

Cash Cows or Entrecôte: Publishing Companies and Disruptive Technologies

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This article explores the effects of the disruptive technologies and changing markets on publishing companies and asserts the need for firms to establish transformation and transition strategies. It argues that the proliferation of analogue media and the development of digital media have induced significant changes in audience and advertiser behavior that challenge the long-term survival of the newspaper, magazine, and book industries. I assert that the current strategies of publishing companies to gain economies of scale and scope, to move into cross-platform content provision, and to maximize return across a portfolio of content products will be effective only for the short- and midterm. This study explores the point at which new media will seriously harm print media. I argue that consumer behavior currently prevents short-term destruction of publishing companies but that it presents serious long-term challenges to their survival. I also assert that publishing companies need to prepare strategies for company transformation. I then present an economic model to analyze the contributions of the print and digital operations that determines when maintenance of print media activities outweigh their overall contributions to the company's operations and when their survival is unwarranted.

Keywords: publishing, technology, digitalization

1. INTRODUCTION

Publishing industries are surrounded by challenges to their traditional positions as central providers of information and entertainment. Changes in audiences, shifts in advertising expenditures, structural impediments to change, competition difficulties, and stagnant markets are forcing publishers to think more widely of the future of their enterprises and how to ensure survival and growth in the coming decades.

The challenges created by both general electronic media and new digital media are especially significant because the newspaper, magazine, and book industries are mature industries in which opportunities for natural growth are generally limited (Picard, Grönlund, & Pönni, 2000). These new types of content providers rep-

resent forms of disruptive technology that emerge and upset established markets (Schumpeter, 1983). The effects of disruptive technologies on existing firms are not uniform, however, and depend to a great extent on how the firms respond strategically (Evans & Marinello, 2002; Evans & Wurster, 2000).

2. BACKGROUND

Advances in interactive and multimedia technologies have increased the number of content producers and the availability of content. Publishing firms that wish to survive in the long run are being forced to develop a new understanding of their roles in creating, processing, and storing content (European Commission, 1998). They are also being forced to move into electronic publishing (European Commission, 1996, 1997; Picard, et al., 2000) and a variety of forms of new content dissemination if they are to enhance their competitiveness and survivability in the face of new entrants from audio-visual, multimedia, and ICT sectors.

Publishers are being challenged because the traditional audiences of print media are altering their media use patterns as the number and range of content providers increase (Becker & Schoenbach, 1999), and advertisers are responding to the new opportunities to reach potential customers (IEPRC, 2002; Komenar, 2000). These changes in audience and advertiser behaviors are the impetus for change in publishing firms.

The 300-hundred year old print media industries, however, are highly resistant to change. Most companies have cultures built on consistency and limiting changes. The past two generations of publishers have enjoyed excellent economic situations because print media became one of the most profitable businesses in the developed world during the second half of the twentieth century and they enjoyed returns far in excess of other industries (Table 1).

Although the publishing industries are affected by the business cycle, they are notable for positive long-term performance (Picard, 2002). Major publishing firms have long been “cash cows,” that is, firms that produce regular, high returns, and they are included in the portfolios of most investment funds.

Table 1
Average Returns for Print Media and Other Selected Industries

	<i>Average Returns (%)</i>
Newspaper publishing	12
Magazines publishing	10
Pharmaceutical industry	9
Chemical industry	8
Metal industry	7
Aircraft industry	6
Book publishing	5
Printing	5
Department stores	4
Auto industry	3
Grocery stores	2

Because of their industry cultures, because they have traditionally had little impetus to innovate, because they have tended not to offer portfolios of media products, and because their business models have been stable, managers of many print media firms are now struggling to determine how to respond to the disruptive information and communication technologies.

A particular concern for publishers is the rising use of the Internet and the alternatives it provides for a range of electronic communication, content creation, and content delivery. The average percentage of the population using the Internet in Europe is nearly 30% today. That mean is exceeded in many nations (Figure 1).

Advertisers are following audiences to the Internet and now spend slightly less than 2% of their total budgets online. They annually spend an average of about €3 per person online in European nations (Figure 2).

