Canadian daily newspaper trends, and three issues that will shape the future of newspaper "brands"

Presentation by
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To the conference:
Les modèles d'affaires de la presse quotidienne:
Une souricière numérique?

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Introduction: Restructuring media business models

Is there “une souricière numérique” – a digital mousetrap?

It is not clear if anyone can answer that question definitively, and certainly not for all daily newspapers. But we can at least start by introducing a number of relevant questions.[1]

We are coming to the end of a century-old economic model for the media industry. In fact, what is happening now is nothing less than a fundamental restructuring of business models for the media, and for newspapers in particular. It is systemic. It is structural. And it is not likely to go back to the way it was before.

We now are in an era in which new and old media are competing for our attention, in which we have the luxury of both the “mainstream” and the “alternative”. But that may be transitory, and we have to consider what the “alternatives” might look like, if, or when, the “mainstream” is gone or much diminished.

In the 20th Century, media were intermediaries, connecting content, consumers, and advertisers. That role was influenced by the limited number of media players – a function, at least in part, of capital costs in print and regulatory and “spectrum scarcity” considerations in broadcast. So the economic structure for many media was based on what might be called a “coincidence of oligopoly”.

At the same time, it was reasonably possible to maintain borders and protect copyrighted content. So, in the 20th Century, the media business evolved as a business based on “protectable scarcity”.

But the fundamental reality about media in the 21st Century is that technology now threatens to challenge traditional media’s role as intermediary – because media from other places, content-producers, other consumers and advertisers are all able to send media-like content directly to consumers.

Where does journalism fit in all of this?

And where does journalism fit in all of this? It is important to remember that media’s role as an intermediary based on scarcity led to its development as a “bundled” or “packaged” product. And journalism has, for the most part, existed within those bundles or packages.

Of course, one could pull out the direct cost of the journalism, and argue, for example, that it was roughly equal to some source of revenue. But that would miss the point – the journalism function exists within a larger economic unit, and

[1] A number of the themes in this presentation have also been included in two discussion papers, published in May 2011 and October 2013, and available at these links: http://media-cmi.com/downloads/Sixty_Years_Daily_Newspaper_Circulation_Trends_050611.pdf, and http://media-cmi.com/downloads/CMI_Discussion_Paper_Circulation_Trends_102813.pdf.

depends on the ability of that unit to house that function, to deliver its product (in print or broadcast), and to sell the subscriptions and/or advertising that pay for it.

This in no way devalues the journalism, which may well be the main reason people purchase, read or view a particular medium; it merely states an economic reality – the choices those people have made to read or listen or watch have been based on prices (to them) that do not reflect the full actual cost of delivering to them the journalism they are consuming.

The fundamental question

The fundamental question now is whether the current newspaper "brands" will be able to make the transition to a post-print environment.

There are three key issues that will help determine if current daily newspaper "brands" will be able to make that transition:

- Unbundling
- Unlimited competition
- The relationship between creating content and aggregating content

Issue #1: Unbundling

For most of the 20th Century, media's role as an intermediary based on scarcity led to its development as a "bundled" or "packaged" product – a product that bundled news, opinion, entertainment, advice, guides, display advertising, and classified advertising – and a product that was able to use profitable parts of the bundle to subsidize unprofitable parts of the bundle.

What we see here is actually two kinds of bundling – the bundling of content, and the bundling of revenue sources. While the bundling of content still continues in many newspapers, the bundling of revenue sources is getting much more difficult – as the Internet makes it possible for focused content and advertising to pick apart the traditional newspaper "package".

Marshall McLuhan foresaw this in 1964, in his book, *Understanding Media: The Extensions of Man*, when he stated:

> "The classified ads (and stock-market quotations) are the bedrock of the press. Should an alternative source of easy access to such diverse daily information be found, the press will fold."[2]

[2] Marshall McLuhan, *Understanding Media: The Extensions of Man*, McGraw-Hill, 1965, p. 207 (originally published in 1964).

In other words, you can try to create a bundle of content that comes close to the print newspapers of the past – but it is much more difficult, if not impossible, to create the same kind of historical bundle of revenue sources (and the internal cross-subsidies) that constituted the daily newspaper business model for so many years.

Issue #2: Unlimited competition

In 2001, Peter Drucker commented:

> "The Internet eliminates distance. That is its impact."[3]

A simple statement, but one with profound implications for all media (indeed, for all businesses) that prospered on the basis of defined geographical territories.

Because the Internet eliminates distance, it dramatically increases competition, and dramatically reduces the opportunity for the local or regional newspaper to be the gatekeeper for content from elsewhere. The consumer now may directly access the content from everywhere.

Issue #3: The relationship between creating content and aggregating content

And the third key issue – the relationship between creating content and aggregating content.

This is an issue at both the macro and micro level.

At the macroeconomic level, the issue is this – if aggregators use content from the mainstream media to compete against the mainstream media, where will their content come from when those mainstream media are gone?

At the microeconomic level, many legacy media have established online ventures that use the content still being produced for the legacy medium.

How are those content costs being accounted for in assessing whether new ventures might have a chance for viability?

Circulation trends for Canadian daily newspapers

Now let's take a look at some of the circulation trends for Canadian daily newspapers, starting first with the long-term trends from 1950 to 2010, and then focusing on the more recent trends, from 2000 to 2012.

