IFRA Empowering the News Publishing Industry

Developing business in hard times

Customer Centric Communication (CCC)

Bari, June 11, 2009

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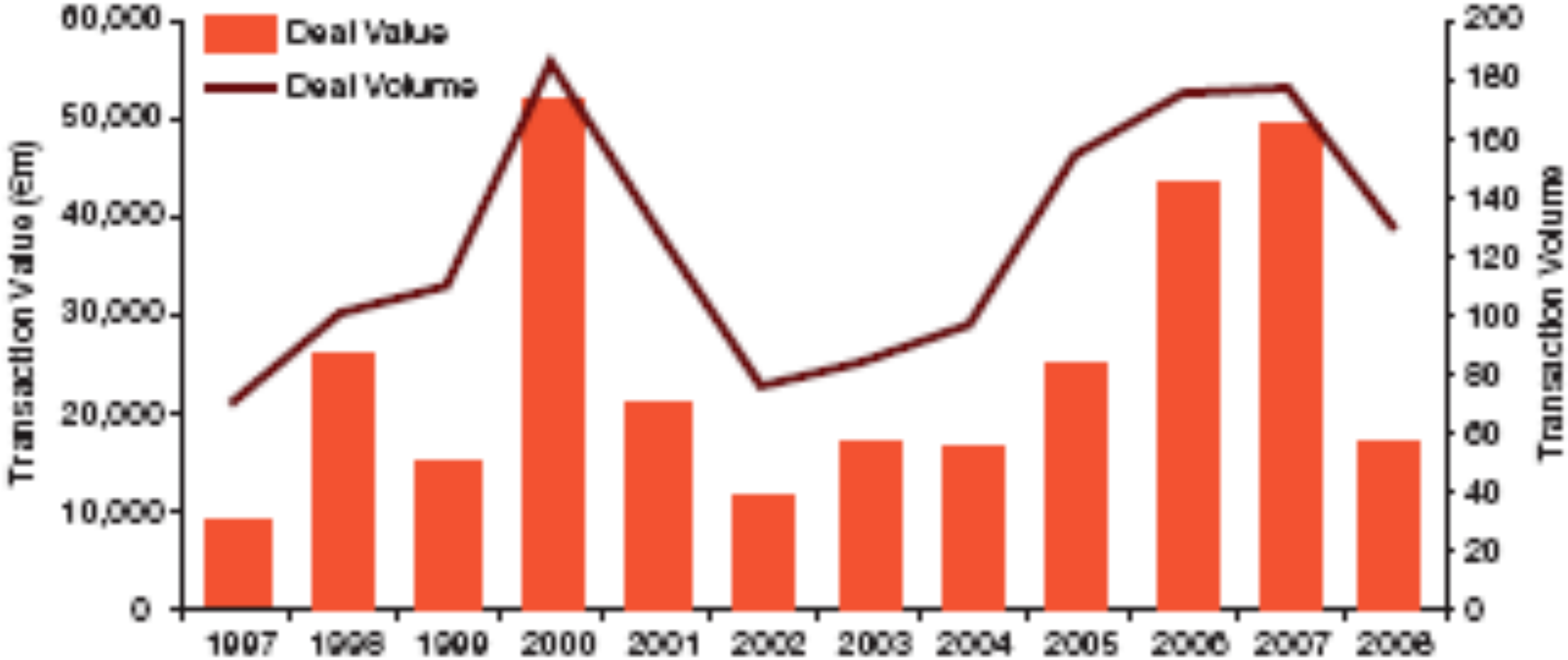
Facts about the industry

Industry Development

- **Major M&A activity in the European media industry: total deal volume 1997-2008**



This chart covers M&A transactions completed between 1997 – 2008, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.

Source: Dealogic, Mergermarket

European Media Sector: 2007 vs. 2008

- **Completed M&A deals: 178 vs. 135 (-28%)**
- **Deal value: €50 billion vs. €17 billion (-66%)**

Impacting factors

- **Shortage of available cash**
- **Massively dropping advertising income in newspapers**
- **...**

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Share prices of media companies have been falling dramatically…

Axel Springer New York Times Company McClatchy Gannett Johnston Press Trinity Mirror

What is the industry struggeling with?

Besides this...

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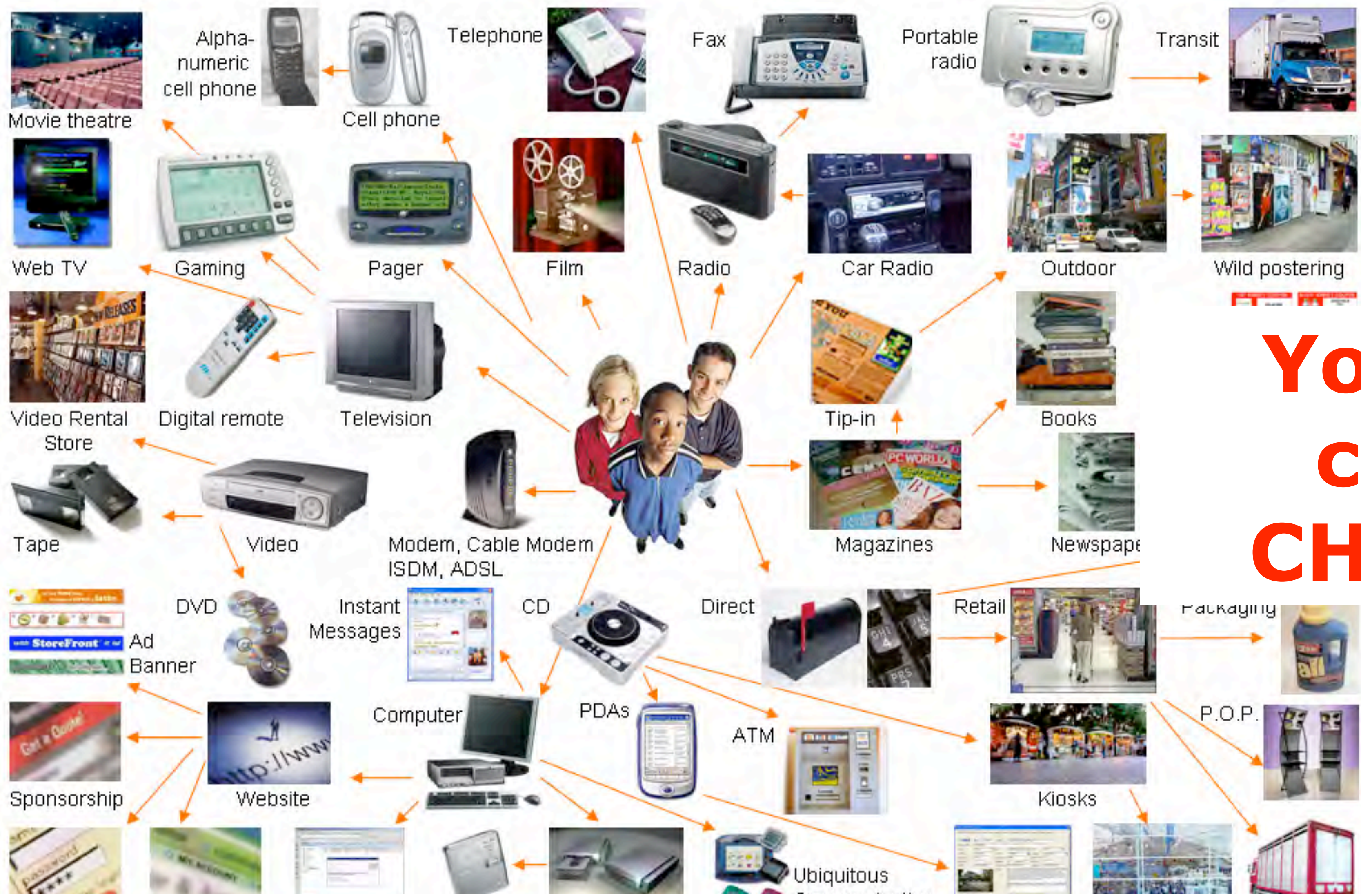
… your readers are confronted with this!



You can call it CHOICE!

Observations

- Newspaper industry is in a structural crisis, which was amplified and accelerated by the current economic crisis.

  → Economic crisis was not the starting point!

- We will see more consolidation.

- The traditional business model of newspapers is under fire!

Why?

- **Due to developments in technology**
- **Due to developments in the media markets**
    - User generated content
        - Faster
        - Acceptable quality
    - Community websites
        - Growing number of platforms for the exchange of information
        - Preferred by the young generation
    - General news – online
    - Perception of „news" has changed

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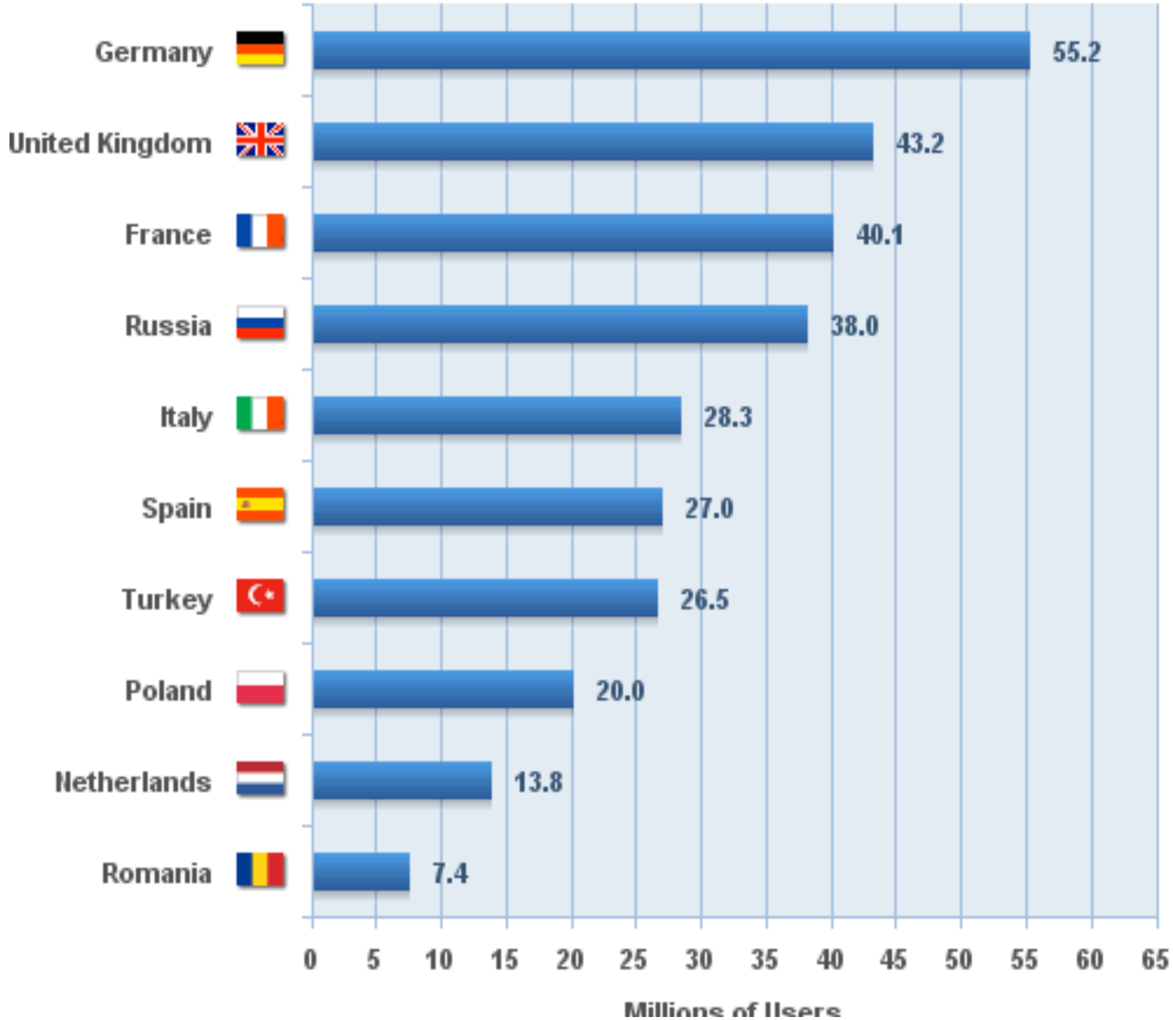
Internet user: Top-10 countries in Europe