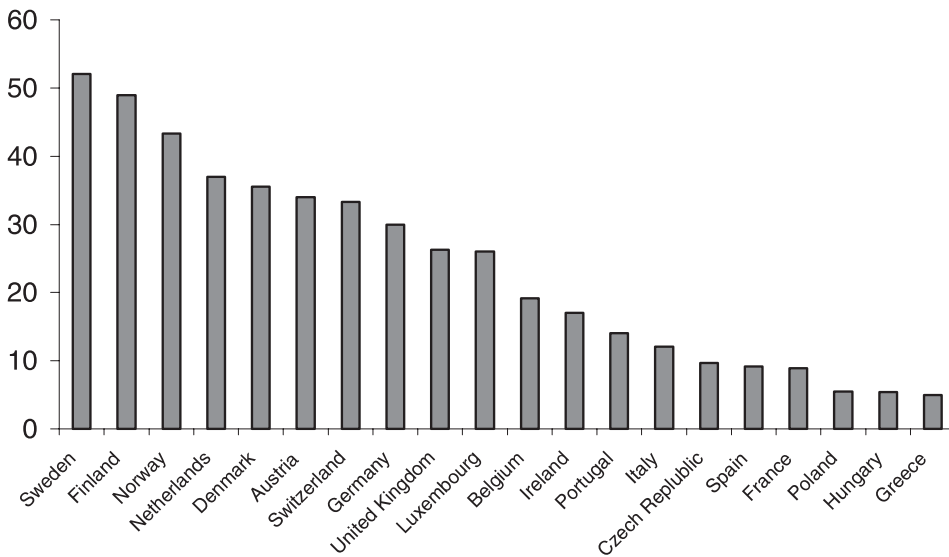


Figure 1 Percentage of population using the Internet in 2000. Source: *European Key Facts. Internet 2001 (IP, 2001).*

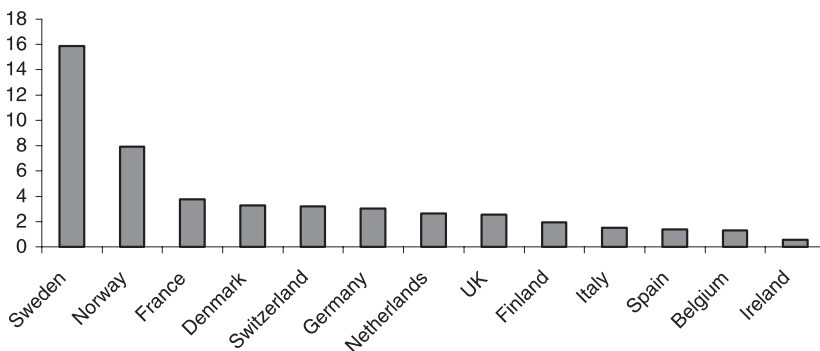


Figure 2 Per capita spending on Internet advertising in 2000. Source: Internet Advertising Bureau, 2000 data.

Additional pressures on print media are arising from developments in mobile telephony. Use of mobile phones and other telephony devices is increasing rapidly. Mobile phone penetration averages 27% across Europe and that number is more than 70% in Nordic nations (International Telecommunications Union, 2001). Mobile telephony is moving forward as a content provider through SMS and Internet capabilities, which will be enhanced significantly when G3 telecommunication services are switched on in European countries between 2003 and 2005.

Digital TV is also being introduced across Europe and is slowly increasing household penetration. It presents additional challenges to time spent with print media and to print advertising because of its interactive capabilities.

The audiences of print media present the most significant challenge for publishers because they are at the heart of change in print media markets. The average age of audiences for print media are growing older because fewer young persons are using it. At the same time, readers are reading fewer publications and spending less time reading overall. The increasing choices among print media and all media are resulting in less time spent reading overall. Today, newspapers, magazines, and books are just some of many choices for news, information, diversion, and entertainment that are available to audiences.

In previous decades the percentage of the population reading newspapers and other print media rose with age, with young people beginning to read newspapers and other serious publications in their 20s and 30s after they established families and community ties. The same pattern is evident today, but the percentage doing so is about one-third less than it was 20 years ago. As a result, it is clear that readership is not only a function of age but also of generation.

Change in reading habits is not a new phenomenon for print media. Readership grew during the 18th and 19th centuries, rising steeply as the industrial revolution occurred and literacy and wage earning increased. Readership as a percentage of the population grew until about the middle of the 20th century, stagnated, and then turned downward toward the end of the century. The pattern holds true across developed nations, although the dates of the upturn, peak, and downturn differ slightly due to domestic market conditions. The unanswerable questions are how fast and how far the downturn will continue in the 21st century.

Although audience behavior is at the heart of changes in publishing industries, the advertiser responses to audience changes are the critical factors in the funding and business models of newspapers and magazines. Current advertiser behavior is not destroying publishers. Despite all the changes in audience choices and the proliferation of other types of media, print media still account for two-thirds of all advertising expenditures in Europe (World Advertising Trends, 2002). The print media share of total advertising is declining, but real expenditures for print media are still rising. The real question is what advertisers will do in the future.