We have focused on paid circulation dailies, because of the availability of data over a long period of time, and because of the historical role of paid circulation in the

[3] Erick Schonfeld, "The Guru's Guru", *Business 2.0*, October 2001, p. 68.

daily newspaper business model. We also believe that the physical presence of the printed newspaper may still be a factor in helping newspaper companies make the transition to online, although that has likely declined over time.

This is not intended to diminish the role of free dailies, or of online editions, but our focus here is on the timeline of circulation trends, and on how those trends – and, of course, technology – may impact on the question of whether journalism in the future will be provided by successfully "transitioned" legacy newspaper companies, or will be provided by new companies not rooted in the legacy print product.

We have assessed the data in two ways – first, a simple tracking of the total circulation numbers; and second, presenting the circulation totals as a percentage of total households. [4]

Long-term trends, 1950-2010

The first eight charts cover the long-term trends, from 1950 to 2010.

Figures 1 and 2 deal with all Canadian dailies, from 1950 to 2010. As we can see from Figure 1, total paid circulation grew from 1950 to about 1990, although that growth did not keep pace with the growth in the number of households. As indicated in Figure 2, total daily newspaper paid circulation in Canada was equivalent to more than 100 per cent of households in 1950; by 2010, it was about 30 per cent.

(One can also see, in Figure 2, that we have added an adjustment, to indicate the impact of a change in methodology in 2008.)

Figures 3 and 4 provide similar data for English-language daily newspapers in Canada.[5] Figures 5 and 6 provide data for French-language daily newspapers in Canada.

Figure 7 compares the 1950-2010 trend lines, for paid circulation as a percentage of households, for English and French-language daily newspapers in Canada. As we can see, the rate of decline from 1950 to 2010 was greater for the English-language dailies.

Figure 8 compares the 1950-2010 Canadian trend line with data for the U.S. and the U.K.; the trends are similar for all three countries.

Text continues on page 9 …

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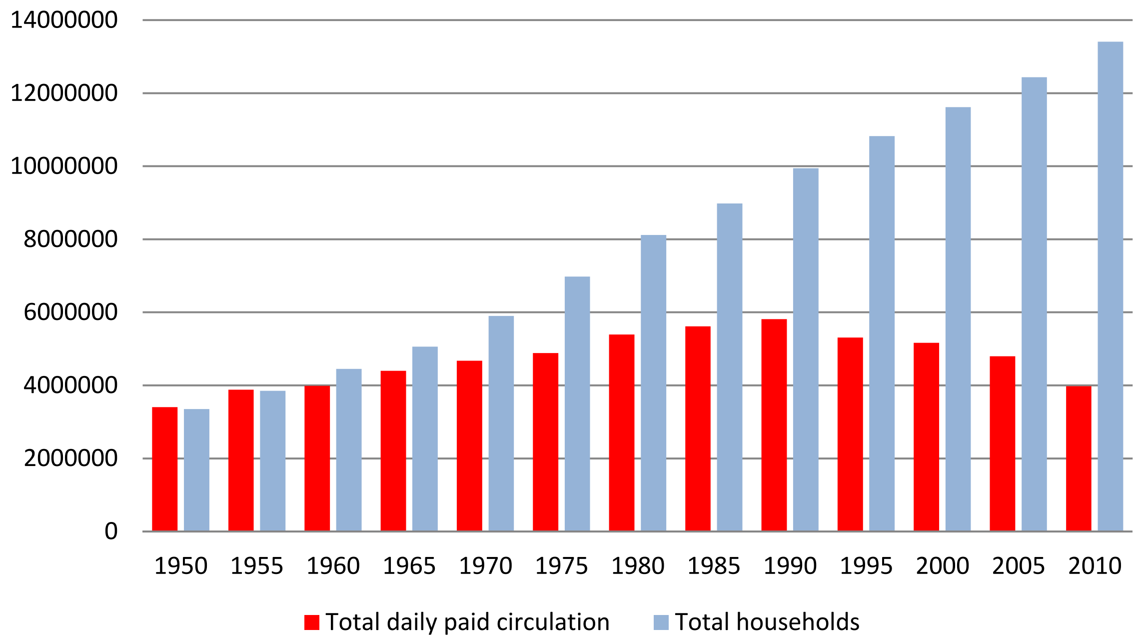
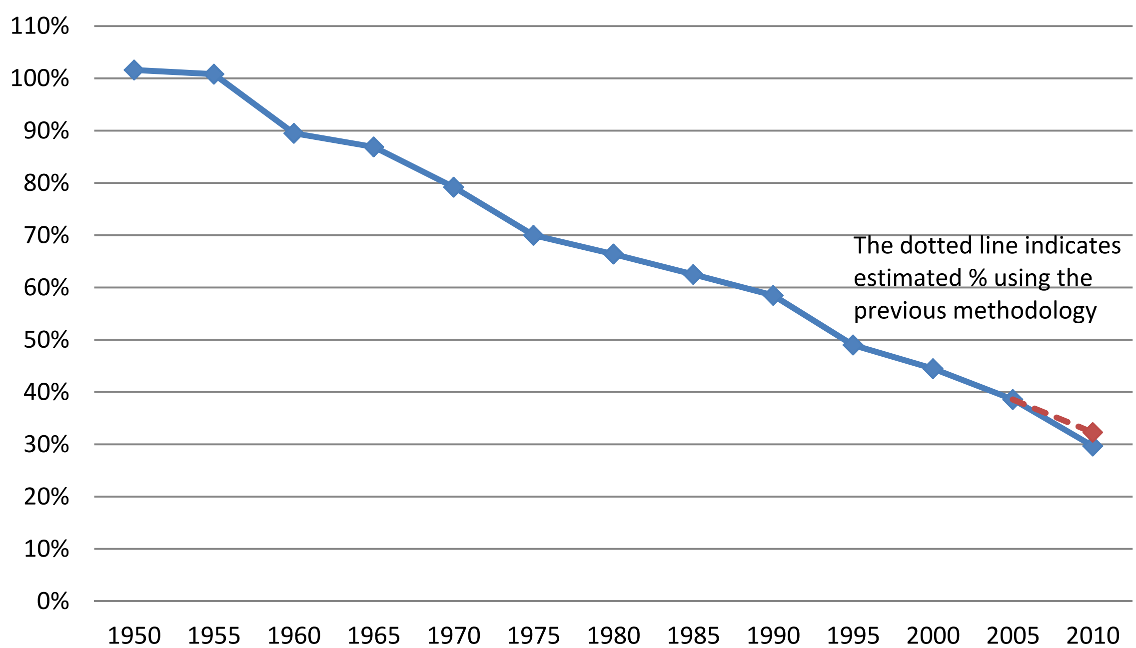
[4] **Sources and methodology:** Circulation data come from a number of sources, including Newspapers Canada, ABC, AAM, CCAB, and, for 2012, estimates by Communications Management Inc.; household estimates are based on data from Statistics Canada. Additional information on sources and methodology may be found in the two discussion papers noted above.

