

Turn the page

The net benefit of digital publishing

Is this the last chapter for paper?



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Foreword

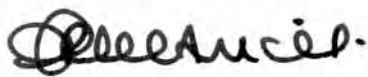
As we said in the publication, ‘Turn on to digital’¹, the move to digital media means more channels, more content and more ways to consume than ever before.

Deloitte & Touche LLP and the UK Association of Online Publishers decided to find out how publishing companies are adapting their businesses to the digital world. We talked to more than 30 key decision makers from niche publications to household names with a turnover ranging from £30 million to over £1 billion across all sectors. It’s clear from the responses that when it comes to digital – the net benefit is positive.

Throughout our discussions, publishers agreed that digital revenues were exceeding expectations, with the most optimistic firms predicting that digital activities would contribute around 40% to revenues by 2012.

This report presents a snapshot of the current business climate for digital publishers and considers how digital activity is impacting financial performance. The outright winner from digital is the business publishing market. However there are also sizeable opportunities, as well as challenges, facing all publishing sub-sectors.

In this document we share these views with you, and also propose five principles of success for digital publishers.



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Deloitte & Touche LLP¹



¹ Turn on to digital, Deloitte MCS Ltd, 2006

The current digital climate

This section of our report provides a perspective on whether publishers are benefiting today from their digital activities. We have summarised the findings from our interviews into three main areas:

- the extent to which digital strategies are formulated (or not).
- successful digital products and their impact on margins.
- how businesses are organised for a digital age.

Our research confirmed that longevity and success in digital publishing does not depend on platform, title or even technology. Instead, it is driven by the combination of all the players in the value chain, working in a structure that fully supports the brand. Within this collaborative culture, everyone must understand and contribute to the company's digital strategy.

Digital strategies

Our first line of enquiry was digital strategy. At the outset of the interview programme we surmised that whilst most publishers speak about "digital strategy", the degree to which strategies are clearly articulated, and the degree to which they are fully endorsed or even understood by boards would vary.

The gap between digital "laggards" and "winners" is incredibly broad when it comes to articulating a strategy. Some companies had yet to develop a strategy – although they recognised they should. Around a quarter have business models which fully integrate their digital and print business.

Most businesses sit comfortably in the middle, constrained by legacy practices, culture or digital maturity. Of the companies interviewed, less than a quarter have a fully developed digital

strategy. The majority are pursuing some form of a digital plan, though many are simply making tactical competitive responses.

The most coherent and fully developed digital strategies were in the business publishing sector but we also learnt of well developed strategies at some of the consumer book and magazine houses.

Although few companies have committed serious investment to support new offerings, the overwhelming majority of boards have placed digital high on their agenda. This is critically important, as our research confirmed that commitment from the top was one of several pre-requisites for digital success.

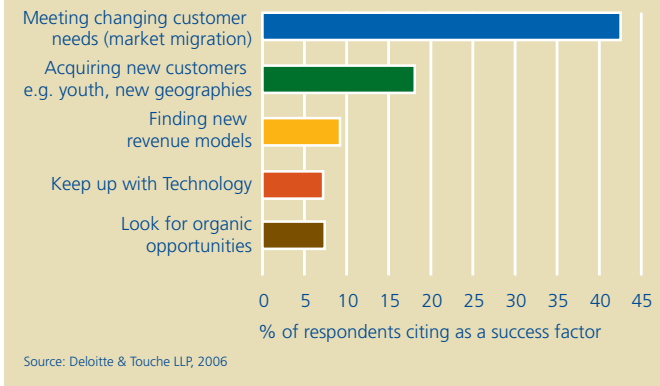
Digital winners – those with established digital brands and products generating impressive margins – had two consistent qualities. Firstly tenure: the business had been active in the digital marketplace for more than five years. Secondly board-level support that permeated the organisation with demonstrable executive leadership backed by a commitment of resources and structure.

Digital products and margins

We then asked about current digital publishing offerings to understand how they had come about and the extent to which investment was generating return. We thought that perhaps the fear of cannibalisation would limit digital products, and residual burnt fingers from previous digital forays may result in resistance to digital innovation.

What we found was quite the opposite. Experimentation and innovation are far from ad-hoc. The more successful digital publishers cited the elimination of the fear of failure and experimentation as key factors to their success.

Figure 1: Respondents' top ten drivers for digital success



A consistent theme of a well-developed strategy is a culture that encourages the discovery of customer needs and values through experimental products enabled by the low risk, low cost of digital.

