2002. p. 118.

220 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, p. **

221 P Bambury, '*A Taxonomy of Internet Commerce,'* First Monday, October 1998, Vol 3, No 10 p.4.

222 Bambury, P (2006), 'Taxonomy of Internet Commerce,' Commercial Applications of the Internet, July, p.8.

223 C Gilbert, J Ure (2005) 'Reading Disruption's Fine Print,' 2005, Strategy & Innovation, HBS Publishing & Innosight pp. 1-3.

created a unique diversified profit formula based on the "information barter model" and the "website hosting and other internet services" model.[224] The information barter model which is commonplace on the web involves exchanging information on individuals and organizations and profiting from this information.[225] Almost 45% of internet companies' revenue is derived from the information barter model. [226]

Unlike traditional distribution channels for physical products, there is neither scarcity nor inventories of information. Yet there is scarcity in terms of the number of people capable of gathering and writing news reports and the number of digital platforms. Although theoretically, there are no inventories for the information one holds in one's head, scarcity also exist in terms of computer data storage. A server can only accept a finite number of visitors or a hard drive can only hold a finite amount of data. With the internet economy and knowledge-based services aside from the challenges of storage space, only time, money, and human energy adhere to traditional economic constructs.

224 P Bambury, '*A Taxonomy of Internet Commerce,*' First Monday, October 1998, Vol 3, No 10 p.5.
225 Ibid. p.4.
226 C Gilbert, J Ure (2005) 'Reading Disruption's Fine Print,' 2005, Strategy & Innovation, HBS Publishing & Innosight pp. 1-3.

Native internet business model possibilities for the newspaper industry

Native internet business model	Description	How presently used by news and media companies	Our suggestions on how model can be harnessed by newspapers
Library model	Public network for distributing information; free information	Present internet business model of many newspaper; offering information for free	Find way to monetize archive information beyond users paying for access to old articles; monetization of information
Information barter model	Users provide personal information to organizations	Newspapers gather registration information; Used by Yahoo to provide customized advertising	Develop profile habits and interests based on IP address; regionalize the information; could be used by advertisers for direct marketing to narrowly target niche products and services; film companies would have better idea where to open their films or which stores to sell their DVDs; individual users identity should be protected so as not to cause privacy issues
Freeware model	Basic version free, extended version for sale	Similar to The Wall Street Journal's subscription model	A variation of this model is currently used by WSJ, and Financial Times
Open source model	Non-proprietary development of, for instance, software	Not used	Develop R&D divisions that create tools useful to readers business needs such as simple accounting software and financial budgeting tools; use free software as a premium for

			subscribers
Digital products and digital delivery model	Digital products that exist in digital realm and don't necessarily need to be physically delivered (images, audio, video, e-books)	E-newspapers	E-newspapers currently exist; could offer online video rental services, music downloads, etc.
Access provision model	Provides access to Internet via, for instance, ISPs	Not presently used	Could consider incorporating internet access into product offerings for subscribers
Website hosting and other internet services	Free electronic mail, free web hosting; financed by exclusion of ads on sites	Used by MSN, Yahoo, Google, Wordpress	Blog hosting, website hosting for businesses; allow for upload of press releases to special business area of site and charge companies a fee for service.

Source for column 1-2: Bambury, P (2006), 'Taxonomy of Internet Commerce,' Commercial Applications of the Internet, July, p.8[227]

Table 8

Columns 1 and 2 of Table 8 are a taxonomy of existing internet business models as assembled by Bambury in *A Taxonomy of Internet Commerce*. In column 3 we present current examples that adhere to Bambury's classifications. Column 4 presents our recommendations on how these native models could be adapted and used to transform the industry. Johnson, Christensen, and Kagermann believe that when a firm adopts a new business model, it should be new to the company and should transform the industry. These native business models listed in Table 8 are not the only possibilities for the newspaper industry, a mix of different models and the creation of new ones is possible.