[5] Please note that "Allophone" refers to persons whose language is neither English nor French.

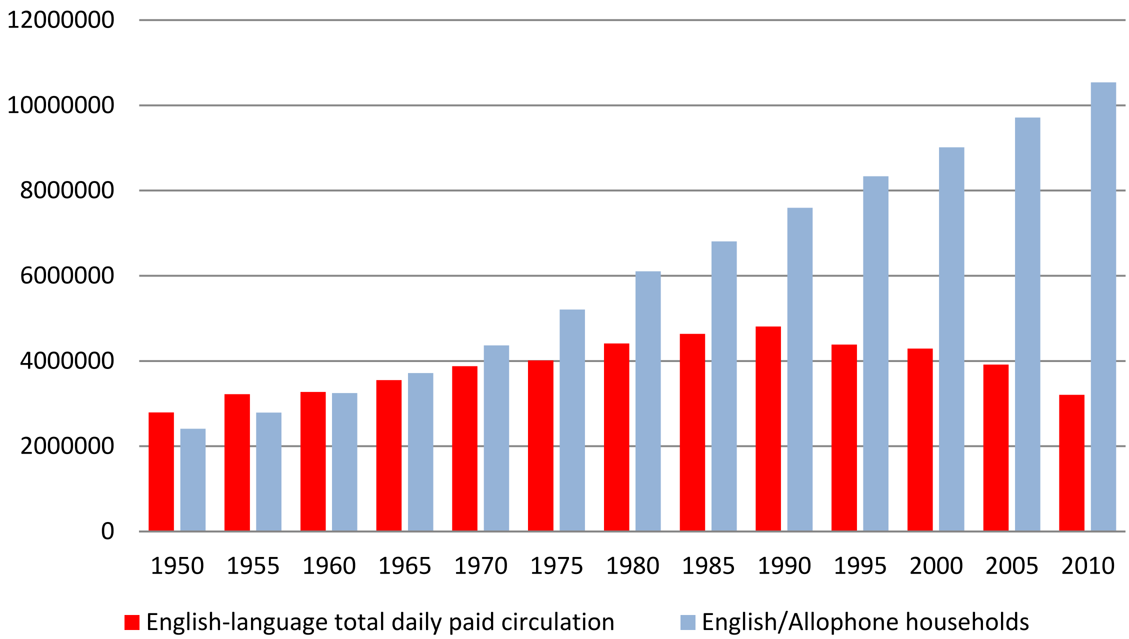
1. Total daily newspaper paid circulation, and total households, Canada, 1950-2010