Penetration

67%

71%

65%

25%

49%

67%

35%

52%

83%

33%

Switzerland: 76%

Austria: 68%

Slovenia: 65%

Croatia: 44%

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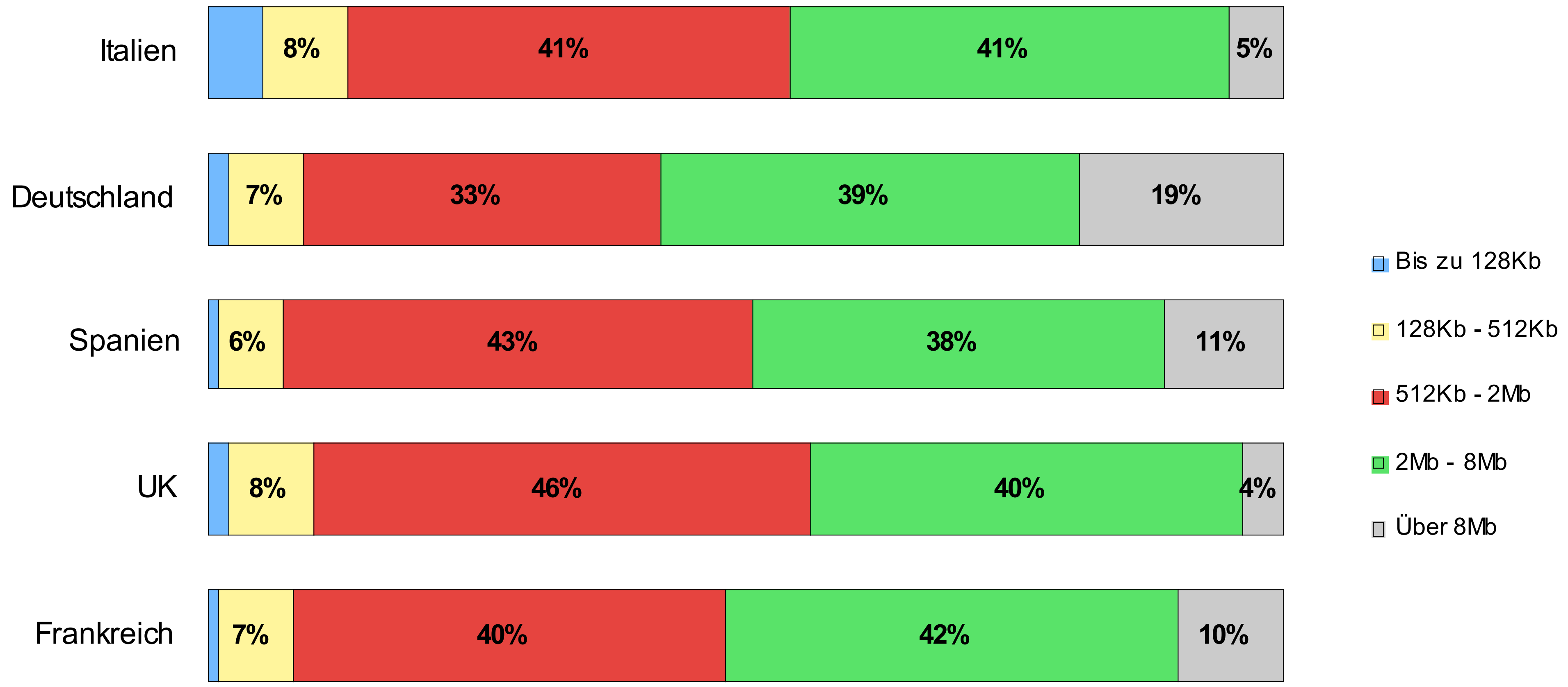
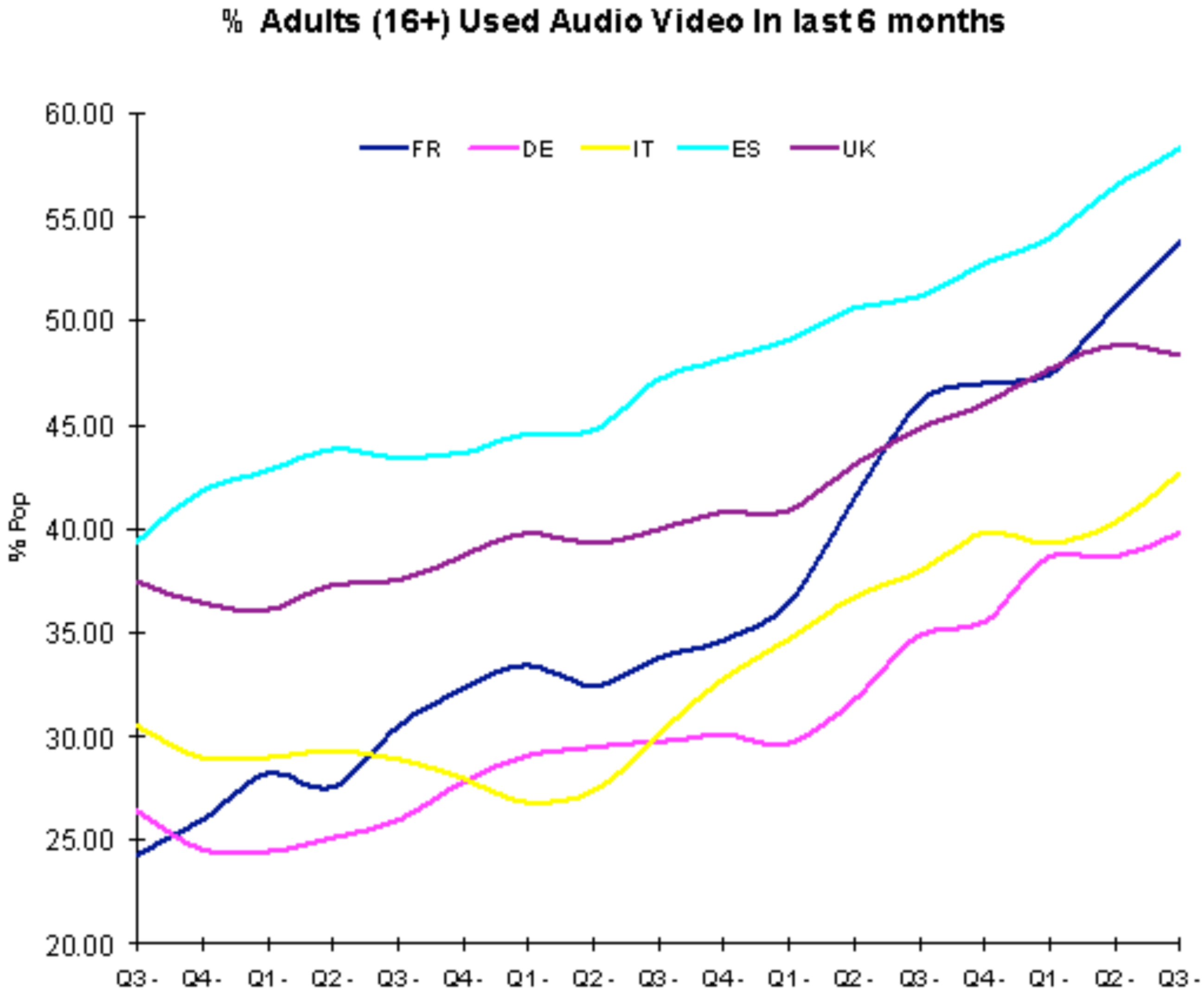
High bandwidths increase online activities



