Executive Summary

Chapter 1: The Evolving Newspaper Publishing Industry

- News creation and distribution were affected by new technologies such as radio and TV and by changing readership habits long before the Internet emerged. However, in recent years access to a wide number of online news sources, the decline of newspaper readership and advertising and classified revenues have considerably affected the newspaper industry in most OECD countries.

- After very profitable years, newspaper publishers in most OECD countries face increased competition (free dailies, Internet, multiple TV and radio sources) and often declining advertising revenues, titles and circulation as well as declining readership (see Chapter 1 of this study and related figures). The economic crisis has amplified this downward development.

- About 20 out of 31 OECD countries face declining readership, with significant decreases in some of them (Table 1.2). Newspaper readership is usually lower among younger people who tend to attribute less importance to print media.

- Thanks to the strong development of newspaper titles in non-OECD countries the world aggregate of newspaper titles has however increased in the last decade – almost doubling since 2000. However, except for a few OECD countries (for example, Ireland, Turkey and Portugal) the number of titles is on the decline in the OECD region (Figure 1.6). The same applies to newspaper circulation which is also declining in most OECD countries (Figures 1.6-1.8).

- The growth of the global newspaper market slowed progressively from 2004 to almost zero in 2007 and negative growth since 2008. General and regional and local press are particularly affected and 2009 was expected to be the worst year for OECD newspapers, with the largest declines in the United States, the United Kingdom, Greece, Italy, Canada, and Spain (but much smaller impact on countries such as Austria, Australia, and others, see Figure 1.2).
The economic crisis and the fall in offline and online advertising spending in general have created additional problems for most newspapers leading to large falls in their advertising revenues (including for free dailies many of which have ceased operation), loss of circulation (see Figure 1.2), the closure of newspapers and shedding of newsroom staff in many OECD countries. Structural factors are compounded by cyclical factors.

Employment declines in the newspaper industry have been ongoing since 1997 for many OECD countries. But they have intensified since 2008 particularly in countries such as the United States, the United Kingdom, the Netherlands and Spain.

However, large country-by-country and title-by-title differences and the data currently do not lend themselves to making the case for “the death of the newspaper”, in particular if non-OECD countries and potential positive effects of the economic recovery are taken into account. While it is clear that newspapers and other more formalised news outlets are experiencing threats and challenges to their more traditional business models from the Internet, it is also true that we are experiencing a period of great opportunity that must be seized by industry to ensure the success of news outlets with the corresponding benefits to society and democracy that they offer.

Chapter 2: The Value Chain and Economics of the Traditional Newspaper Industry

The traditional role of newspaper publishers is to intermediate between content producers (journalists and other providers), information users, and advertisers and others seeking the attention of readers.

Chapter 2 presents a stylised newspaper value chain where the main stages are content creation, manufacturing and distribution and this is used to analyse the economics of established newspapers.

Newspapers have generated revenue by selling newspaper copies to readers on the one hand and advertisement space to advertisers on the other, cross-subsidising the production of news with the sale of advertising and/or other commercial activities if the newspaper is part of a larger media conglomerate. Newspapers traditionally had high profit margins.
On the revenue side, the global newspaper publishing market derives about 57% of its revenues from advertising and about 43% from newspaper sales. The reliance on advertising is very high in the United States, Luxembourg and Canada but less so in countries such as Japan, Denmark and the Netherlands.

Advertising as a share of newspaper revenues had been growing before the onset of the economic crisis, and for more than half of OECD countries newspaper advertising revenues increased significantly between 2004 and 2007 (or 2008).

Nevertheless, the share of advertising going to print newspapers has been declining for the last decade in most OECD countries, and the newspaper advertising market has more recently experienced large falls in offline and online advertising growth. This turnaround in newspaper advertising revenues started to impact some countries much earlier (as early as 2000 for Denmark, France, the United States, Japan, the Netherlands, and the United Kingdom) than others (from 2007 in Canada, Finland, Italy and Spain).

On average, online advertising only accounted for around 4% of total newspaper revenues in 2009. Nevertheless the outlook for online advertising revenues for newspaper organisations is very positive, also given the ongoing economic recovery.