2. Total daily newspaper paid circulation as % of households, Canada, 1950-2010

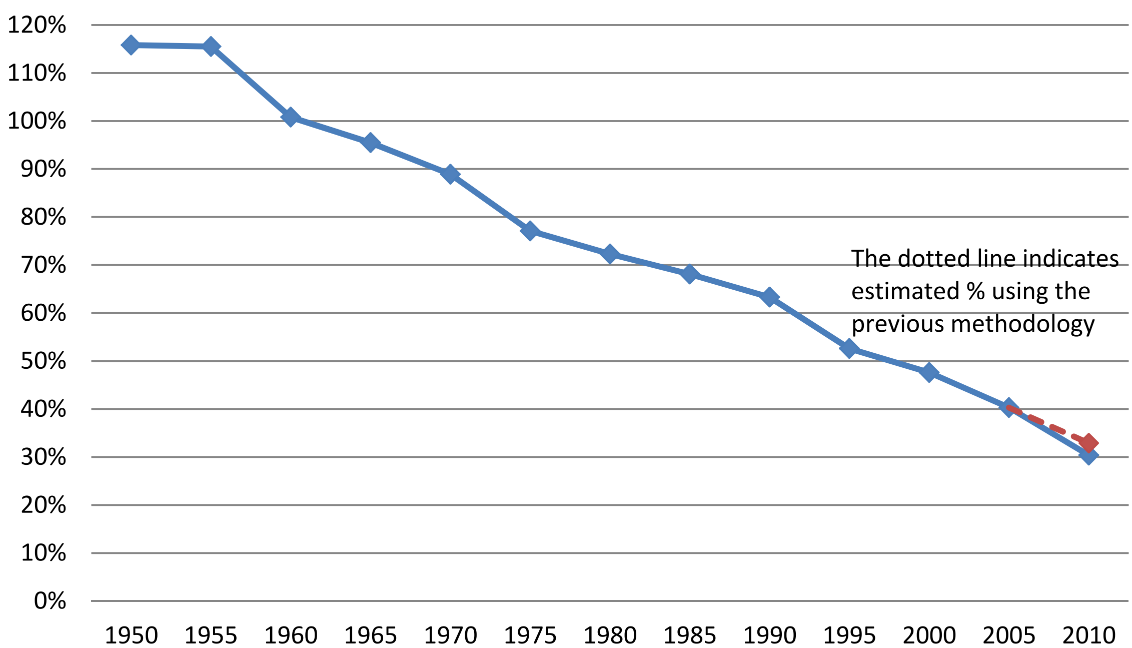


3. English-language daily newspaper paid circulation, and English/Allophone households, Canada, 1950-2010

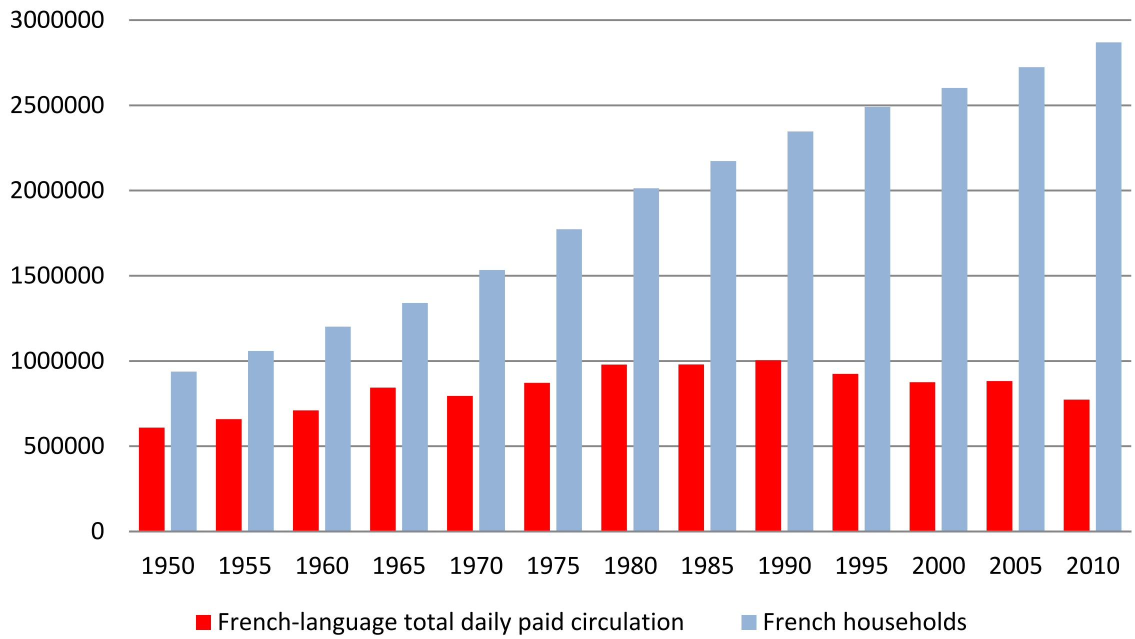


4. English-language daily newspaper paid circulation as % of households, Canada, 1950-2010

(Based on English/Allophone households)