Usage of Audio/Video is increasing in Europe



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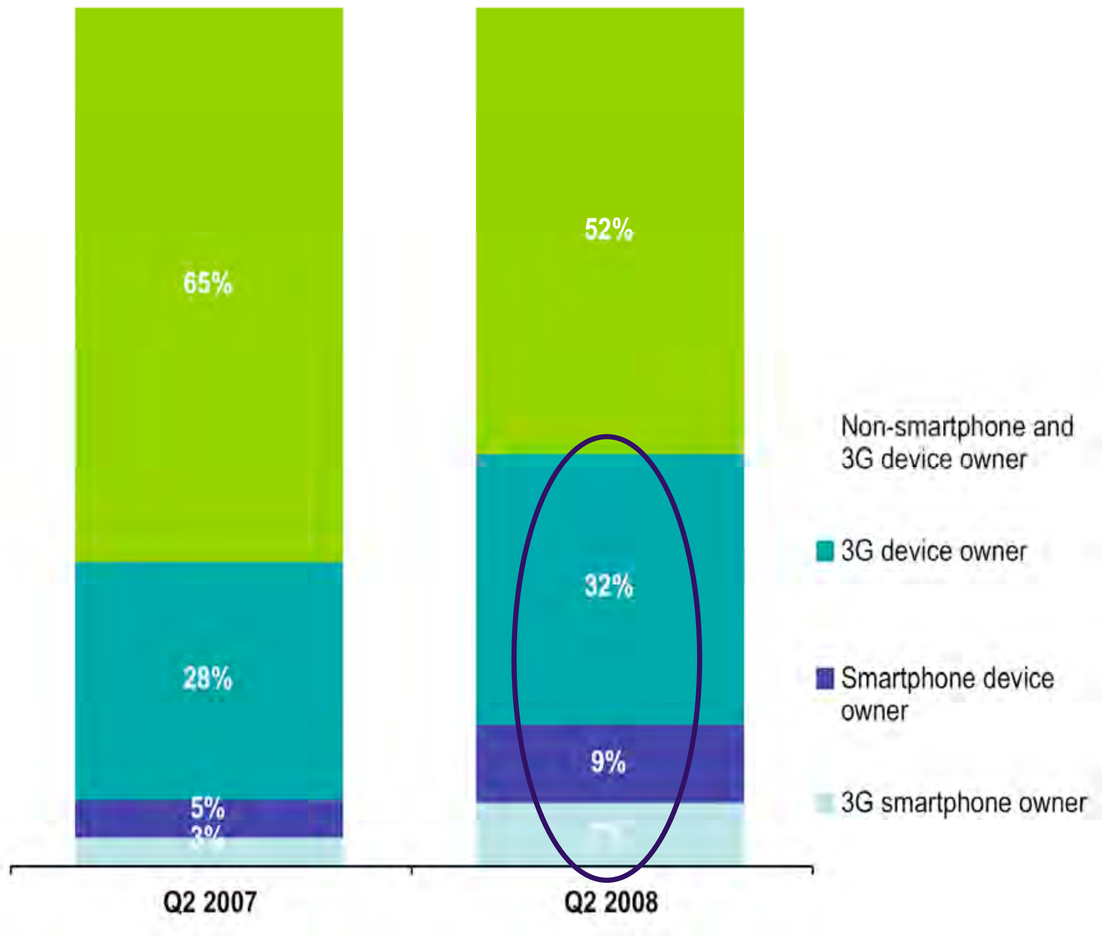
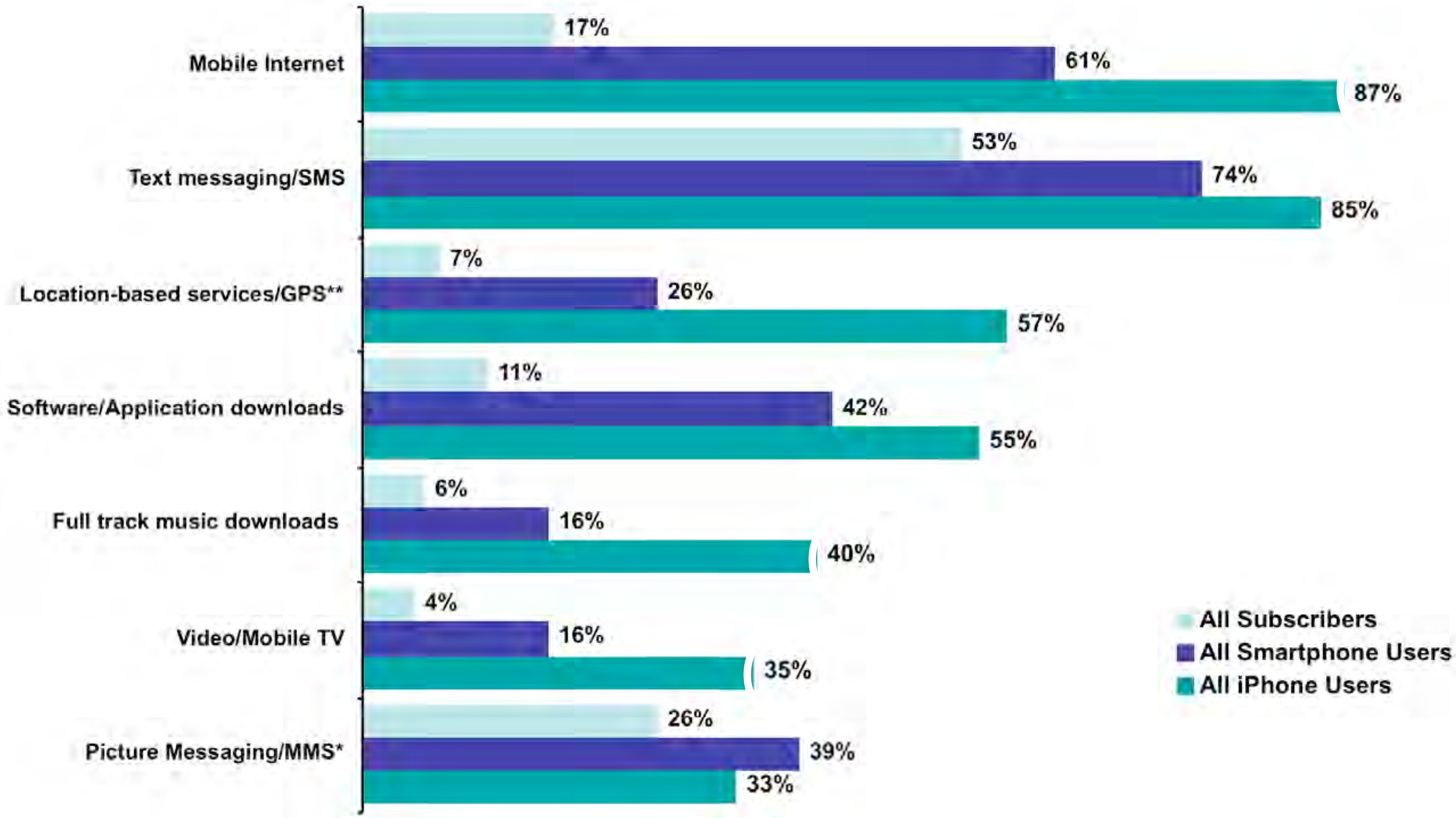
Nearly 50% of all new phones are Smartphones



Purchased device within the last 6 months – Comparison ch Q1 2007/Q1 2008 (n=15,699/14,508)

Mobile media use has increased because of the iPhone



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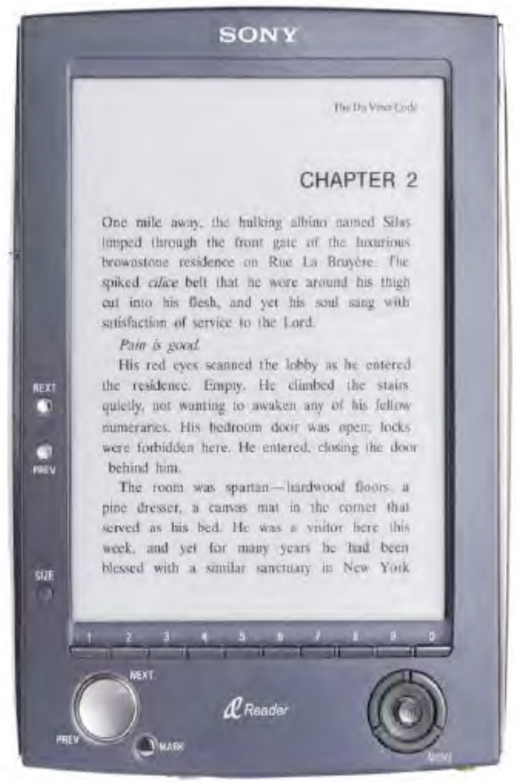

And now there is Kindle DX from Amazon

- New York Times
- Boston Globe
- Washington Post

Revenue streams are affected!

Situation at American Newspapers

- Tribune (Los Angeles Times, Chicago Tribune) in Chapter 11
- Minneapolis Star Tribune bankrupt
- Detroit has no 7-day paper (Detroit Free Press to a 3-day paper)
- Cincinnati Post, Kentucky Post print version stopped, only internet
- Gannett eliminating 2000 jobs
- San Diego Union Tribune: 40% revenue drop since 2006
- Tribune Co. closes foreign offices and outsources international news
- New York Times: Debt 1 Billion $, Cash 42 Million $
- etc....

In selected markets

- **Sweden: dramatic loss in Q1 2009** - Total advertising market will loose ~ 5% in 2009
- **Investments in brand advertising via media agencies**
  - Single copy sold newspapers: - 40%
  - Home delivered, big cities: - 25%
- **Classifieds**
  - No official number, but home delivered newspapers have lost 20-40% of its classified revenue!
  - Internet: Bad advertising: dramatic drop in 2009
    - Market leader: -10-20%
    - Smaller newspaper websites: -40-50%
    - Classifieds: no figures

In selected markets

- **Netherlands…**
  - Classified market draining at high speed
- **Belgium**
  - Shrinking of advertising and media budgets
  - Less job ads
  - Only financial papers higher circulation/readership
- **Russia**
  - Advertising market Forecast 2009: -10-12% for total ad spend
    - Forecast for printed newspapers: >-20%
  - Classified market: Forecast -10-12%

In selected markets

- **India**
  - The fall in advertising – of all categories, including internet – that started in the last quarter of 2008 continued into the first quarter of 2009.
  - No precise figures of the drop available
    - Indications: Q4 2008 - Q1 2009: -10% and Q1 2008 Q1 2009 was between 20 and 25 per cent. No great improvement is foreseen till July this year, although marketers speak of a feeble pick up in consumer spending.

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In selected markets

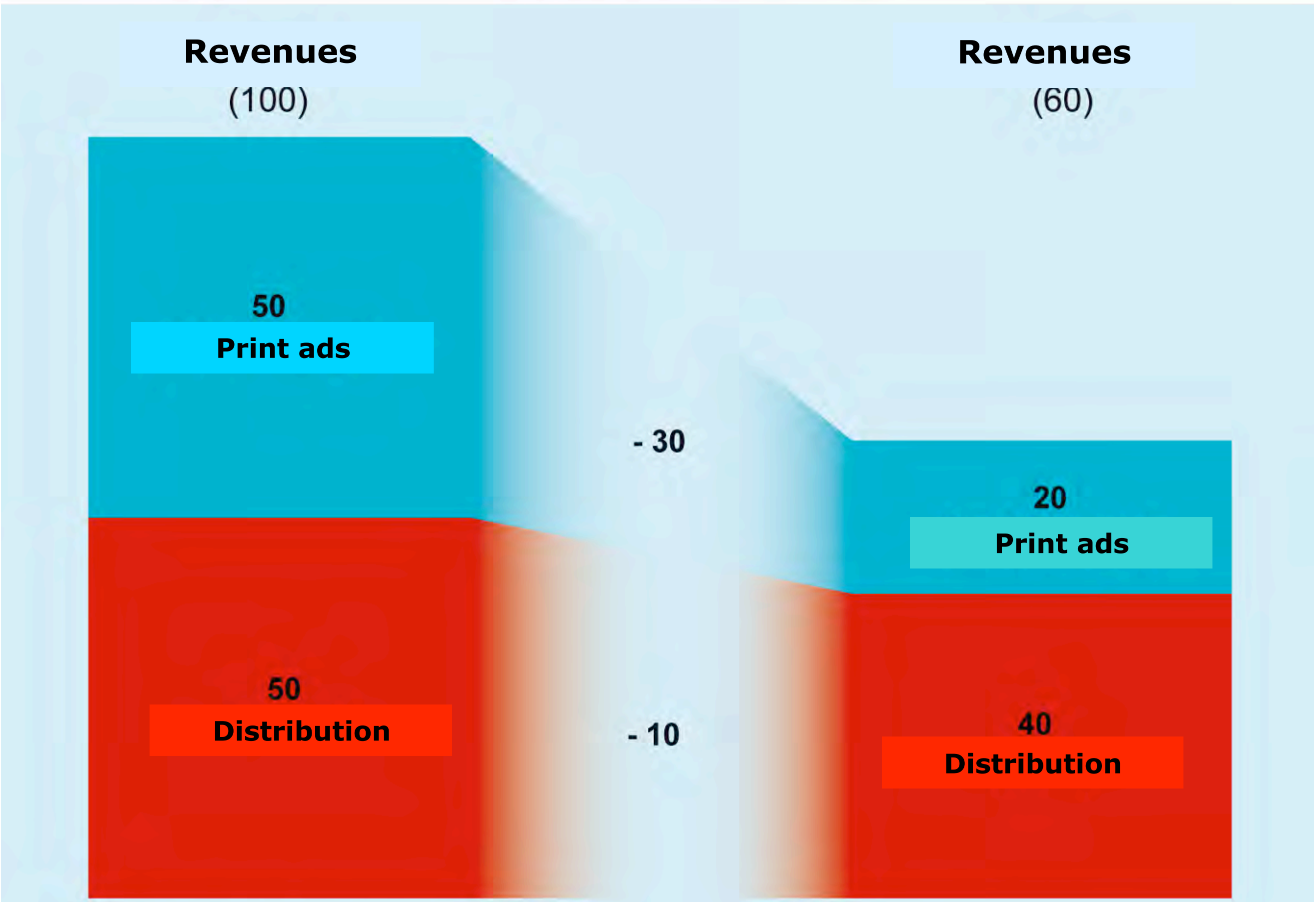
- **Germany**
  - Total advertising volume rose 0.7% in 4th quarter of 2008
    - Newspapers lost 0.9%
    - Magazines lost 4.2%
    - TV gained 4.5%
    - Online banners gained 31.5%
- **Advertising in newspapers**
  - Newspapers lost 0.9% → This figure is worse than it seems! Advertising volume is maintained by competition between supermarket chains in regional newspapers
  - Advertising from the financial sector: 50-60% lost
  - Organisations are continually revising their forecasts downwards