227 Column 1,2 Bambury; Column 3, 4 our analysis

Chapter 5

Conclusion

The history and the development of *The Wall Street Journal*'s business model fits into Johnson , Christensen, and Kagermann's theoretical framework regarding the components of successful business models. Dow, Jones & Company placed its CVP at the center of its business plan, then developed a profit formula (subscription, retail advertising, classified advertising, content licensing), identified its key resources (people, knowledge, equipment), continuously invested in new resources, and created effective operational and managerial processes (hands-off owners, lines drawn between editorial and business affairs). *The Wall Street Journal* is thus far, the only newspapers in the United States that has a profitable e-business model.[228] The success of the WSJ.com is based on adherence to the primary elements identified by Johnson, Christensen, and Kagermann as being the foundation of a successful business model (CVP, profit formula, resources, processes) and by placing CVP and its profit formula at the center of its business plan. The *Financial Times,* a London-based newspaper, has had similar success with the international edition of its print newspaper and website, FT.com.[229]

The main research questions for this case study were: How did the old business model become damaged? How has *The Wall Street Journal* avoided the crisis? How are *The Wall Street Journal's* competitors responding to business model disruption? How can e-business models be adapted to assist the newspaper industry in reinventing its business model?

Advertising model

From someone outside the newspaper business, the industry may appear to be thriving and the business model may appear to be doing fine because, for instance: readership for online news continues to grow and more and more marketers see the value in online

228 S Bradley, N Bartlett, 'Where to Get Your News and Information: The Digital Disruption,' Harvard Business School Publishing, January 10, 2007, p. 11.

229 D Carr, '*The Financial Times: A Newspaper With Good Business News — About Itself,'* New York Times, Cited Marchc 30, 2010 available at <URL: http://www.nytimes.com>

advertising.[230] And for advertisers, the internet has a distinctive advantage over print advertising. --They can track their target audience, tie advertising to specific actions, and payment can be made per ad clicked and not per exposure—which is the formula offered by print newspapers as well as magazines and television.[231] [232] But the old business model of the newspaper industry whose revenue portion is dependent on advertising "is no longer working and certainly cannot deliver the returns enjoyed by the classic media enterprises over the past 60 years."[233]

For the newspaper industry, the growth in online advertising has not been enough to offset the losses in print revenue. Print advertising generates higher revenue per subscriber.[234] Although there are aspects about online advertising that are more appealing to marketers, for newspapers, print advertising is still more profitable.[235]

From the mid-20th century newspapers and broadcasters were the main beneficiaries of advertising. These organizations no longer dominate the advertising market and have been forced to compete with more nimble organizations.[236] This has contributed to the damage incurred by the newspaper industry's traditional business model.

Recession

The multiple recessions at the beginning of the 21st century, presented a systemic problem for the newspaper industry but this is an invalid rival explanation for the decline of the newspaper industry The two recessions in the noughties (2000 – 2009)

230 S Bradley, N Bartlett, 'Where to Get Your News and Information: The Digital Disruption,' Harvard Business School Publishing, January 10, 2007, p. 12.

231 B Peters, '*The Future of Journalism and Challenges for Media Development,*' Journalism Practice, Vol 4, NO. 3, July 8, 2010, p. 270.

232 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School Publishing, January 12, 2010, p. 5.

233 B Peters, '*The Future of Journalism and Challenges for Media Development,*' Journalism Practice, Vol 4, NO. 3, July 8, 2010, p. 270.

234 D Collis, P Olson, M Furey, '*The Newspaper Industry in Crisis,*' Harvard Business School Publishing, January 12, 2010, p. 8.

235 Ibid. p. 5.

236 B Peters, '*The Future of Journalism and Challenges for Media Development,*' Journalism Practice, Vol 4, NO. 3, July 8, 2010, p. 270-272.

exacerbated structural problems which already existed within the newspaper industry. Prior to the 2008 economic crisis, too many platforms competed for the same advertising budgets from individual advertisers and advertising agencies. Evidence proves that although the newspaper industry was profitable, circulation steadily declined from 1995 to 2005.[237]

The rise of new platforms such as the internet have created a culture whereby consumers expect general news to be readily available and free.[238] With the increase in audience fragmentation due to the proliferation of new platforms for consumers, the bigger problem for newspaper firms has been the growing increase in competition for advertising revenue not readership.

Newspapers' reduction of overhead predates the 2008 recession as well. “The decline of commercial journalism predates the web. Newsrooms began to give up on maintaining staffs sufficient to cover their communities effectively reducing the number of reporters relative to the over-all population in the 1980s. Real cuts came in the 1990s and have accelerated since then. These trends went largely unnoticed because the dominant media companies continued to make enormous profits.”[239]

Newspapers are profitable, but not as profitable as they once were and the old business model has been damaged. Cuts in the newspaper industry that started in the 1980s, grew more dramatic in the 1990s and have accelerated since then.[240] Cost cutting has helped the newspaper industry mask it's bigger problem.[241] This had been used as a tool for companies to temporary ignore trends that have accelerated and can no longer be ignored.