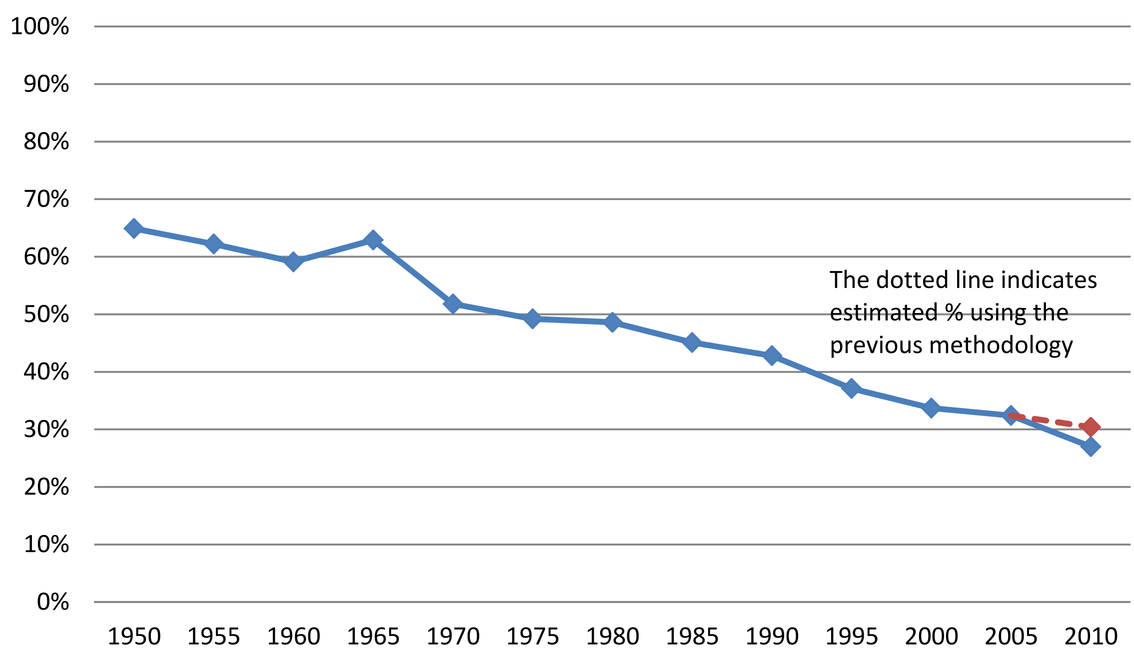


5. French-language daily newspaper paid circulation, and French households, Canada, 1950-2010



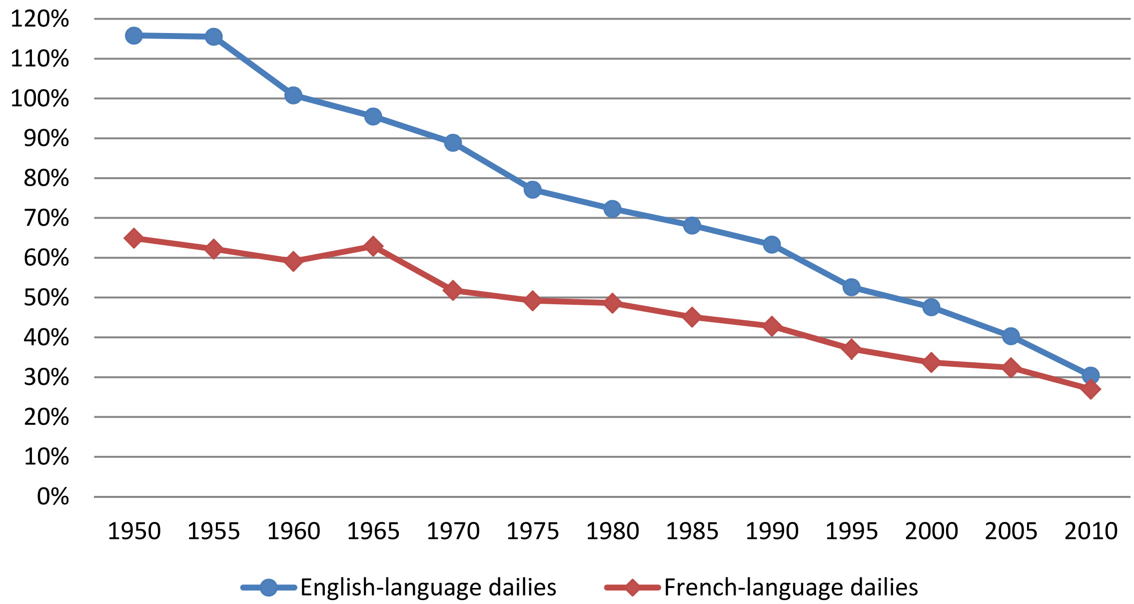
6. French-language daily newspaper paid circulation as % of households, Canada, 1950-2010

(Based on French households)