General trends

- **Ad selling and marketing are changing**
- **Advertisers are demanding**
  - Documentation of major reach in the region
  - Cross-media marketing
  - Greater segmentation and ability to reach target groups
  - Ability to measure advertising effectiveness

Advertising market in 2020

- **Newspaper revenues: Structural changes in the traditional revenues at regional newspaper publishing houses in Germany**



Expected to reach this level sooner due to the economic crisis

Advertising market in 2020

- **Demographic development and socio-economic trends**
  - People getting older
  - More immigrants, from more distant regions
  - Increased trend towards urbanisation
  - More people aged between 15-70 years will be working, mostly part-time
- **Communication**
  - Individualisation ↑
  - Social networks ↑
  - Spread of broadband technology → use of electronic offerings ↑

Challenges for the newspaper

- **Advertising turnovers of the electronic media increase**
- **Advertising turnovers in print media drop**
  - 10 years ago: 55% of advertising spend
  - Today: 48%

  → **Print media at strategic turning point**
- **Current crisis intensifies the structural crisis in the newspaper industry**

Challenges for the newspaper

- **Advertisers demand reach among target groups**
- **The advertiser starts to have concrete expectations of advertising**
  - Increasing attention is being paid to ROI

Where is advertising going?

- Greater interactivity
- More integrated
- More profiled
- Trend towards more elaborate presentation

Parameters in advertising markting

- **Fundamental changes due to**
  - Internet sales
  - Cross-media sales
  - Auction platforms
  - Ad networks
  - Events
  - Guerilla and recommendation marketing
- **Publishing houses must not only know this type of marketing, but integrate it into their products and offerings!**

Solution?

- **Slow death of the publishing houses**

or

- **Taking Action With CCC**

Advertiser = the focus of attention

- Advertiser‘s success = Publishing house success

  ↓

- A change in the way of thinking at publishing houses is necessary
- A change in the sales organisation and structure as well as an aimed focus on cross-media marketing are necessary

  ↓

Basic idea:

THE PUBLISHING HOUSE BECOMES AN AGENCY!

What is required

- **Re-think – change in the mindset**
  - Change in the sales organisation and structure
  - Targeted cross-media marketing

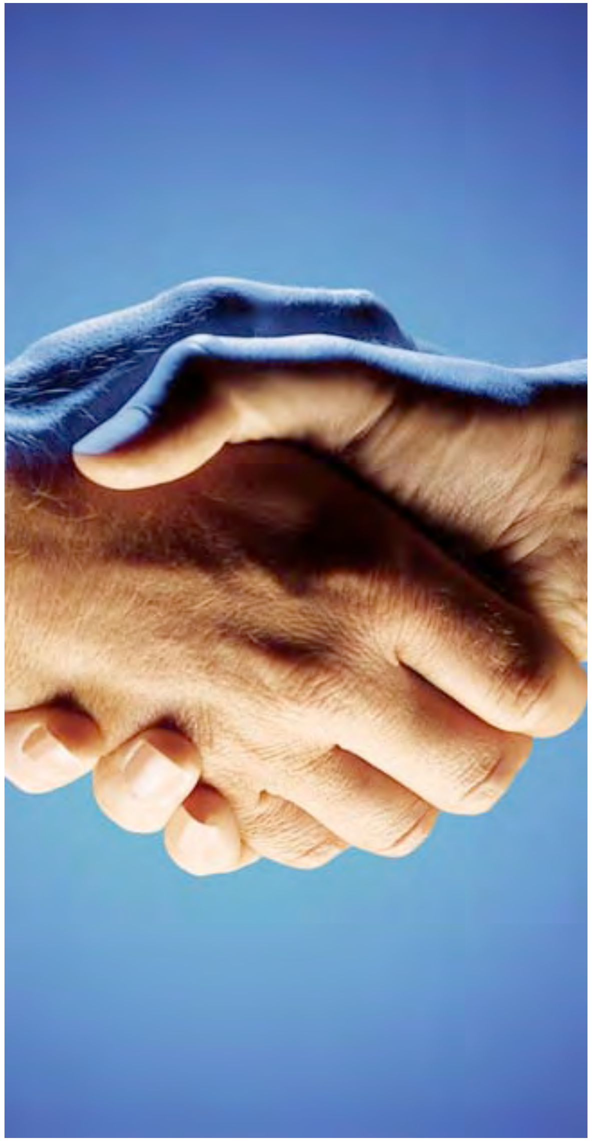
THE PUBLISHING HOUSE BECOMES AN AGENCY!

The CCC concept

- **New image of the advertiser**
  - **Advertiser ≠ „Cash Cow"**

The CCC concept

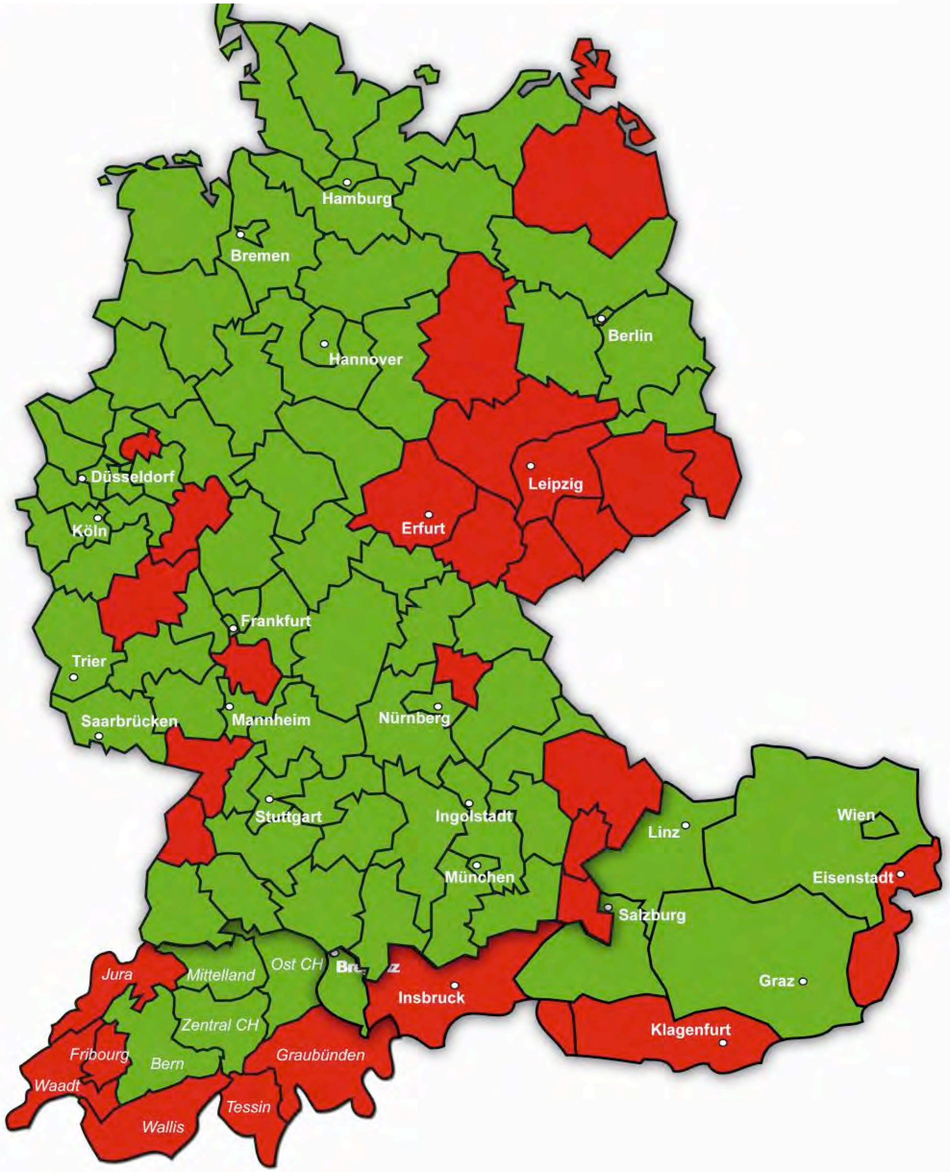
- **New image of the advertiser**
- Advertiser = Partner



Participation of German-speaking publishing houses (Germany, Austria, Switzerland) in the survey „New Tools in Ad-Selling".

Participating publishing houses in Germany, Austria, Switzerland

Non-participating publishing houses



Empirical analysis

- **200 publishing houses (40% response)**
- **All suppliers of systems and technology (70% response)**

→ high response rate: The advertising business is undergoing change!

Empirical analysis – Publishing houses

- 39% < 50,000 circulation daily newspaper
- 17% < 100,000 circulation daily newspaper
- 27% < 200,000 circulation daily newspaper
- 17% > 200,000 circulation daily newspaper