We heard that cannibalisation is a myth and digital complements rather than competes with print products. Very few interviewees could cite a case of digital products destroying revenue. Income generation from digital is averaging about 17% of overall revenue, although this varies considerably between business and consumer publishing. None of the executives interviewed described digital publishing as being loss-making. For many, it is generating healthy margins.

Digital publishing has gained heartily from the advertising market. Most publishers agree that the growth of online advertising spending has been incremental to revenues rather than just being at the expense of print. Advertisers see the value in both print and online and continue to spend on both – though certain sectors, such as newspapers are suffering from the transition of recruitment advertising onto the web.

Business publishers' well-developed digital strategies tend to leverage their brands to take advantage of new revenue opportunities in the digital space. Business publishing fits naturally with the digital world – these companies have built their print businesses on serving communities. Digital technology allows those communities to share information, communicate and access must-have content. The community is represented by a trusted brand or title with a reputation for leading the group with information and ideas.

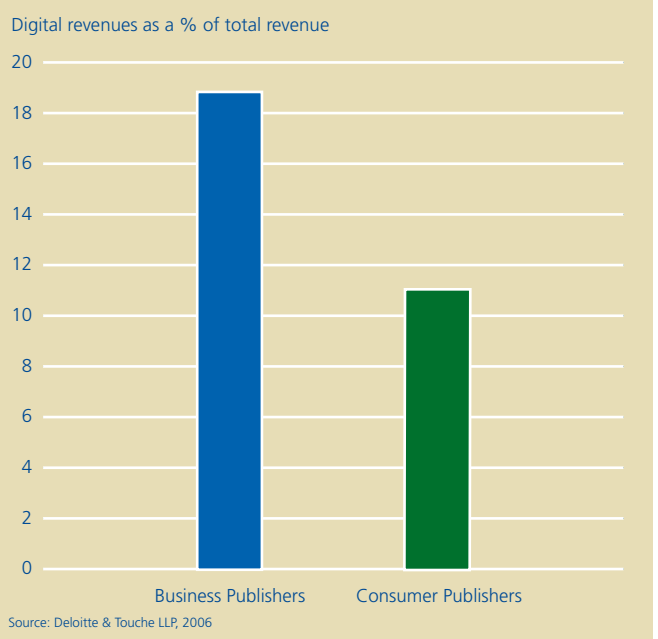
The revenue models of Business publishers tend to focus on subscriptions, but with advertising playing an important role. Digital publishers are impressed – and perhaps surprised – by improved retention rates for their print and on line products ordered through the web.

In contrast with Business publishing, the consumer-focused newspapers and magazine markets are more complex with less focused digital offerings and increasing competition between them. Newspapers and consumer magazines report that their primary digital strategy is to build audience to drive advertising revenue, based on brand strength, with only a few seeking to monetise content. These businesses are currently benefiting from the state of the overall advertising market and have found double-digit growth for online advertising.

The most viable and successful online consumer magazine titles are those that follow the Business publishing model of serving niche audiences or particular demographics. This model creates the most effective defence against potential competitors – raising the barriers to entry – while simultaneously pushing up digital revenue, be this through increased traffic, sales of third party goods and services or pay-as-you-go premium content.

A similar distinction between business and consumer markets was apparent from the book publishers we interviewed. Those focusing on specific markets such as education or trade are positive about their digital prospects. Digital has been embraced by these markets, dramatically increasing the channels for distributing educational and technical publications, and the potential for complementary products. Book publishers are in various stages of developing their respective models.

Figure 2: Digital revenues as a percentage of total revenues



However, digital technology has caused some headaches due to the dramatic changes in pricing through online businesses such as Amazon, and the cross border grey market for books.

The consumer book sector is still waiting for a truly disruptive digital technology. Audio books have generated secondary revenue streams. However there is currently no viable e-book format on the horizon that can rival the printed product. So book publishers are currently maintaining a wait-and-see approach. Although there is plenty of talk about publishing books on line for readers to download, both legal obstacles and demonstrable consumer demand for entire texts will delay any significant movement in the near term.

In conclusion, it is important to mention that no participant equates digital success with the complete demise of the printed product. Publishers widely agree that print is alive and well, in some cases bolstered by online presence and opportunities. However, they concede that some products are more useful to customers in a digital format, and in this case the print version may either be scaled down or cease altogether. Overall, print is still regarded as an efficient and valued means of consumption. Book, magazine and newspaper lovers may always prefer the feel and portability of paper even if they supplement some of their consumption online or have chosen and bought the book online.