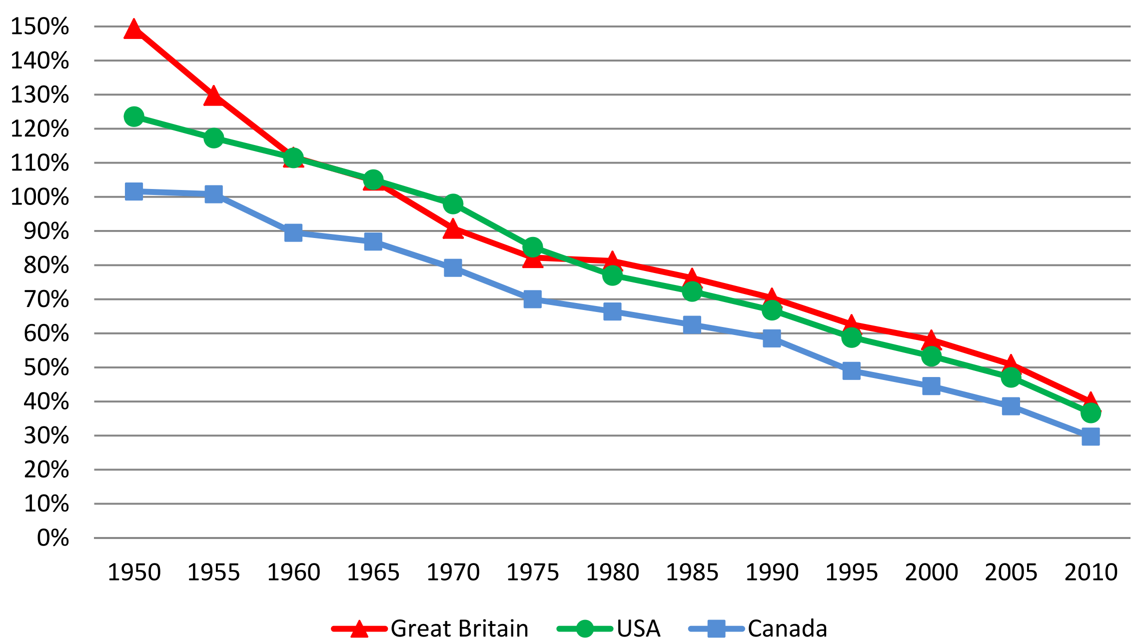


7. Comparison of English-language and French-language daily newspaper paid circulation as % of households, Canada, 1950-2010

(Based on English/Allophone households for English dailies
and French households for French dailies)



8. Total daily newspaper paid circulation as % of households, Canada, USA, and Great Britain's national dailies, 1950-2010



Trends since 2000

Now, let's focus on the more recent trends, from 2000 to 2012.

As noted earlier, the methodology for reporting Canadian daily newspaper circulation changed in 2008; it changed again in 2012.

Starting with the 2012 data, Newspapers Canada stopped publishing the details that would indicate how much of the circulation of a "paid" daily newspaper was, in fact, paid, and how much was sponsored or free. For example, according to the data published by Newspapers Canada, the *Toronto Star*'s average weekday circulation in 2012 was about 346,000. But reference to the underlying report from CCAB indicates that, of that total, only two thirds was paid circulation, and one third was "sponsored/free".

However, there are sufficient additional current and historical sources to develop a reasonable estimate for the paid circulation totals for Canadian daily newspapers for 2012, in a manner consistent with previous years.

Figures 9 and 10 deal with all Canadian dailies, from 2000 to 2012. As we can see, circulation declined, both in absolute terms, and in relation to households. In 2000, total daily newspaper paid circulation in Canada was equivalent to about 45 per cent of households; by 2012, it was about 27 per cent.

(The corresponding figure in 1950 was more than 100 per cent of households.)

Figures 11 and 12 provide similar data for English-language daily newspapers in Canada. Figures 13 and 14 provide data for French-language daily newspapers in Canada.

There appears to be an important difference in the trends for the English and French markets in Canada, in terms of the relationship between total paid circulation and the number of households. To help understand that difference in trends, we have presented Figure 15, which combines the data from Figures 12 and 14.

While the circulation of English-language dailies has continued to decline, both in absolute terms and in relation to households, there have been a number of recent years in which the circulation of French-language dailies seems to have come closer to keeping pace with the growth in households.

