The writing's on the paywall for newspapers

By Oresti Patricios , issued by Ornico

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Most newspapers are fighting a losing battle for readers, with circulation dropping drastically in recent years. Eyeballs are moving elsewhere, mainly to Internet news sources, which are free, convenient and user-customisable. Newspapers have traditionally placed their content online for free, and are now looking to paywalls to monetise their online content. But is the writing on the wall for newspapers which seem to be missing the obvious - the very nature of what the Internet is all about?

Want to get the latest news? Today there's a flood of sources and news aggregators like Yahoo and Google News that have made access to news customisable. Google Alerts and a personalised Google News page allows you to read news on topics specifically tailored to your interests. If you love your news a little more intelligent than the masses do, you can set your preferences for the *Wall Street Journal*, an op-ed from the *New York Times* or an opinion piece from the *Mail & Guardian*. Thankfully, whatever Kim Kardashian or Justin Bieber are up to this week can be filtered out.

Personalisation is a major feature of the Internet - which is all about giving users what they want, when they want it. Personalisation has changed consumer behaviour with respect to news which long ago became a commodity. To avoid a sea of sameness, media news brands in general and newspapers in particular, are going to have to work hard to differentiate themselves; remain relevant to readers; and keep true to their founding intent - whether it be informing the public discourse or championing democracy.

Large newspaper groups have long been accused of being 'dinosaurs' - arrogant in their assertion that people will remain loyal to print because of the quality of journalism, while their free news offering on the Net has just been a way of bringing subscribers in. But the business model clearly is not working, and it needs to be rethought. The web is a mature place, and readers are savvy. Where once it was enough to replicate the current print model and place it online, this is no longer sufficient to convert eyeballs into revenues.

The music industry faced similar pressures, and producers were often accused of archaic thinking. For years, the music industry ignored the iTunes phenomenon, believing in the loyalty of customers to their high-fidelity product - the audio CD.

It took staring bankruptcy in the face, as high-street brick-and-mortar CD stores failed in their thousands, for record companies to accept the hard fact that customer demand drives the market. In this case, the change people wanted was provided by Apple and the iPod: to be able to buy one song for a dollar, rather than a whole album. It destroyed the model the music industry had built up over decades, and ushered in an era that the sector is still trying to come to grips with.

Before delving into the South African specifics, let's take a brief look at paywalls internationally:
In March this year, The Los Angeles Times instituted a pay-to-read system, and a further ten
major US publications, along with several hundred smaller papers confirmed that they will soon limit access to content by using a paywall, only giving print subscribers full access.

Whilst most newspapers have had limited success in closing the net on their faithful followers, some have had very good results. The *Wall Street Journal* has around 537,000 digital subscribers, according to the Audit Bureau of Circulations in the US.

The UK's *Financial Times*, which has been charging for online content since 2007, has over 300,000 digital subscriptions.

What sets these examples apart? They are world-class, niche publications; their content isn't easily available elsewhere. They have also built up brand loyalty. They cater to a business readership, for whom a $15-per-month subscription which provides online convenience is a nobrainer.

But even a paper with a relatively small subscriber base can make money from an online offering. Michael Klingensmith, publisher of the *Star Tribune*, points out that their 14,000 subscribers who are each paying about $100 a year, are providing about $1.4 million in annual revenue. Without the added cost of printing and distribution, most of that revenue shows up in the bottom line. It remains to be seen how many of those subscribers renew, and how many drift away to other online offerings that are cheaper, or free.

It's the model *The New York Times* has adopted that seems to be more in line with what I'd like to think of as the 'open spirit' of the Internet. The Times allows casual visitors free access to up to 10 pages per month. Pass that threshold, and you're bounced to a "Please subscribe" page. Links from social media sites like Facebook are detected by the system and let through, even if the reader has passed the threshold.

Their rationale is simple: around 95% of visitors to newspaper sites are casual readers - those who visit between one and three times per month, normally through a search on Google. These are not readers who are going to be converted to paying customers, so they get a limited "free pass". The dedicated readers - those who want to read dozens of pages a day - may be few, but they are the ones who are often willing to pay.

The New York Times' paywall, described as "porous" by those who specialise in getting around paywalls, is intentionally so. The idea is, as *Reuters* blogger Felix Salmon notes, that the pleasure of reading their content will be enough to persuade a large number of people to pay. If you really want to sneak past the paywall, there are ways. (They use cookies to track your visits.) But ultimately *The New York Times* relies on its readers' conscience. Their appeals to subscribers are based on a carrot rather than a stick: "Help us to survive, and we will continue to provide excellent journalism, and be a voice for justice in your community."
It's a model "which is much more likely to attract new young subscribers over the long term," writes Salmon. "Paying for something you value, even when you don't need to, is a mark of a civilized society. The NYT treated its readers as mature and civilized adults, and outperformed internal expectations as a result." And, let's face it, the paper is something of an institution, having been immortalised in song and literature.