Even today there are changes evident in advertiser choices involving print media. The primary sources of advertising revenue are shifting. For newspapers, retail advertising is becoming less important than in the past and classified advertising has driven ad revenue growth in recent decades. Increasing brand advertising has driven revenue growth in the consumer magazine sector and business-to-business advertising has been responsible for growth in the trade and professional sector.

The three major publishing industries face both common and separate challenges. The newspaper industry faces difficulties because its concerted efforts to find new readers for traditional newspapers are failing. The costs of production are rising and new technologies for production are not providing significant cost savings. The revenue structures of newspapers are changing, with papers becoming increasingly dependent on advertising at a time when online and other new media are presenting competitive challenges, especially for classified advertising.

Newspaper circulation has been remarkably stable across Europe and North America in the past two decades and losses that have occurred are primarily associated with mergers and closures of smaller, secondary papers in cities. Although the stability of circulation has been a bright note, it has occurred as population has increased significantly and thus the penetration of newspapers among the population has declined. Additionally, readership per copy or pass-on readership is also declining.

The current lack of frequencies for new channels, and regulatory limits on the amount of broadcast advertising that can be carried, are limiting additional growth of share in TV advertising and providing some protection to newspaper advertising. The growth of interactive advertising media presents special threats, however, because of their ability to offer searchable online classifieds and email and telephone notification services.

The magazine industry also faces challenges, some of which are of its own making. The number of titles is rising with business and trade titles growing most rapidly. At the same time readership is remaining relatively stable, so the average circulation per title is declining. Commercialization of broadcasting and the development of Internet marketing are changing advertising markets, especially for brand advertising. Simultaneously, costs for production are rising and technological solutions are not appearing to reduce those costs significantly.

Actual magazine advertising expenditures are growing, and today the industry's share of advertising expenditures is relatively stable. Growth in ad expenditures has been directed primarily toward periodicals in the trade and professional categories. Although the ad revenue overall is growing, it is being spread among an increasing number of publications and thus the average income per title is declining.

The book industry does not face problems from an advertising revenue stream, but it faces challenges due to its cost structures and audience behavior. Costs are rising, and 50% to 60% of costs are related to manufacturing and distribution. Efforts to globalize sales require complex distribution partnerships or licensing arrangements and traditional distribution mechanisms are being rapidly complemented by e-commerce systems operated by publishers and Internet retailers. Extensive efforts are being made to find manufacturing and distribution substitutes such as print-on-demand and electronic books.

3. HOW SOON WILL NEW MEDIA SERIOUSLY HARM PRINT MEDIA?

Because new media and communication technologies provide some substitutability for the functions of traditional print media, they are threats—to dif-

ferent degrees—to newspapers, magazines, and books. Combined with increasing broadcast media, they are already altering the comfortable situation that print media has enjoyed for so many years. The big question that managers must confront is how soon will the new content providers do real harm to the publishing industries?

The answer is that serious harm will begin when readers and advertisers switch in large numbers to other media and communication products and services. Those numbers are not critical today, but they are clearly rising at a threatening rate.

Proponents of new technologies have projected the imminent demise of print media for two decades, but—realistically—one can expect incremental changes in media use, in consumer and advertiser expenditures, and in the business models employed in print media for some years. The reason that changes will be incremental is that human behavior involving temporal and monetary expenditure patterns is moving far more slowly than changes in information and communication technologies.

One reason is that the time available for media and communications use is constrained by overall time use patterns (Albarran & Arrese, 2003). Many daily activities compete for available personal time. Sleep and gainful employment (or education for younger persons) consume the bulk of an individual's time. Temporal expenditures for household maintenance, daily travel, eating, and leisure account for about one-third of an individual's available time. Most personal media and communications use comes from leisure time and daily travel time. It is axiomatic that the media use must be compatible with the time from which it is taken. Thus, it is not very appropriate to use the Internet while driving a car to or from work and not very effective to use interactive television while washing the dishes.

Many new content providers hope to alter established time use patterns, but that is not an easy task. This is illustrated by the explosion of television channels in Europe during the 1990s and by the widening availability of satellite and cable services. The amount of programming hours offered rose proportionally and the hours offered jumped further when broadcasters increased the average lengths of their broadcast days. Despite the proliferating supply during the 1990s, average television viewing time increased only an average of 2 minutes per year or less than one half hour over the decade. Clearly, supply exceeded demand and rose above viewers' willingness or ability to change their time use patterns.