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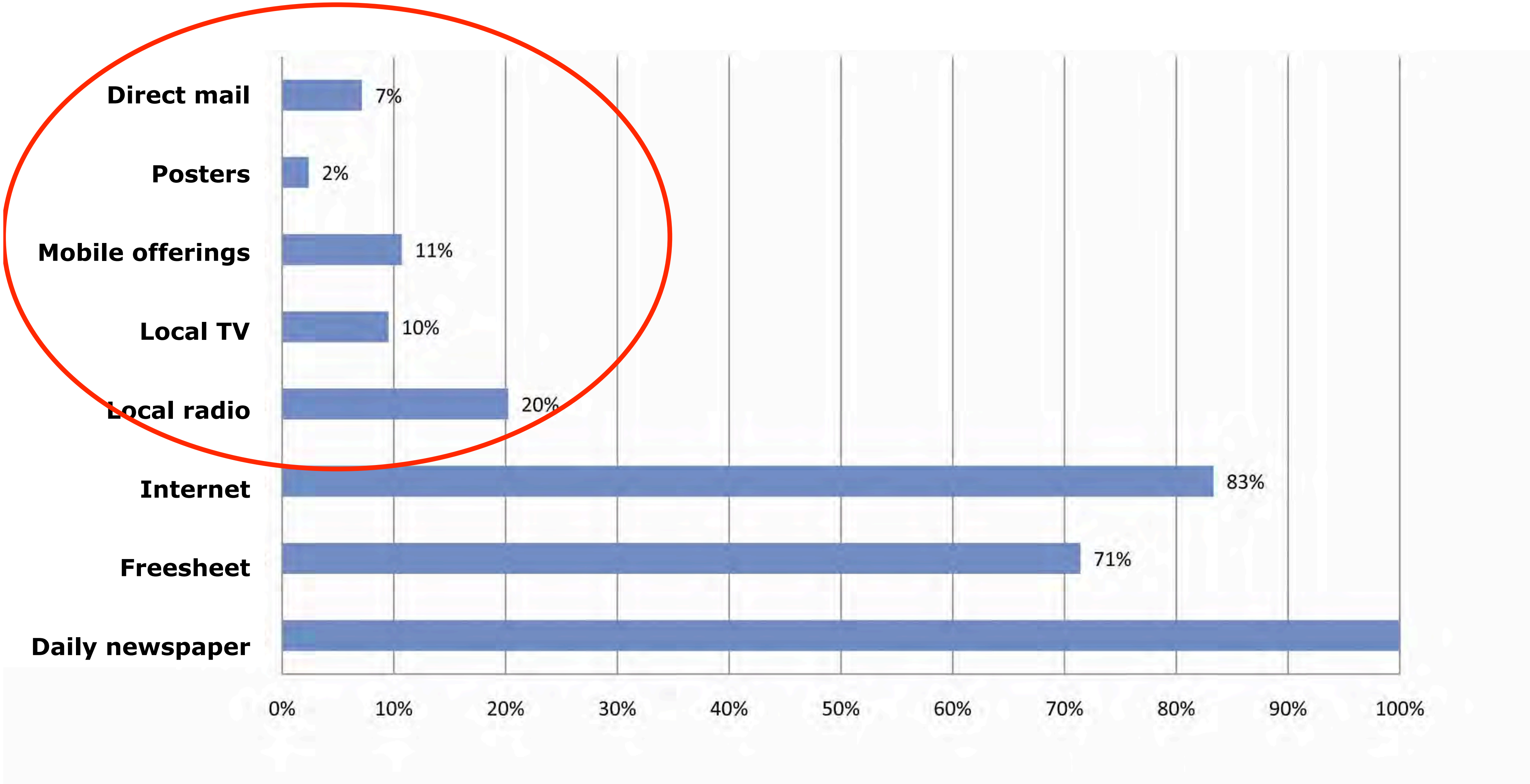
For which media is there an ad-selling team?



Offered media

- Platforms outside the „classical“ spectrum are more likely to be offered by larger houses
- Only 10% of small publishing houses offer 4 or more platforms

Customer potential

- **Conclusion from different studies: only 12-20% of enterprises are customers of newspaper publishing houses**

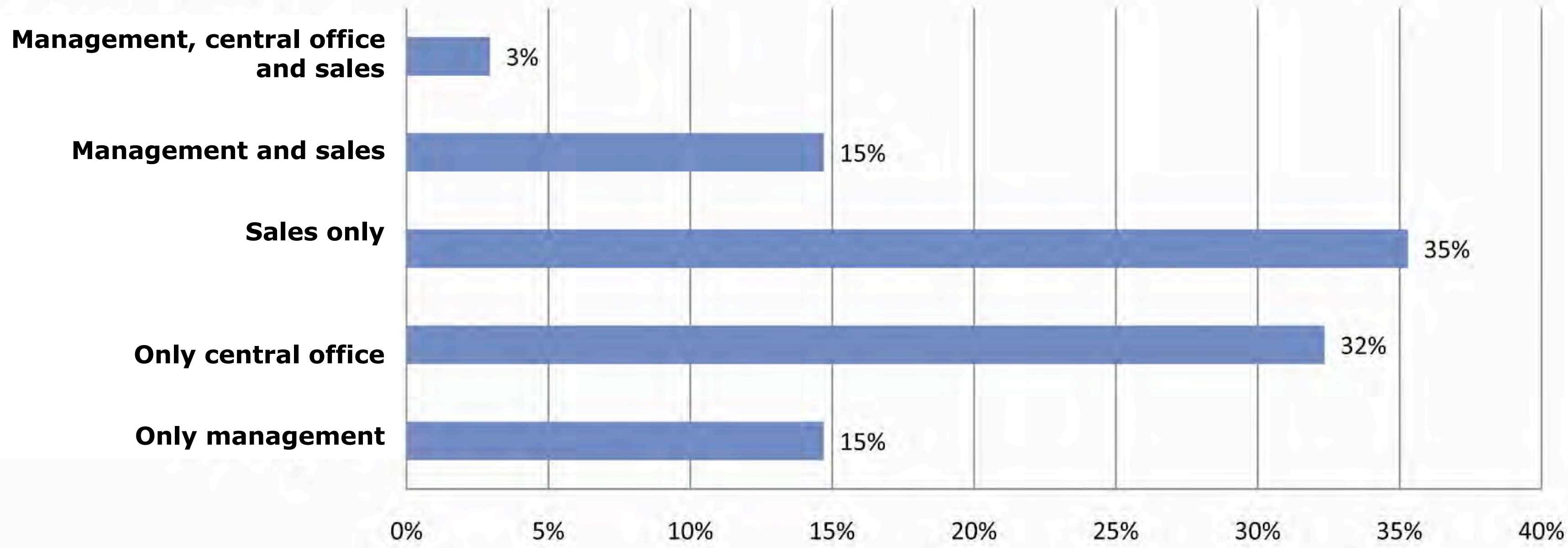
- **Participants replied very reticently**

Customer potential

- **Possibilities**
  - Most houses are unable to answer this question due to the absence of any systematically gathered information on customer potential.
  - Even in cases where data on customer potential is available, it is seldom that this information is systematically matched with the internal customer base. Only very few of the newspapers know exactly what share of potential customers they reach already today.
  - It is even more rare for this knowledge to enter into systems that help publishing houses to draw the correct conclusions for product development and business objectives.

Monitoring the competition

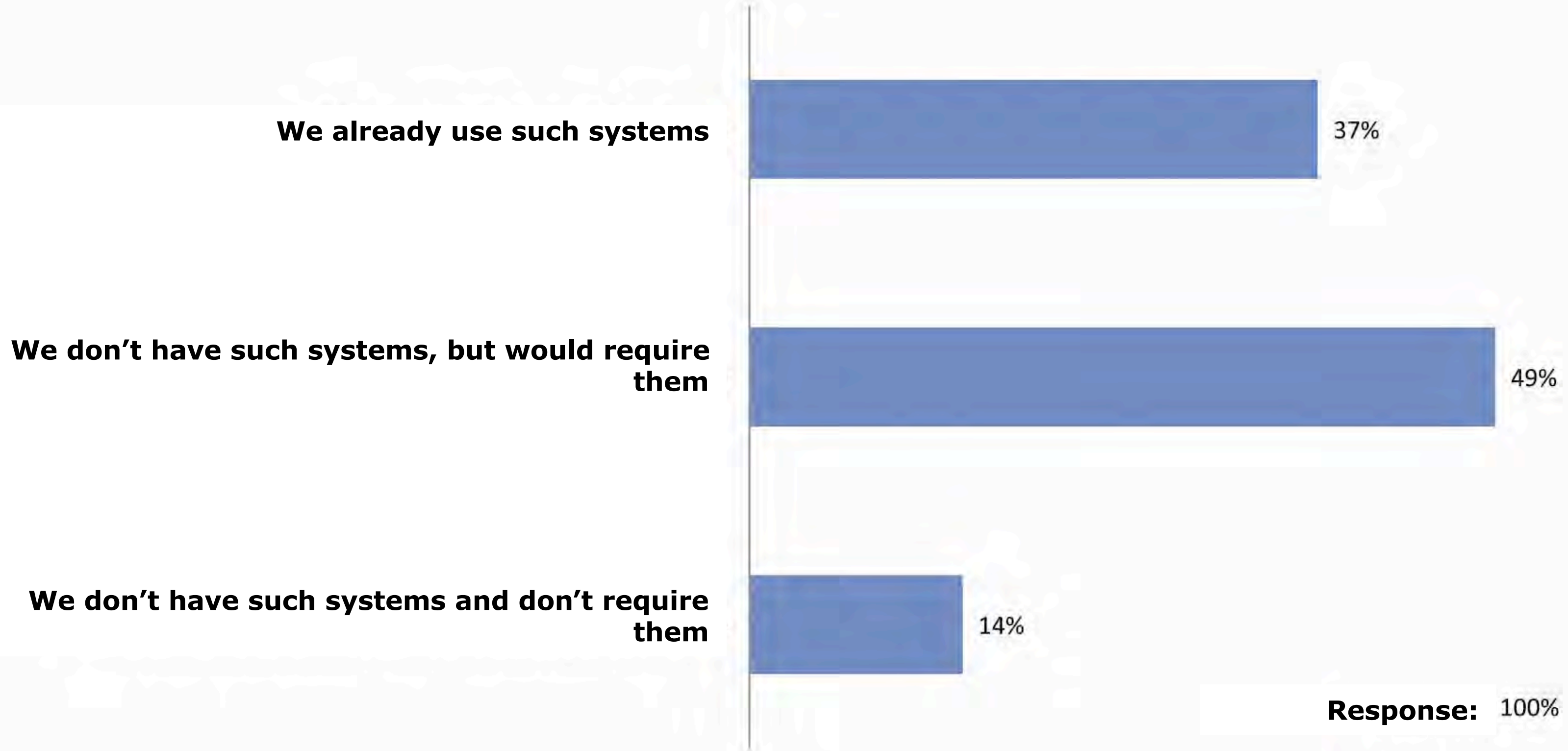
- **In most cases no in-house staff are assigned to track the competition**
- **Responsible for monitoring the competition:**