Since *The New York Times* began charging for online access one year ago, it has garnered 380,000 digital subscribers - around half of its daily print circulation.

How does this affect advertisers? Salmon notes that NYT management expected their paywall to be revenue neutral: the amount of money they expected to bring in from online subscriptions would be roughly equal to the amount of money they expected to lose from online advertising.

But the move created a certain amount of option value. Nytimes.com now has two revenue streams rather than one, and if the online ad market gets worse rather than better, the subscription base will help to cushion the blow.

At this stage, their subscribers contribute over $35 million in additional revenue - a relatively small percentage of the company's $500 million annual income, but the good news is that advertisers are willing to pay up to 30% more for subscribers' eyeballs; once again there is a difference in perceived value.

Mathew Ingram of Gigaom.com warns that the strategy may not be scalable for smaller newspapers. "Walling up your content is an invitation to free competitors - from AOL's Patch.com and Huffington Post to Mainstreet Connect and Neighborhoodr and Topix.net -to come and take away your readers."

And that's where we find ourselves in South Africa: smaller markets, and a much more disparate readership. Making online access part of a subscription plan would lock out any potential new online subscribers: they will more than likely gravitate to the free alternative.

Bottom line: pay walls may work for a few niche publications, but I believe that in the long run this will be to their detriment; once again it will limit the amount of ad revenue coming into the coffers and therefore hurt the growth of the publication in the long run.

Web2.0 has arrived, and with it video, audio, augmented reality, location-based technology, social media hook-ups - all providing engagement - that is sorely lacking in the current online news model. An engaged reader is one who will spend more time and become more socially invested in your brand, and be worth more in terms of advertising revenue.

Web2.0 also provides opportunities for advertisers to engage with readers. Most readers do not want advertising, either in print or online, but accept it as a necessity. Advertisers need to modify their approach, to serve up adverts that are relevant - even personalised - to the reader. Innovation, in the form of exploring new formats (as long as they are not irritating) should also be explored. Once again, engagement is the key.

Good content needs to be paid for, and advertising is the way this should be done - not by throwing up paywalls and charging for entry. By trying to "lock in" readers, you have more chance of locking them out, especially in a South African context.

Advertising is newspapers' lifeblood, and the playing field changes as the Internet evolves. According to the Newspaper Association of America, print advertising revenue was almost cut in half from 1999 to 2009. South African newspapers have followed a similar path, although in populations where the Internet is less available, tabloid titles for the working-class, like *The Daily Sun*, have thrived.

During the same period, Internet advertising revenue has boomed - from under $10 billion globally in 2002 to over $70 billion in 2011. It's still far below the $130 billion being spent globally on newspaper advertising in 2011, but it looks like it's just a matter of time before
Internet ad spend overtakes that of newspapers.

Innovation is the key to engaging readers, and in South Africa we need to be innovative rather than reactionary. Take Piano Media, which launched in May last year in Slovakia. They offer readers a "bundle" membership: by subscribing to any one of Piano Media's affiliated newspaper sites, readers automatically get access to all the other newspapers on the national paywall's system - at no further cost.

Piano Media launched in Slovakia with nine publishers, but now they have most of the newspapers as well as a TV station, online video sites and many local magazines. For the publishers, this outsourced paywall system removes the headache of running a dedicated web "store" on their site; Piano Media handle all that, and provide valuable statistics on readership.

In a way, this has broken a paradigm. Rather than competing against each other Piano media has united the competitors in a subscription-based model, which is affordable and sustainable - it's a win-win. Although it must be noted that publishers have been cautious not to place too much content behind the wall - offering paying subscribers access to "premium" articles or features, while keeping the front page and current news free and open to all.

Whether or not this would work in South Africa, with our diverse cultures and languages, is debatable. Can our competitive newspapers create enough of a 'truce' to try a system like this? Perhaps the answer is in collaboration with people who do understand the Internet, like Google which is working hard with news media to champion free press and pioneer new payment models.

Google recently came up with an interesting new option: a joint venture of sorts with news publishers, where Google runs surveys that form the reader's "payment" for reading a free article. Readers get to fill in research and read for free, and the news site gets a micro-payment for each survey that's completed by a reader.

Newspapers desperately need to shift beyond their print paradigm and embrace the digital world, and find a financially viable way of doing that doesn't alienate readers, but engages them. Because if nothing else, good journalism is needed to expose vice and folly in society. That, and the small matter of upholding democracy.

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