If print media are to be strongly affected by new media, the new content providers will have to displace time that is currently spent on print media. They will need to provide the same or better content and information effectiveness as print media and they will have to be easily useable at the times during which readers currently use their print media. Alternatively, "new time" will have to be found that can be allocated to the new product or service. This is not impossible, as shown by the free daily newspapers—such as *Metro*—that "found" 20 minutes of commuting time on public transportation systems that could be used for reading.

Finding time is one thing, but finding money is another. Most new information and communications content will require users to make additional monetary expenditures and/or to switch spending from current expenditures. Current personal spending patterns in developed countries include payments for housing, food, clothing, transport, household/personal care needs, medical care, and other

expenditures. European spending on media and communications today averages about 4% for media products and 1% for telecommunications charges. Those numbers are somewhat higher in Northern Europe and somewhat lower in Southern Europe.

Because making purchases of media and communication products and services requires individuals to give up spending on other items, the patterns of expenditures differ widely among individuals and only telephones, radio, and television are found in more than 90% of European homes (Figure 3). It is unrealistic, then, to expect that all homes will have all the new information and communications technologies available.

If print media are to be replaced by electronic and new media, consumers will have to make significant expenditures for hardware such as DVD players, computers, widescreen TVs, interactive digital television, digital audio broadcasting, mobile Internet, etc. They will also have to make additional expenditures for DVDs, software, ISP payments, pay-per-view, and phone charges. To purchase the range of options currently available will require at least tripling household expenditures for media and ICT. Expectations that such expenditures will cause an early death of print media are wholly unrealistic, unless people decide to eat less, purchase less clothing, and move to less expensive housing.

4. STRATEGIC PREPARATION FOR THE FUTURE

So what does the short- and midterm future portend for publishers and what kinds of strategies do they need to consider? It appears that there will be no major shocks to the current business model for a decade or more and that some print media firms will continue to be good investments. However, managers will have to become accustomed to low or no real growth in advertising and sales revenue. They can also expect that the profit per title will continue to decline.

So what must publishers do in such an environment? With little ability for natural growth, publishers will need to seek other mechanisms for growth including

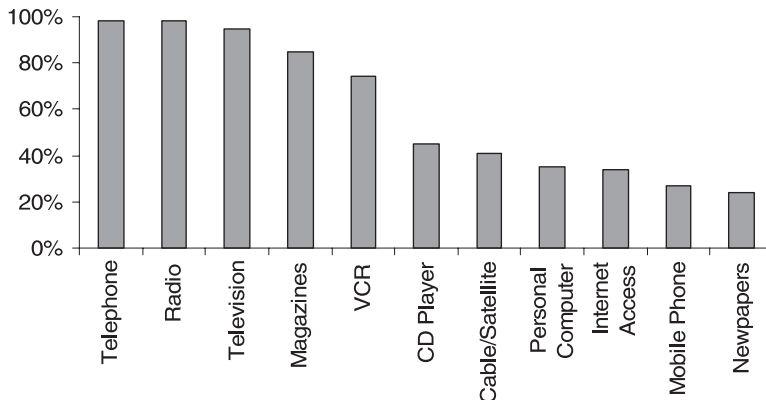


Figure 3 European household penetration patterns for selected media and ICT products and services in 2000. Source: Eurostat (2000).

vertical integration into the supply and distribution chain, horizontal diversification by acquiring other print products, diversification into other types of media and communication activities, and maybe even concentric diversification through investments in nonmedia firms.

The diversification choices are leading many publishers to pursue opportunities in the variety of new content providers that are developing and gaining significant public acceptance. For publishing companies, the new media create value by increasing contact with current customers, creating the potential to reach new customers, by providing new competitiveness vis-à-vis electronic and digital media, by creating new uses for existing materials, by creating a new product line and additional revenue stream, and by repositioning of company into an information provider rather than print product manufacturer.

New media should be attractive because they allow publishers to remain in content creation, surrounded by business models that are not far afield from their traditions. To develop means for survival and to grow in the near term, publishers need to be proactive in new media ventures, seeking to build on their competence in print content, and looking for opportunities to grow their firms through cross-media activities.

In doing so, the key question for publishers is how to keep from sacrificing firms that will produce revenue for many years by changing too rapidly into a firm that will produce limited results for many years. The need to keep from turning the cash cow into entrecôte before its productive life is over was at the heart of the strategic struggles in AOL Time Warner and Vivendi Universal that have resulted in the departure of leaders this past year because they were seen as trying to take their cow to the butcher far too soon.