On the cost side, costs unrelated to editorial work such as production (and the costly purchase of raw material such as paper and ink), maintenance, administration, promotion and advertising, and distribution dominate newspaper costs. These large fixed costs make newspaper organisations more vulnerable to the downturns and less agile in reacting to the online news environment.

Chapter 3: Online News
Developments, Value Chains, Business Models and Actors

The drivers of online news include technology, changing media use, new business models and new Internet intermediaries, and social factors such as increased mobility and participation in the creation of online content.

In the area of technology for news production, digital content management systems allow editors to produce content directly in various formats and to adapt to increasingly integrated newsrooms.
• Rapid advances in mobile technologies, wireless networks and new reader interfaces have enabled mobile news delivery and the introduction of smartphones and e-readers. This and other similar multimedia devices and business models will enable the reader to access constantly updated, interactive news in real time, and within a global, Internet-enabled context. This will empower a targeted news experience.

The Internet as an important but complementary source of news

• Reading news on line is an increasingly important Internet activity. In some OECD countries, more than half of the population read newspapers on line (up to 77% in Korea) but at the minimum 20% of the population read newspapers on line. The willingness to pay for online news is low but increasing.

• In many OECD countries, TV and newspapers are still the most important sources of news but this is shifting with newspapers losing ground more quickly to the Internet than TV. In countries such as Korea, the Internet has already overtaken other forms of news.

• For the most part reading news on line complements other forms of news reading. Most surveys show that active offline newspaper readers tend to read more news on line. Countries such as Korea where offline newspaper reading is less popular than online newspaper reading are the exception.

• While younger age groups are much more active online news readers, it is usually slightly older groups – the 25-34 year-olds – who are most active in most OECD countries.

• Despite these findings, the share of people who only read online news is likely to grow rapidly with new generations who start using the Internet early in life. The Internet is already the main source of news for the 16-24 year age bracket, even if the 25-34 year group reads more online news.

• The real concern, however, is that a significant proportion of young people are not reading conventional news at all, or irregularly. Research undertaken in the United Kingdom also shows that, although young people demonstrate an apparent ease and familiarity with computers, they rely heavily on search engines, view rather than read and sometimes do not possess the critical skills to assess the information they find on the web.
In terms of time spent, Internet users report a large increase in reading online newspapers, but most online readership is more ad hoc, irregular and sporadic than print newspaper readership used to be. The way news is consumed is also radically different on line. Online news readers get a variety of news from different sources, allowing them to mix and compile their own personalised information.

The question is how the different actors in the eco-system contribute to citizen engagement and to democracy generally, as each plays an important role in this regard. While there may not be many empirical studies of the impact of the Internet on the analytical skills of younger generations, including the consumption of news, this could be an interesting area for future research.

**Internet traffic to online news sites**

In all OECD countries, Internet traffic to online news sites has grown rapidly. About 5% of all Internet visits are related to reading news online, which is a conservative estimate. In fact, the combined print and online audience of news organisations may be growing.

In many Western OECD countries the Internet web pages of broadcasters and online newspaper sites play a large role in attracting news-related visits. More recently newspaper websites have seen strong growth in their own pages, with large newspapers reporting several million unique visitors to their pages per month, including increasingly readers from abroad, a radical shift from newspapers.

While in many markets search engines and their news services do not gather a large share of the news-related traffic, they are very important in terms of referring Internet traffic to other online news sources such as the Internet pages of newspapers or broadcasters, although there may be disagreement as to the importance of this referral both in terms of traffic and whether the volume of traffic or unique users is an important metric for publishers.

News aggregators such as Digg and NetVibes (online-only news providers) constantly increase their market shares, and social networking sites such as Twitter are also increasingly important sources of news and platforms for exchange.
Online news distribution: value chains, business models and actors

- The rise of the Internet and other technologies radically changes how news is produced and diffused. It enables the entry of new intermediaries that create and distribute news, including online news aggregators, online news publishers, mobile news actors, citizen journalism and many others.

- A consequence of these changes is that information providers with very different histories (TV, newspapers and Internet companies) find themselves competing head-on in a new global online news environment.

- Chapter 3 presents a stylised online news value chain which depicts an increased role of users as contributors to news, and a large number of online news actors and intermediaries. It also illustrates the strategies and business models of different actors.