Organisation in a digital world

Our third line of questioning covered the organisational and operational models publishers are adopting for the digital age. A common comment during our interviews was that managing all stakeholders across the business has proven challenging for digital decision makers. The key success factor that emerged was that all those contributing to digital revenue in some way had to share the same goals. The question, however, was whether sharing the same goals necessitated integrated operations.

From an editorial perspective, this seems to be the case. Businesses with a coherent strategy, strong board support and healthy digital revenues also tend to have integrated editorial teams. A single editorial team on a title or a brand publishes content to the various platforms used: mainly print, web and mobile. However, importantly, these businesses also recognise that very different types of content are appropriate for different media. For example, email alerts require different content to monthly journals, but both media can support effectively the same brand or title. This is a significant change in stance from five years ago where the model was very much aligned to replicating the printed word electronically.

In contrast, the advertising sales teams of the successful digital publishers are usually platform-specific and separate.

An effective sales force must understand the digital space and not sell online advertising simply as an add-on to the print products. As such, advertising sales teams for digital and print tend to be separate with appropriate incentives to encourage cross-selling.

When it comes to management, the Digital Director role is becoming increasingly powerful. In many of the organisations, this individual had a strong voice at the board if not a direct seat at the table. The Digital Director is no longer subservient to the Editor or Marketing Director of the printed product.

As for investment in technology, the majority of publishers have a mixture of in-house ownership of technology and partnerships with technology businesses on specific technologies. With the latter, the preferred funding model is revenue-sharing.

When directly investing in digital technologies, most companies have an ad hoc approach. Although they recognise the impact the appropriate technology can have on search, mobile, archiving and digital rights management, few mentioned revenue growth or erosion when they talked about technology investments. The minority of businesses investing heavily in digital technology are either those far behind the digital transformation curve or way out in front.

The five principles of success in a digital world

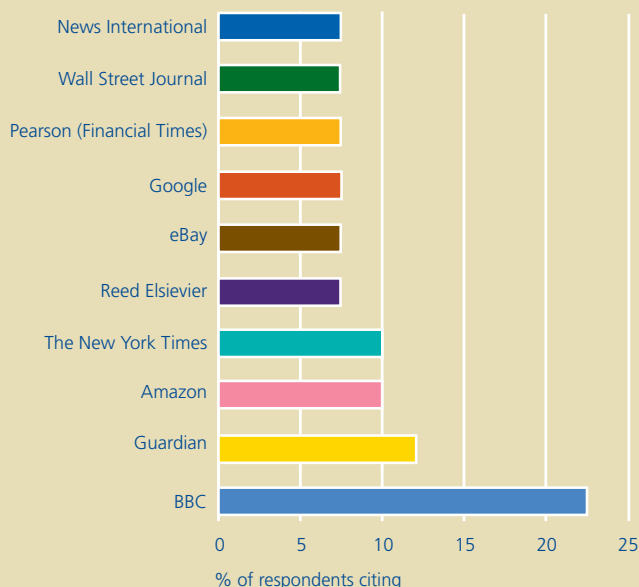
Driving a sustainable media business in the world of digital relies as much on attracting and retaining profitable customers, as on having the right business model in place.

We asked all participants to name the organisations they most admired in the digital space. The responses were unsurprisingly varied. However, there was definite agreement over the role that two or three key digital businesses have played in forging this digital publishing world (see Figure 3).

Whilst all these organisations have come from different starting points, they share common characteristics that have made them successful as digital businesses. Our interviewees' views on the key qualities for a digital business today are shown in Figure 4.

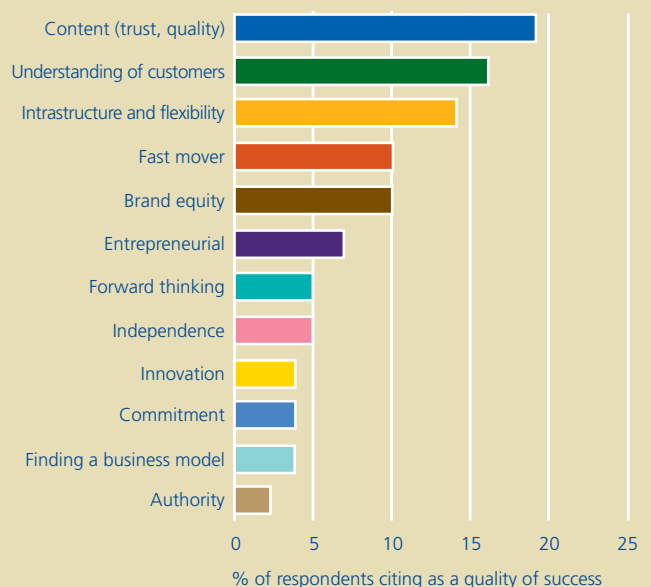
Synthesising our findings, we have extracted five key principles we believe will drive future success for digital publishers

Figure 3: Respondents' most admired digital businesses



Source: Deloitte & Touche LLP, 2006

Figure 4: Respondents' top 10 qualities of a successful digital business



Source: Deloitte & Touche LLP, 2006

Make it simple

Principle 1: Develop and clearly articulate a simple overarching strategy that sets out how your offline, online and mobile offerings interplay. Ensure it delivers incremental value to your customers.