There is a proper time to take the cow to the abattoir, but it should not be determined merely by the vision of company managers but rather by rational economic evaluation. Figure 4 illustrates that revenues and costs for the various products determine the point at which it is economically logical for the demise of print media.

The model illustrates that revenues from new operations increase over time and that revenues from print media operations at some point decline below the costs for operating print media (In this model the costs also decline because the variable costs of publishing decline as consumption is reduced.). At this point the operating losses from print media may lead some managers to consider ceasing those activities but the real point for decision comes when the revenues from the combined operations (print and new media) decline below the costs for the combined operations. The reason for the delay is that most new media content operations in publishing firms are based on content developed initially in the print media activities.

5. SUMMARY

The current market situation has produced an impetus toward structural changes in the publishing industries. Because they operate in mature industries with rising costs and declining revenues and profit per title, companies are attempting to gain economies of scale and scope through consolidation and to maximize return across

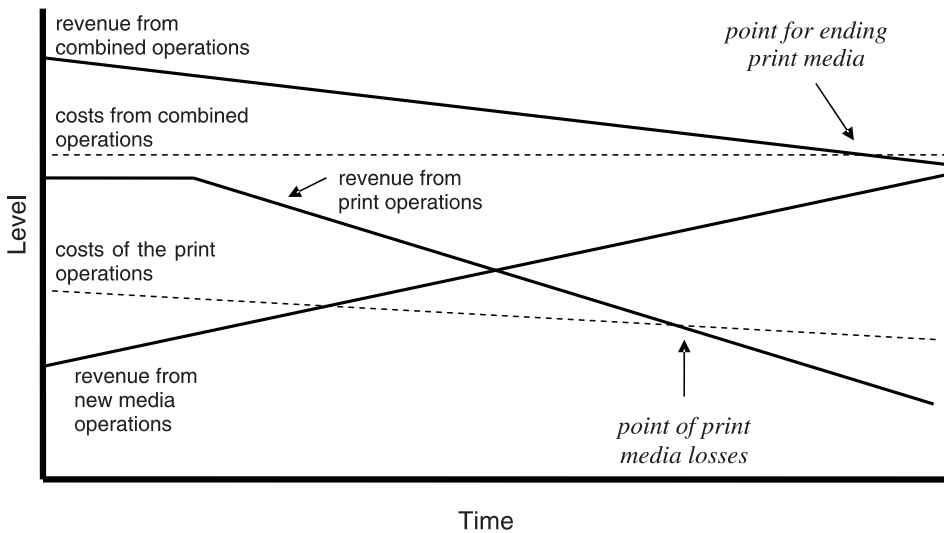


Figure 4 Decision model of revenue and costs for a company's print and new media activities and closure of print activities.

multiple titles rather than through individual or only a few titles. These strategies alone are not the answer to the long-term health of publishing firms.

Concurrent with rationalization of current operations and efforts to achieve increased productivity, companies need to begin transforming themselves into sustainable firms as market conditions continue changing in the coming years.

This will require firms to consider a variety of content-oriented activities and to learn how to effectively engage in cross-media activities involving cooperation both within their firms and with other firms. In doing so they will need to employ organizational principles that achieve joint benefits based on pooling resources and making better and additional use of existing content creation activities and the content they produce. These principles include employing existing strengths in each organizational unit to improve the value produced in other units and the organization as a whole, rationalizing duplicative activities to the benefit of all units and overall cost, and establishing new activities that create additional value for the organization and the units.

In the end, however, the most important managerial activity will be focusing on the questions of the extent and timing of transformation that is appropriate for an existing company given its unique market conditions.

As long as print media products remain economically viable, managers clearly must focus on servicing the needs of core readers to slow their defection to new media. However, print media companies cannot grow out of their situation with such a strategy. They need to adjust to the new operating environment, to defend their currently strong position as information and advertising providers, and to establish a portfolio of content-driven products that will help develop their capabilities for survival and future growth.

Publishing firms need to develop transformation and transition strategies for use in this process. Although these strategies will differ among publishers, they will share commonalities, such as aggressive movement into new media to keep others from dominating them, seeking new media business opportunities built on the print core, and preparation for gradual erosion of the print financial base and its replacement by growth in new media and ICT operations.

The question confronting publishers is not whether such transition and transformation strategies are necessary but when it will be too late to begin establishing them.

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