Response: 79 Prozent

Information sources

- **Systems for information processing**



Information sources

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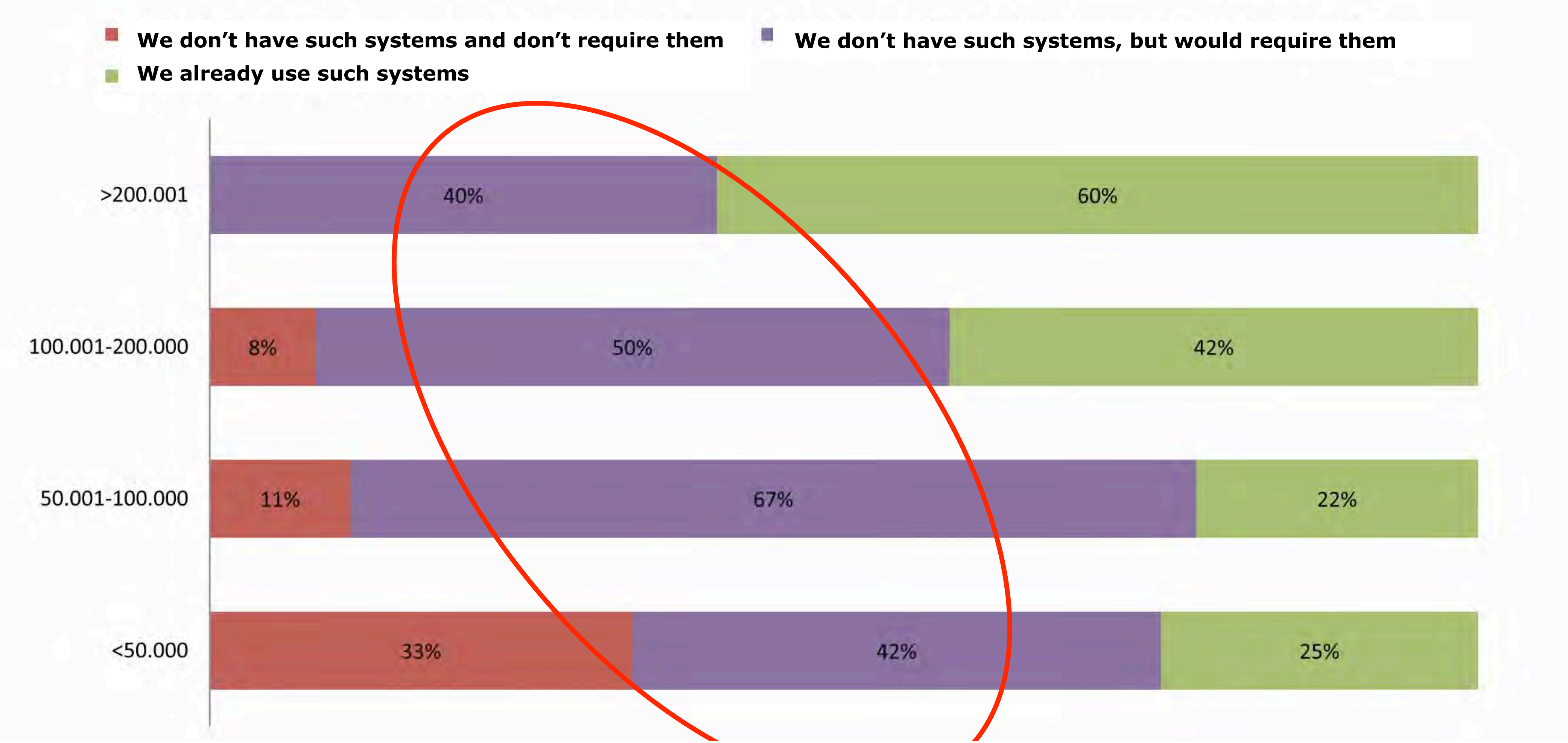
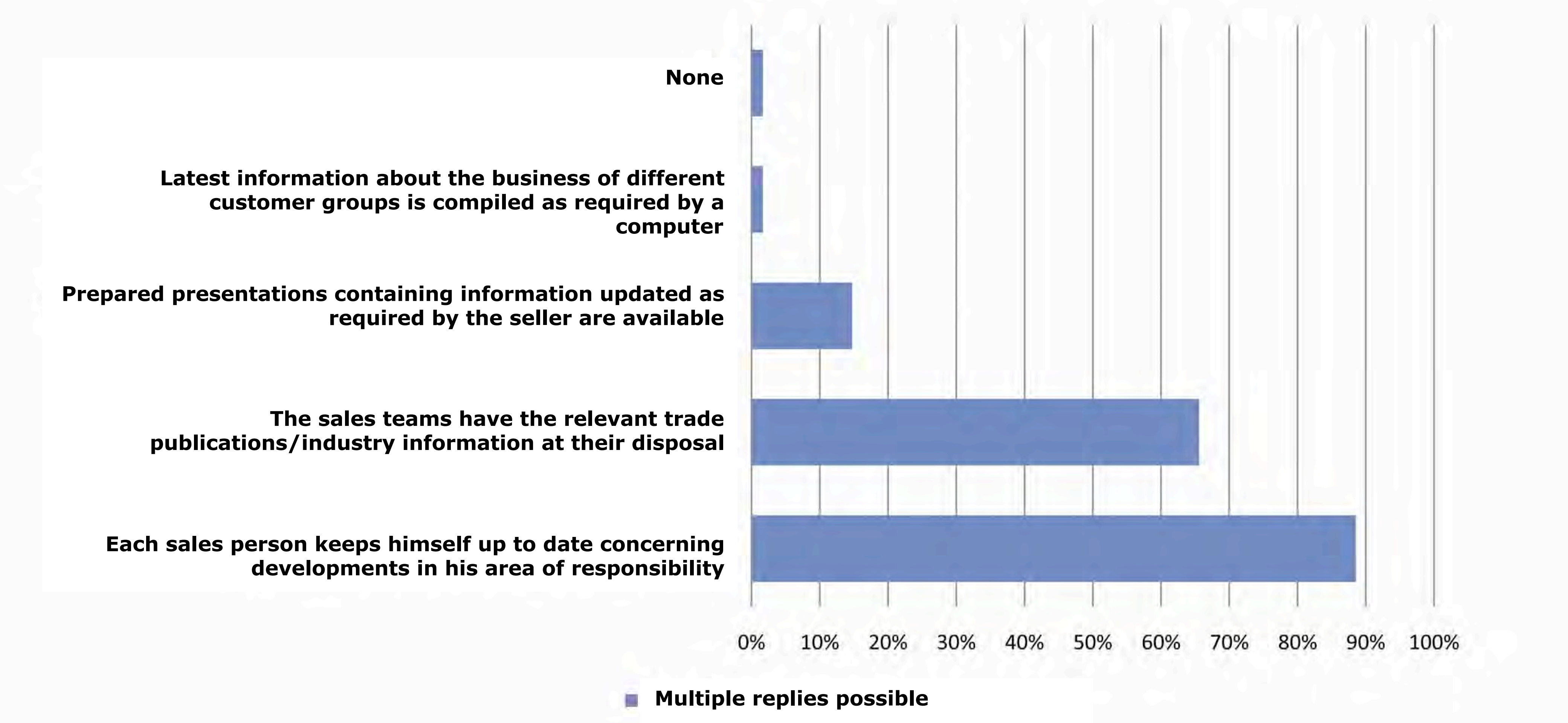


Information sources

- **Support for ad sales**



Cross-media marketing

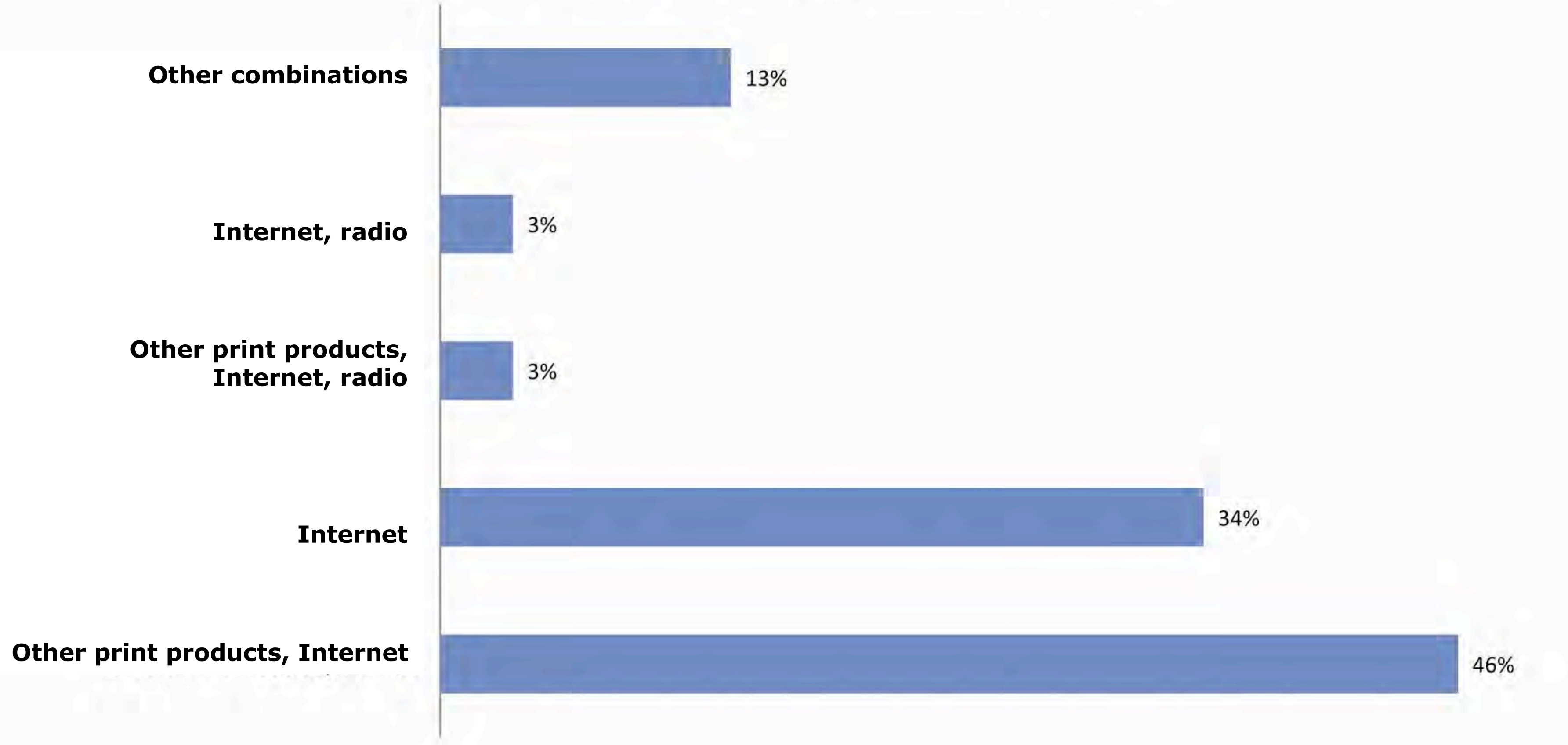
- Many publishing houses think that they offer cross-media advertising already
- But: this is mostly purely upselling or bundling of existing print and online products

  → offer to publish online as well as print ad,

  → customer receives add-on media performance for a better price than the actually applicable one!