There is a strong tendency to overcomplicate digital strategy. Many organisations have tied themselves in knots trying to determine a perfect future-proof digital strategy. Yet given the pace of technological advance, this is nigh on impossible. At best, one can hope to get a digital strategy directionally correct and remain flexible enough to adapt this as the digital landscape develops.

Therefore, whilst digital publishing appears to offer endless possibilities for interaction, transactions, and increased customer knowledge there is a great deal to be said for simplicity. Digital is, after all, largely just another route to your customers, another opportunity to provide them with a product or service they desire.

The digital publishers most likely to succeed will be those that can clearly articulate to their customers how each of the various print, online and mobile channels provide different perspectives on the same content theme.

As an example, for football content, a popular topic in most newspapers, the multimedia portfolio could be:

- Newspaper: providing in-depth post-event match reports
- Online: providing video match highlights or historic statistics
- Mobile: providing live match scores or breaking transfer news

In each of these, the theme is similar although the actual content differs. Nonetheless, marketed well, no customer ought to be in any doubt as to which product offers what.

Finally, do not overlook internal marketing. If you want your digital strategy to drive employee behaviour, tell them about it. Don't confine it to the executive floor. Drive the message across the entire company and make sure everyone understands it.

Know your customer

Principle 2: Get to know your customers and grow with them. Don't ignore the young – they are your future.

Right now, it would be easy for many companies in the publishing sector to feel behind the technology curve, and for business leaders to be kept awake by the constant thought that there is a killer

application lurking around the corner, threatening their competitive future. However, from a publishing perspective, technology is not driving digital transformation, customers are.

Customers are soaking up new digital experiences. They are blogging, downloading, pod casting and watching mobisodes. Successful businesses will be supporting these trends, and will know and follow the behaviour of the audiences for their brands with their products and offerings. Technology will enable and support customer experiences rather than be a driver of them.

Successful digital publishers will also always have an eye on the future.

Customer age is a fairly good indicator of how far digital media has penetrated a person's life. Today's youth represents the most technically literate consumers ever. They have grown up with a mobile phone in their pocket, sending texts and photographs to friends and family across the globe. They will have spent time in a digitally-enabled classroom, accessing work material remotely. Browsing lifestyle magazines via the web will seem as normal to them as reading the daily newspaper at the breakfast table was to their parents.

The downloading youth today will be tomorrow's mass market for media consumption. Being up with trends in the way young people consume media and adopt technology will be crucial to building successful digital publishing brands with longevity. While understanding the way young people consume media will be critical, publishers also need to recognise other demographic groups will become more comfortable with digital, and their product portfolio will need to match the needs of more diverse consumer markets.

Profit from personalisation

Principle 3: Personalise to provide what customers want at the right price and they will come. Don't be afraid of breaking your traditional one-to-many publishing model.

Leading media companies are already offering consumers more content across multiple platforms and they must increasingly personalise their content and products to exploit the opportunities ahead.

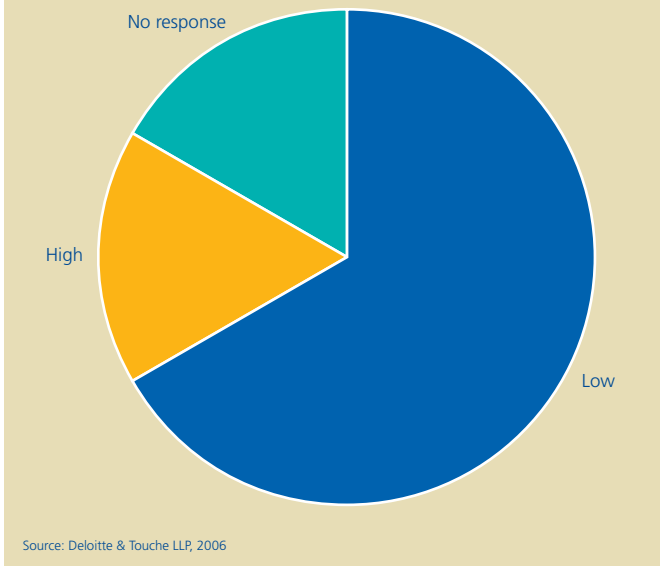
Content is personalised when a publisher knows the customer, understands their preferences and previous behaviour and provides them with content that they have either requested or that they believe they will like. For example, sports results, tailored to your favourite team or local news from where you live.