- In the online context the production and dissemination of news is much more interactive and multi-directional, rather than linear. News is constantly updated, with journalists and other news contributors monitoring, distilling and repackaging information.

- New actors are i) news organisations which only provide news online (so-called pure-players); ii) search engines which are often also a form of news aggregation; iii) Internet portals with news services; iv) social networks or communication services such as Twitter; v) other news aggregators; vi) providers focused on mobile news alone; vii) new online advertising groups; viii) hardware and services providers.

- Many of these actors will not necessarily be interested in generating money by selling news content. They also do not have the large fixed cost base of traditional news organisations to provide in-depth and varied reporting and to operate physical manufacturing, distribution and administration of news.

- News wires, freelance journalists, photographers or camera teams, which – as suppliers – usually fed linearly and directly into newspapers and other news organisations in the past, might opt to “cut out the middleman” and supply content directly to Internet actors or users willing to pay.
• Device or network service providers that did not play any role in the past also control access to end consumers and have a large degree of bargaining power with content providers. Similarly to other digital content industries, new types of intermediaries and standards are emerging. Users may also increasingly become diffusers, commentators and creators of news.

• Direct revenues generated on line from news consumers are still rather small. Most if not all revenues are generated via online advertising or online classified advertising and content licensing.

• Newspapers and in particular news wires have also licensed their content to third-parties and started collecting revenues from it. Newspapers and other news organisations have experimented in trying to sell access to news on a pay per-item basis or via subscriptions but –for the most part – revenues are negligible, although there are a few positive examples such as the Wall Street Journal and Financial Times. Towards the end of 2009, newspapers were gearing up for a second trial to charge for online content, hoping that the Internet users were more willing to pay. A new trend for newspapers is also to own other Internet-related businesses and to sell other services to their customer base.

• In 2008 and 2009 there were also an increasing number of online-only news sites which started operating with donations and trustees (offline).

Chapter 4: The Future of News Creation and Distribution: Opportunities and Challenges

• The impacts of the changing media landscape on news are pulling in to opposite directions.

• One extreme is that online and other new forms of more decentralised news will liberate readers from partisan news monopolies which have tended to become more concentrated and to dominate the production and access to news.

• The other extreme is that the demise of the traditional news media is with us (partially caused by the rise of the Internet), and with it an important foundation for democratic societies is at risk.

• Chapter 4 summarises some of the arguments of the debate.
Chapter 5: Business and Policy Issues

• Given the central role of news for democratic societies, the evolutions of news creation and distribution are a matter of public interest.

• In terms of policies, the distribution of news on line is, for the most part, not considered as an entirely separate policy issue from news policy in general. In general there is i) a body of Press policies and framework conditions; and ii) state support measures which are being reviewed in light of the current news context. And more recently these are being complemented by iii) a set of specific challenges or policy areas linked to online news or the Internet.

• In the short term, some OECD countries have put emergency measures in place to financially help the struggling newspaper industry. What potential roles government support might take in preserving a diverse and local press without putting its independence at stake is being debated. The question is also whether and how the production of high-quality and pluralistic news content can be left to market forces alone.

• In OECD countries support measures and topics being debated include: i) discussions on how to maintain a high quality independent news in a changed context; ii) improvement or intensification of existing state support policies (direct or indirect subsidies, funds to support local journalism, etc.) and an extension to online news providers; iii) rules and funds enabling the modernisation of newspaper organisations – including multimedia skills and new technology; iv) changing the finance of the some of the press industry, e.g. to a non-profit or charity status; v) relaxation of regulations which may improve the financial health of the newspaper industries (tax reductions, relaxed competition and media diversity laws); vi) the role of public broadcasters and their impact on commercial news providers; and vii) Internet-specific considerations about the status, role and code of conduct of online news providers and online policy challenges.

• Selected policy issues which are treated include: i) fostering newspaper readership; ii) freedom of information, the press and expression; iii) journalism skills and working conditions; iv) quality, reliability and governance of online news; v) the role of public sector broadcasting in a digital news environment; vi) media diversity and competition; vii) advertising and direct marketing rules; and viii) intellectual property rights and technical standards.