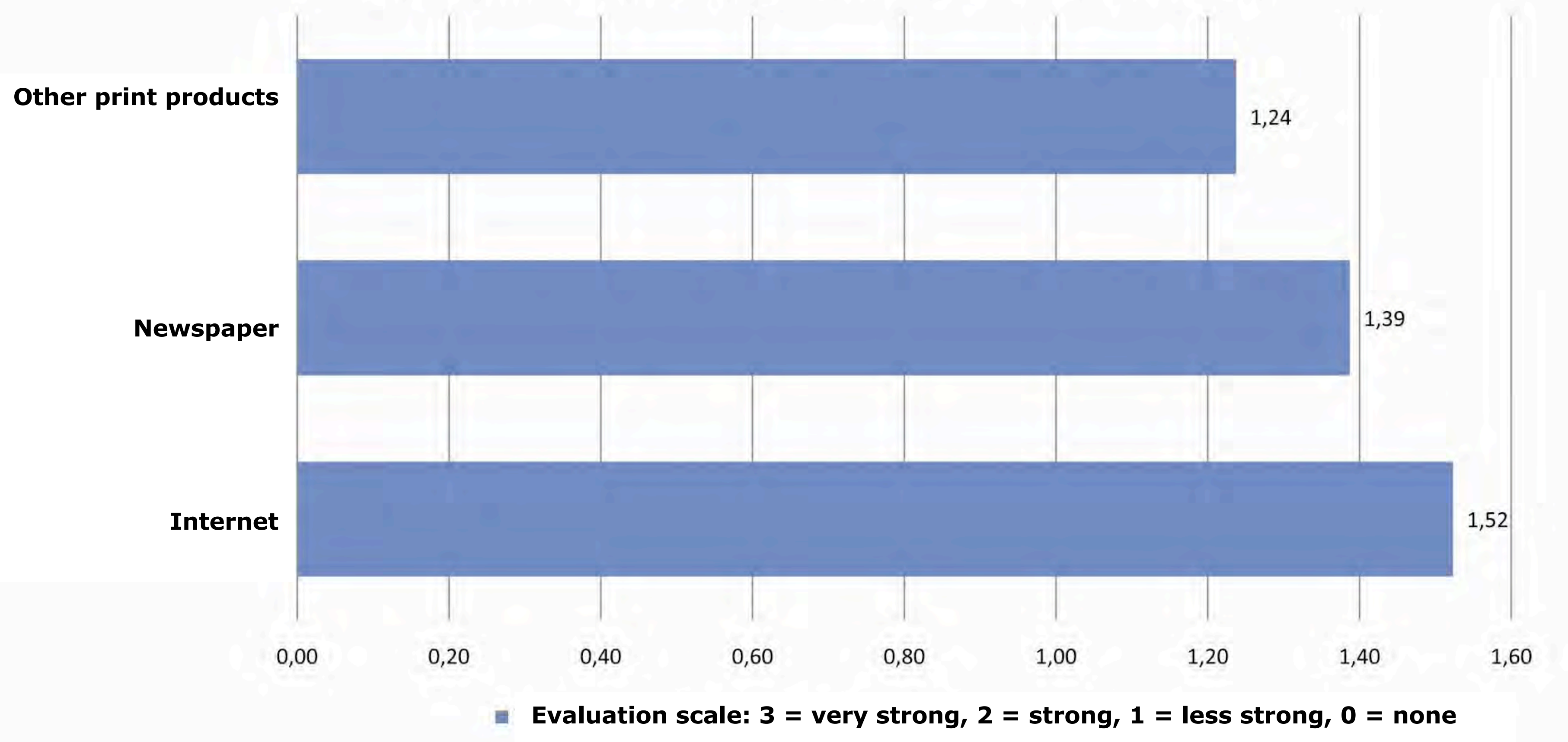
Cross-media marketing

- **Newspaper sold in combination with:**



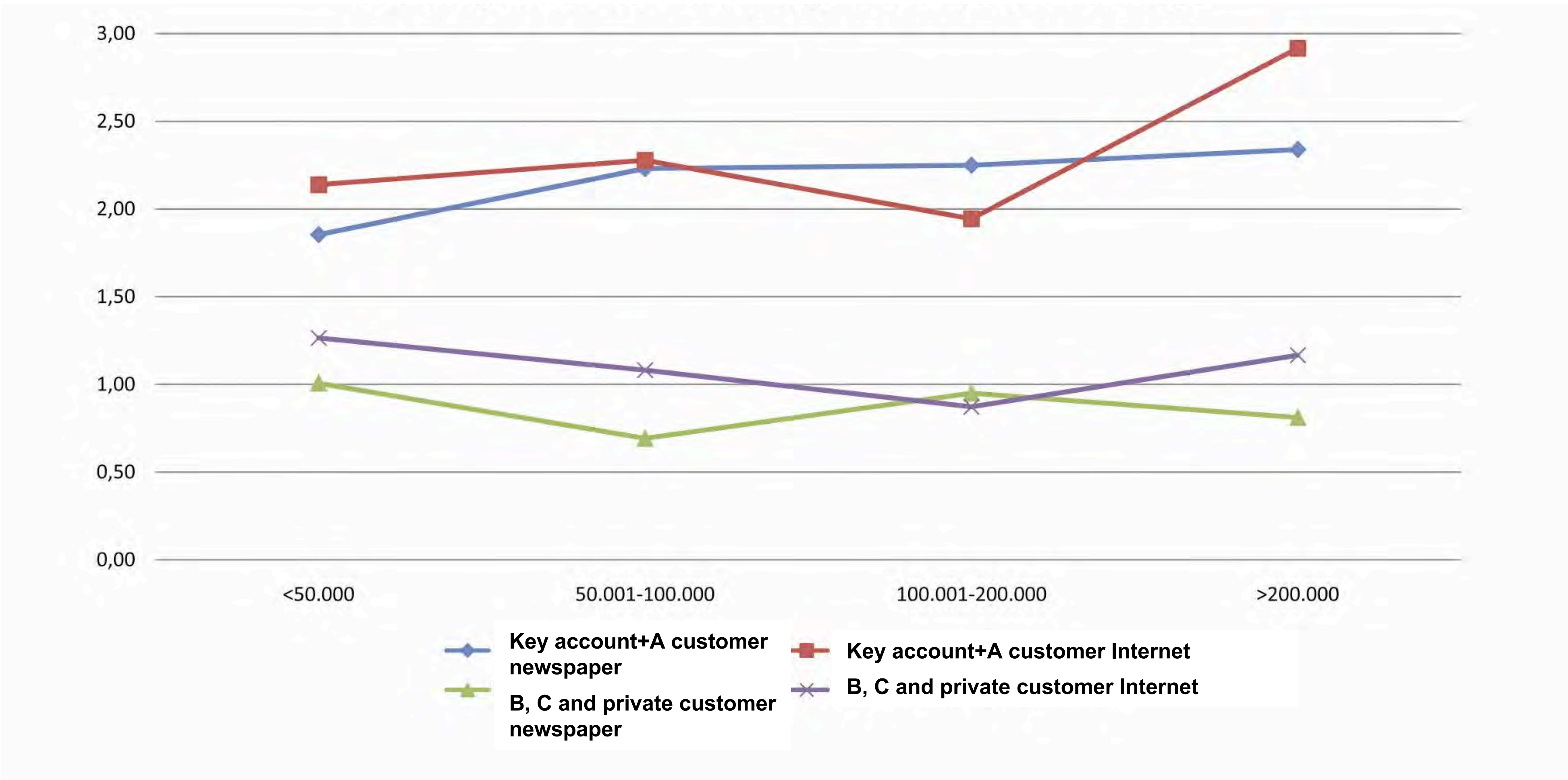
Proof of performance today

- **Present average demand for proof of performance**



Proof of performance today

- **Intensity of demand proof of performance based on circulation**



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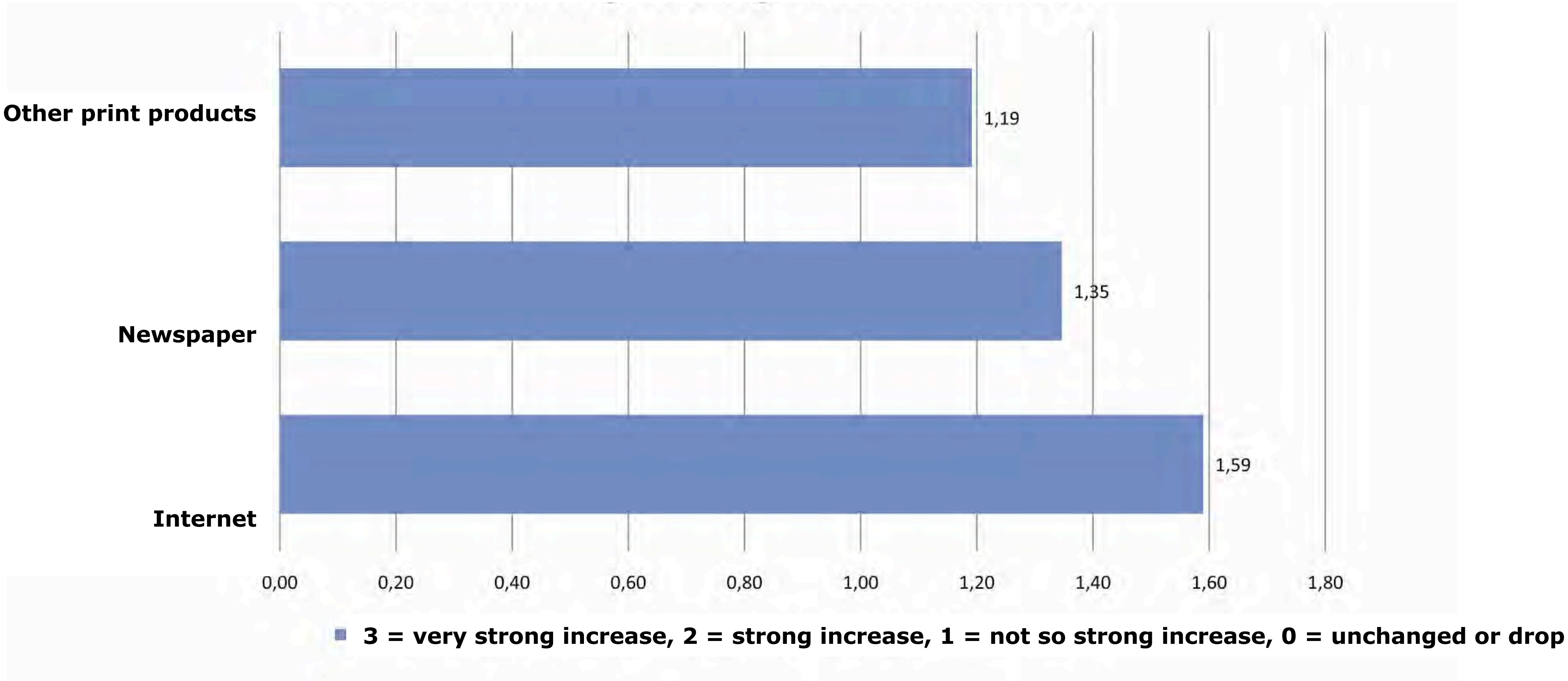
Proof of performance tomorrow