237 C Gilbert, J Ure, 'Reading Disruuption's Fine Print,' Harvard Business School Publishing, 2005 pp. 1-3.

238 B Peters, '*The Future of Journalism and Challenges for Media Development,'* Journalism Practice, Vol 4, NO. 3, July 8, 2010, pp. 270-271.

239 Ibid. pp. 270-272.

240 Ibid. p. 271.

241 Ibid. p. 271.

Sharpen focus and diversification

Many newspapers, when initially launching their online versions viewed their websites as supplements to their print editions and many still fail to take advantage of the unique CVP offered by the internet and other digital platforms. From a content perspective, firms pursued a strategy which Bambury describes as transferring real-world business models directly to the internet. Conversely, one reason *The Wall Street Journal* has avoided the problems of its competitors has been because when launcihg WSJ.com Dow Jones & Co chose a diversified digital business model. The FT.com has been more of a pioneer in taking advantage of the unique CVP of the internet by also utilizing a metered/utility business model in which it offers readers the possibility to pay for service based on usage. While online companies such as Yahoo and Monster.com have followed a native internet business model – taking "advantage of the unique interactive nature of the internet."[242]

The Wall Street Journal has avoided the fate of most newspaper firms in the US market. The *Financial Times,* the WSJ's international competitor, has a successful e-business model that mirrors that of *The Wall Street Journal.* The *Financial Times,* which is available in the US market and internationally, and *The Wall Street Journal,* have avoided the fate of newspaper organizations in the US market because they have diversified digital business models, clear CVPs, serve a specialized customer segment, and have pursued a narrowly focused strategy. The *Financial Times* and *The Wall Street Journal* appeal to a similar consumer segment. Both companies follow a niche-segment strategy, primarily targeting business people working in finance and banking. This "business-versus-general interest focus has kept The Wall Street Journal relatively immune from the problems faced by general interest newspapers,"[243] this is also true of the *Financial Times*.

The similarities between the two newspapers go further. Not only do both newspapers follow a niche-segment e-business strategy, both have highly developed brand images and are considered must-reads for their targeted consumers. Both have developed e-business models with a diversified profit formula using a combination of Rappa's web-based business model taxonomy that includes subscription and advertising and Bambury's metered/utility model. Having a subscription-based model enables both the

242C Gilbert, J Ure, 'Reading Disruuption's Fine Print,' Harvard Business School Publishing, 2005 p. 3.
243 A Hillman, *'The Wall Street Journal: Print Versus Interactive,'* Harvard Business Review/Richard Ivey School of Business, 1999, pp. 3-4

WSJ.com and the FT.com to collect demographic data on their readers, like Yahoo and Google, but beyond the information acquired via clicking on a banner advertisement, which is valuable to advertisers. This has enabled the WSJ.com and the FT.com to harness their resources and take better advantage of the unique CVP offered by digital formats which enables them to collect more detailed data on their readers such as behavioral information, and to track and quantify trends better than their competitors, thereby increasing the CVP the organizations are able to offer to their advertisers.

Adapting e-business models.

When addressing the question: How can e-business models be adapted to assist the newspaper industry in reinventing its business model? --This question was addressed by utilizing Rappa's web-based business model taxonomy and Bambury's native business model classifications.

These models offer news organizations greater possibilities for molding CVP solutions and assisting their customers in making more informed decisions about how to sell and promote their products.

Using Rappa and Bambury's work presents organizations with a variety of choices so that they can venture into new markets, new business model territories, and engage in their own versions of business model disruption. These frameworks are adaptable across industries and are not only applicable to newspaper firms but other content providers such as film companies.

The newspaper industry is in need of a new business model because the old model lacks the processes and resources to immediately determine how new opportunities, when they arise, relate to the firm's current business model and the traditional model is not flexible enough to adapt and respond to business model disrupters. [244][245] "Too many newspapers are focused on where their online and print businesses overlap and are not capturing all the growth opportunities created by disruption."[246]

244 MW Johnson, CM Christensen, H Kagermann, '*Reinventing Your Business Model*,' Harvard Business Review, December 2008, pp. 51-57

245 KM Eisenhardt, DN Sull, *'Strategy as Simple Rules,* Harvard Business Review, January 2001, Vol 79, No 1, pp. 108-109.

246 C Gilbert, J Ure, 'Reading Disruuption's Fine Print,' Harvard Business School Publishing, 2005 p. 6.

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