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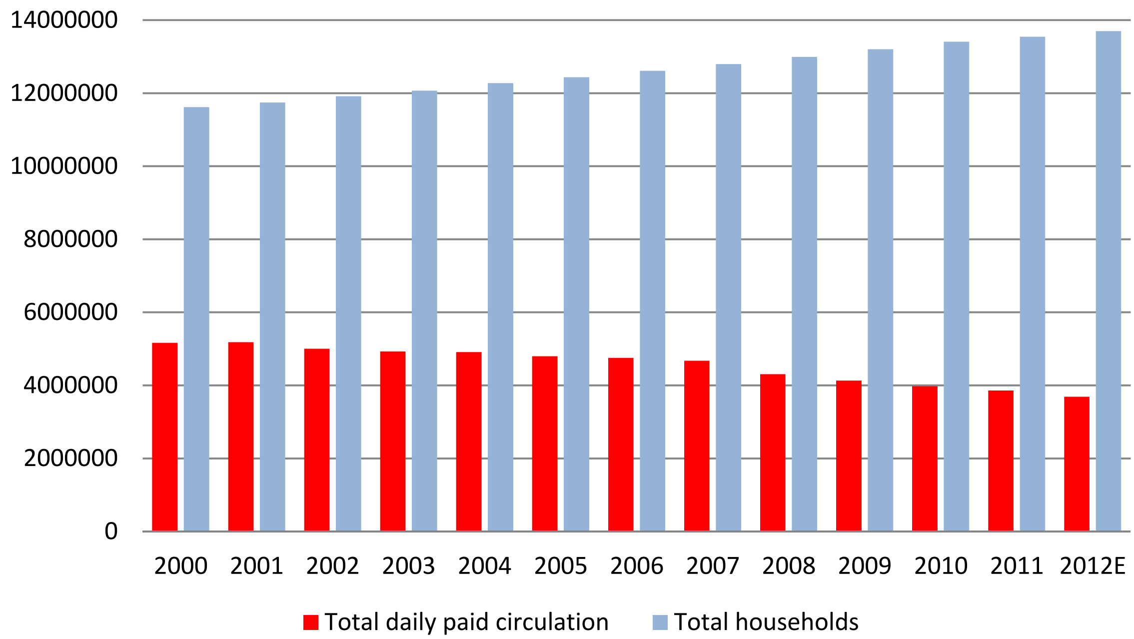
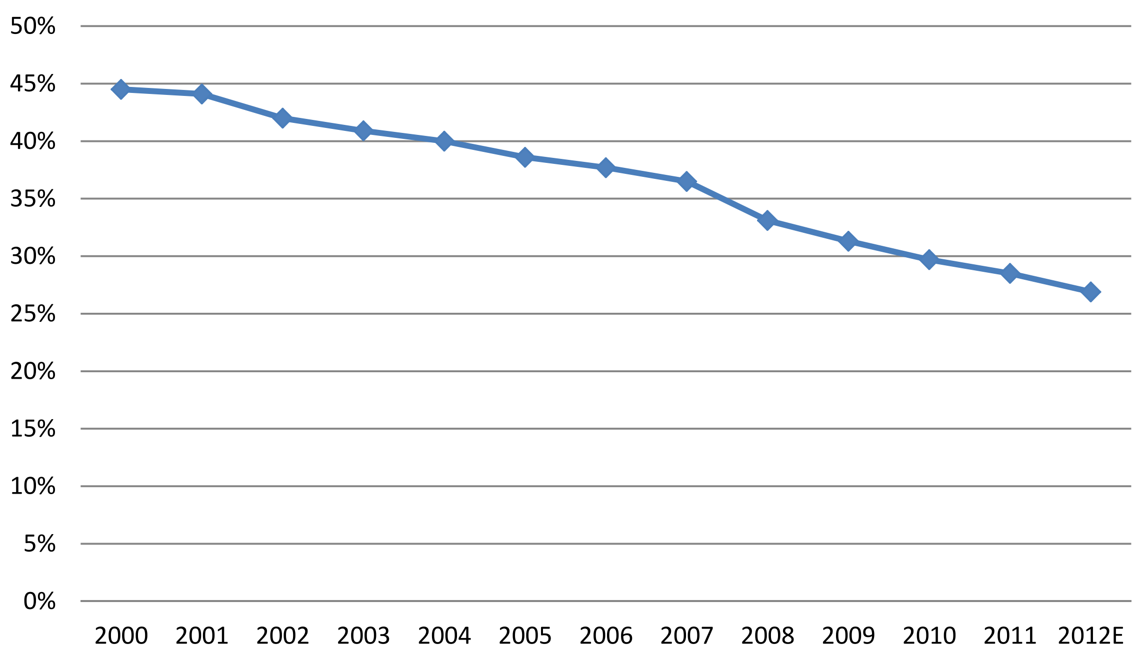
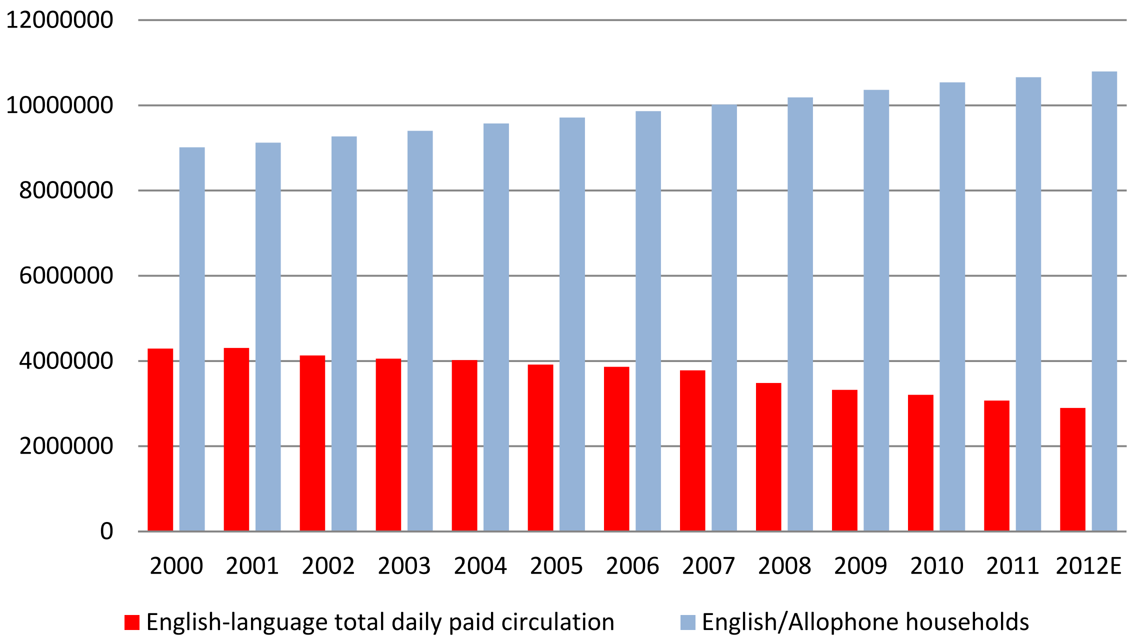
9. Total daily newspaper paid circulation, and total households, Canada, 2000-2012