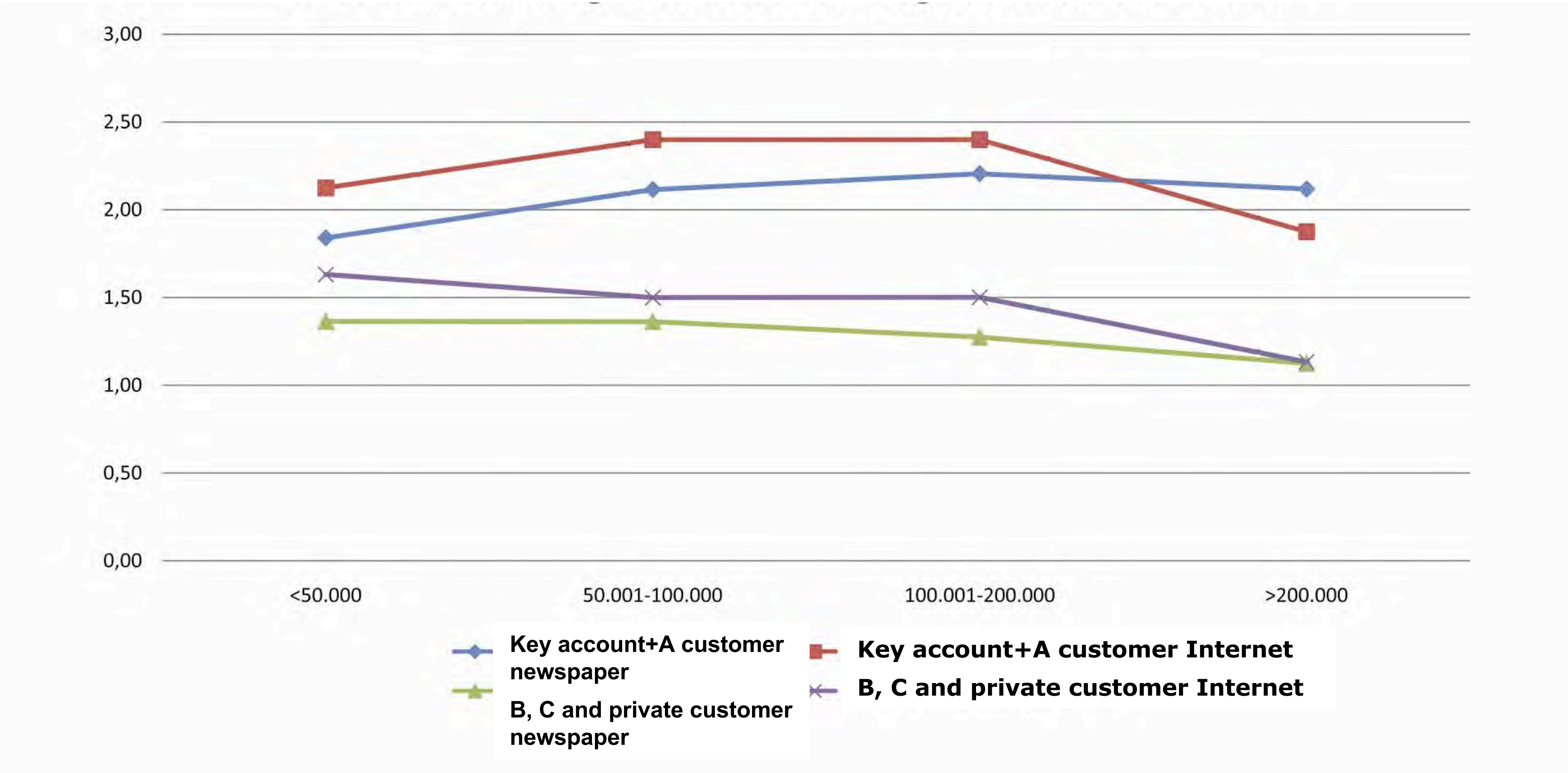
- **… publishing houses do not expect any dramatic increase**

- **Expected demand for proof of performance in 5 years:**



Proof of performance tomorrow

- **Expected demand for proof of performance in 5 years**



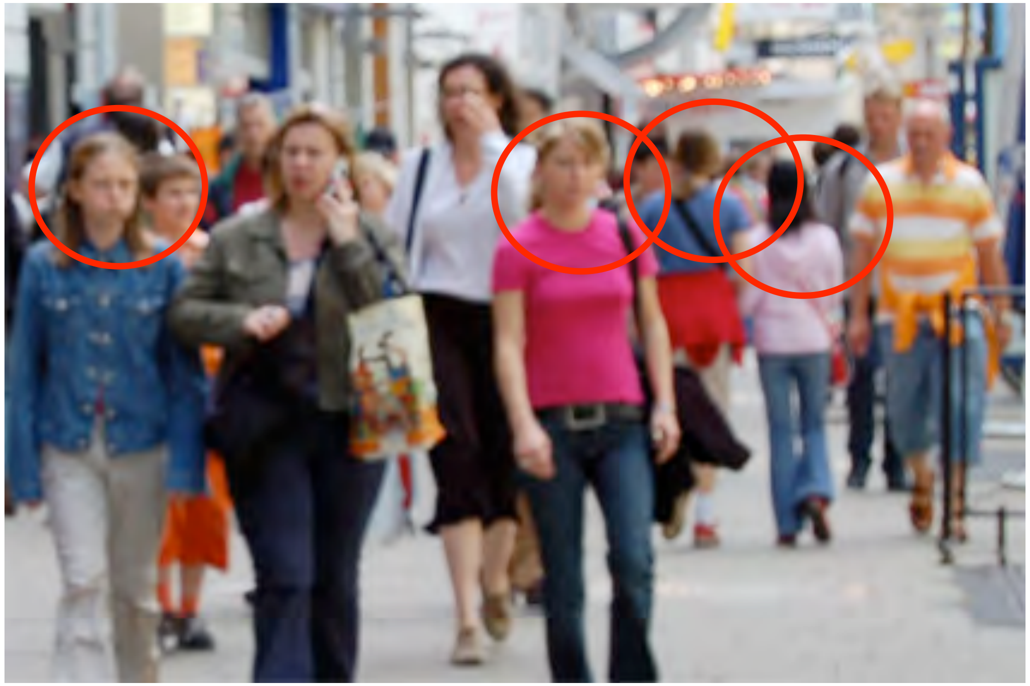
Proof of performance tomorrow

- **Already today, large-sized customers do increase pressure and want evidence of the efficiency of the applied means of advertising**
- **Small publishing houses have a bit more time than big ones**
- **„What you can‘t measure, you can‘t manage“ (David Ogilvy)**

A change in the way of thinking

- **Offer target groups instead of media products**

  → All media channels necessary to successfully reach the relevant target groups for the advertiser.



- **Think in target group categories → requires in-depth changes in the sales process**

What does that mean for the publishing houses?

The publishing house as an agency

- **Customers are favouring alternative, more direct ways to approach consumers**
- **The publishing house as**
  - Creative and communication agency
  - Media agency
  - Marketing and events agency
  - Multi-media agency
  - PR agency
  - Direct marketing agency
  - Internet agency
- **In the foreground: the service concept**

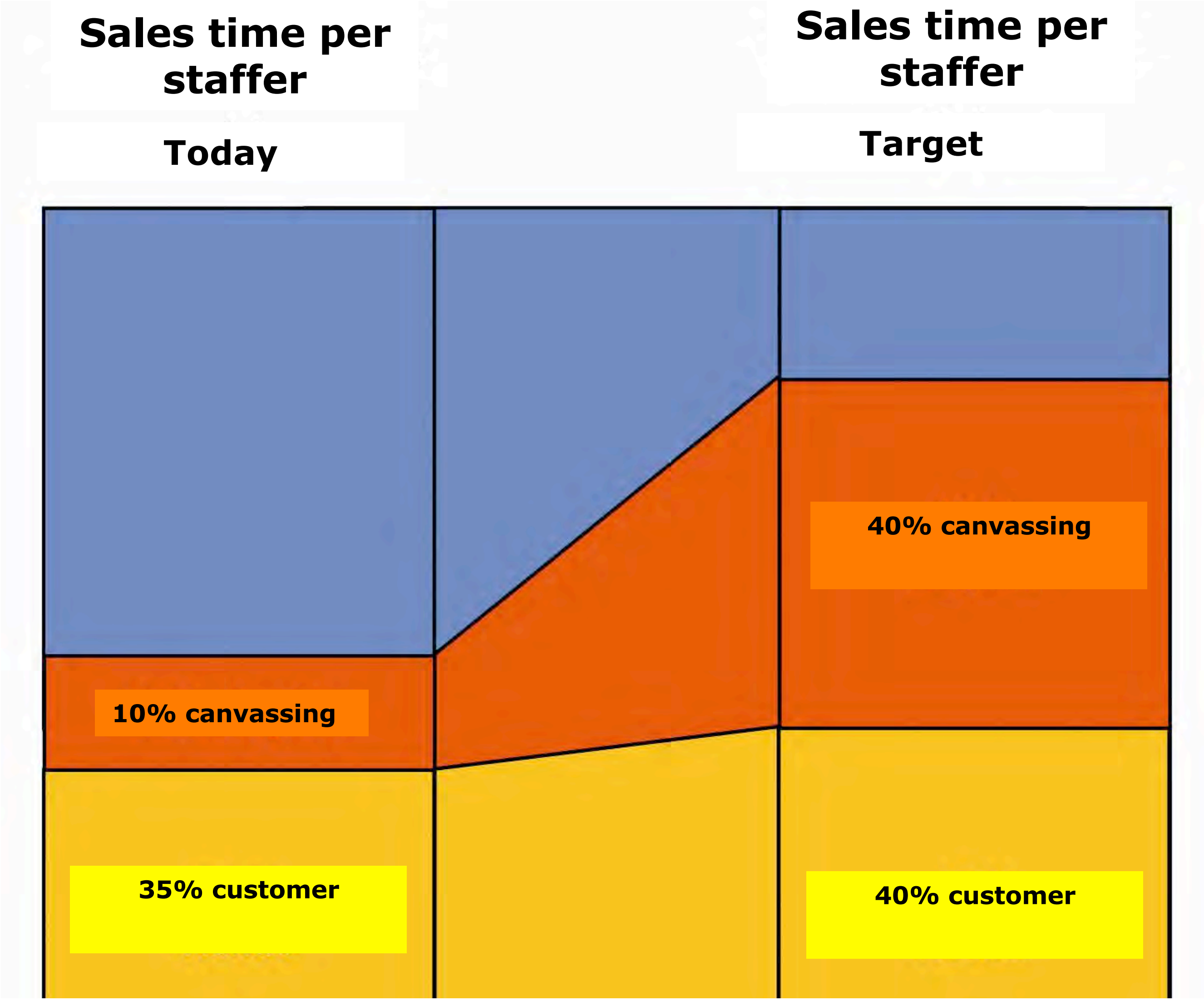
The publishing house as an agency

- **In the sales discussion: away from own media products in favour of customer`s business success**
- **Do not limit proposals for the customer to the classical advertising business**
  - Organisation of events
  - Mobile-based prize games, etc.

The publishing house as an agency

- The media house as a neutral broker and partner of the customer
- The news publishing house as the most important contact for the advertiser, responsible for all his communication needs.
- The newspaper publishing house as solution provider
- The newspaper publishing house takes responsibility for the customer‘s success

Sales today – Direct contact with customers



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From column-inch seller to agency

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A word about suppliers?

- **No clear market segmentation**
- **„Beauty contests“ inside the companies**
- **„Fast, faster, even faster“ – productivity gains well beyond market growth**
  - - Pressure on price levels in the print market
  - - Financing of equipment got tougher
  - - Downward spiral
- **No disruptive new technology!**

- **Suppliers are killing their own markets!**

Impact on paper industry

- **Reduction in page count**
- **Format and web reductions (example USA)**
  - **1980 1500 mm > 1360 mm**
  - **1999 1360mm > 1260 mm**
  - **2008 1260mm > 1200 mm** **a 20% reduction in space**

Conclusions

- **Consolidation in the media industry will go on**
- **It is time to tackle the structural problems of the industry**
  - News publishing industry
  - Suppliers
- **Technology will provide solutions if newspapers adopt fast**
- **Technology will provide problems if newspapers are slow**
- **Clear segmentation instead of „beauty contest"**
- **A cross-media brand strategy must be developed**

Conclusions

- **Customer potential must be better utilised**
- **The competition must be monitored more effectively**
- **Networking and standardised procedures/methods are essential**
- **Proof of success is becoming necessary**
- **CRM application is vital**
- **The publishing house must become an agency**
- **Reach will become the new currency for advertisers**
  - Don‘t defend print, - promote MMM and CCC

In the crisis cost counts, after the crisis solutions count!

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Thank you for your attention!

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