Personalisation in the round offers more selling opportunities for publishers targeting both advertisers and consumers. Winning strategies create a closer bond between advertiser and target and the digital connection makes interaction easier. It also enables companies to gain a much better understanding of what their customers are really interested in – which is not always what they are willing to pay for.

The most successful business publishers recognise this and are taking advantage of the better margins found in personalised, digital products. Sector leaders are now offering a more diverse



Figure 5: Perceived threat of blogs



range of products by carving bespoke offerings from their existing base portfolio to fit individual customers' needs. For example, in the pharmaceuticals arena, offering tailored datasets, electronically delivered with analytics tools included. This creates a better value proposition, leading to improved pricing and better profits.

But consumer-focused publishers are challenged by the need to provide exclusive, must-have content to consumers who will pay little or nothing at all. Even successful advertising-based business models will continually be forced to look for innovative ways to maintain their audience.

Customers can already purchase only the tracks they want rather than having to buy an entire album. These same consumers may also want to download a particular magazine feature that interests them, a particular chapter of an academic book, or a single poem.

So, to gain from monetising content, publishers must first provide compelling personalised content, turn this into compelling products and make them easy to find and buy online.

If you cant beat them, join them

Principle 4: Embrace those who want to opine about or contribute to your product; they will ultimately enhance and support your brand.

User-generated content will be an important component to building communities in most Business and Consumer publishing sectors. Publishers must welcome user-generated content and leverage its potential – both as a source of closer customer contact and as a marketing tool.

User-generated can also mean user-participation. Leading digital publishers in both consumer and business sectors have

experimented successfully with allowing readers to participate and be part of the digitally-published content through forums, podcasts, webinars and blogs. By allowing customers to 'have their say' and participate with the editors and experts, publishers have created new revenue opportunities and brought audiences closer to their products. This helps strengthen brand-based communities and has a knock-on impact on commercial success, as we described earlier. Additionally, in a networked world, communication and file sharing via the web opens the door to viral marketing, an important tool for organisations trying to break through the digital clutter. These campaigns can either drive audiences to websites through word of mouth, or boost sales through free advertising.

We questioned our interviewees whether blogs and user-generated content are perceived as a threat (see Figure 5). The responses given indicate quite the contrary: The threat is perceived as low in most cases and many businesses are looking for ways to integrate blogs into their current offerings, posing another editorial challenge. There has been an explosion of user-generated content recently that competes directly with existing published offerings, www.ohmynews.com, www.doyoo.co.uk, and www.technorati.com for example. Publishers will not be able to stem the flow, so smart companies are finding new ways to work with it.

Fee or free

Principle 5: Look beyond the printed word and focus on the brand as the centrepiece for generating revenue.

Publishers should no longer think of themselves as just content publishers. Rather they must see their content as a means of supporting revenue- generating brands.

For instance, readers of a magazine can be directed to the publication's website, where they can pay to hear the writer talk about a subject, or watch a video that complements information in the magazine. Readers' offers – the 'page fillers' in the back of many newspapers take on a whole new life when introduced in a digital environment - be that multimedia products such as music downloads or financial services products for which you can apply online. These are real examples of publishers taking trusted brands and leveraging them to generate alternative revenue streams.

Publishers that aim to survive on advertising long term are likely to need both a superior brand and must-have content. Smart Consumer publishers are already creating new digital revenue streams via their niche titles – whether through service transactions, retail or third party sales.

Conclusion

We have presented a mix of activities, trends and ideas to make clear that digital provides a unique opportunity for both Consumer and Business publishers to form the commercial backbone of the communities they serve. Publishing's digital chapter is now just being written and there are early winners. It is not clear which laggards will become victors and which may fail, unable to reconcile their history with today's nascent business models. Yet we are certain, for both consumers and publishers the net benefit is positive.

Contacts

Deloitte would like to thank all those who participated in our interview programme and took the time to discuss their digital strategies. We would also like to thank the UK Association of Online Publishers for sharing the views of their members with us.

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Designed and produced by The Creative Studio at Deloitte, London.

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