10. Total daily newspaper paid circulation as % of households, Canada, 2000-2012

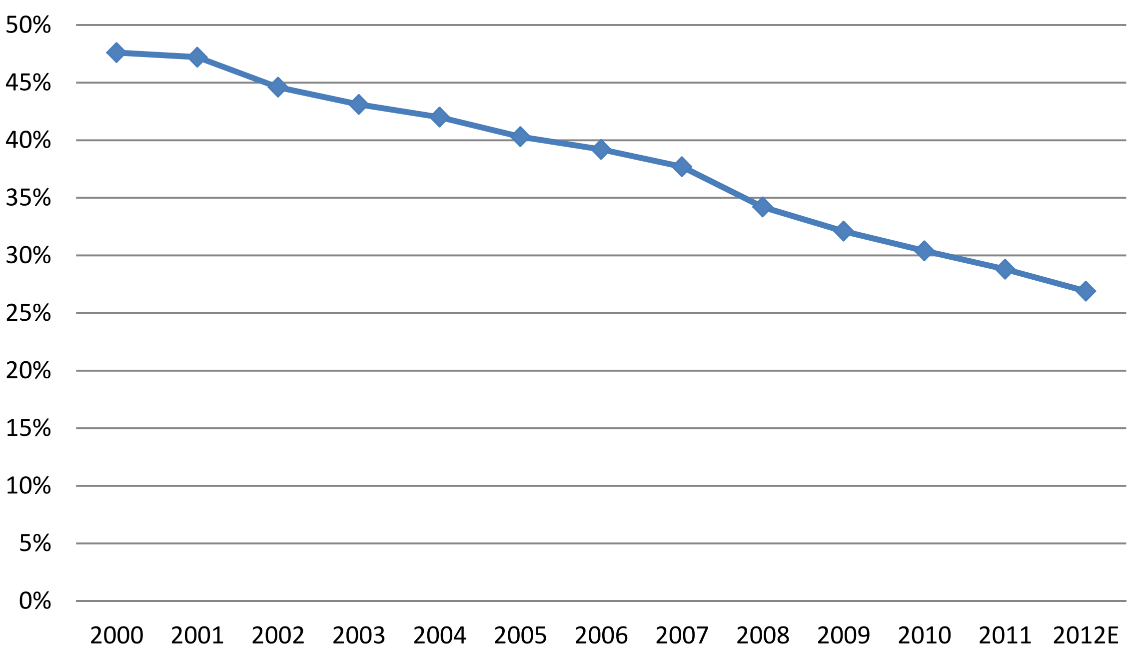


11. English-language daily newspaper paid circulation, and English/Allophone households, Canada, 2000-2012

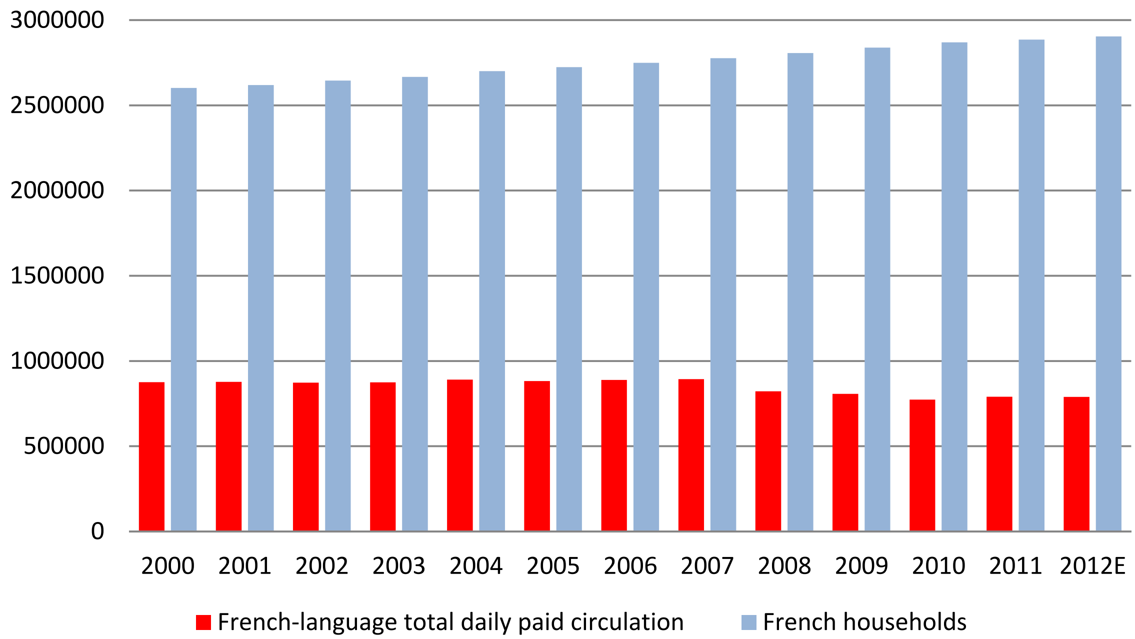


12. English-language daily newspaper paid circulation as % of households, Canada, 2000-2012

(Based on English/Allophone households)

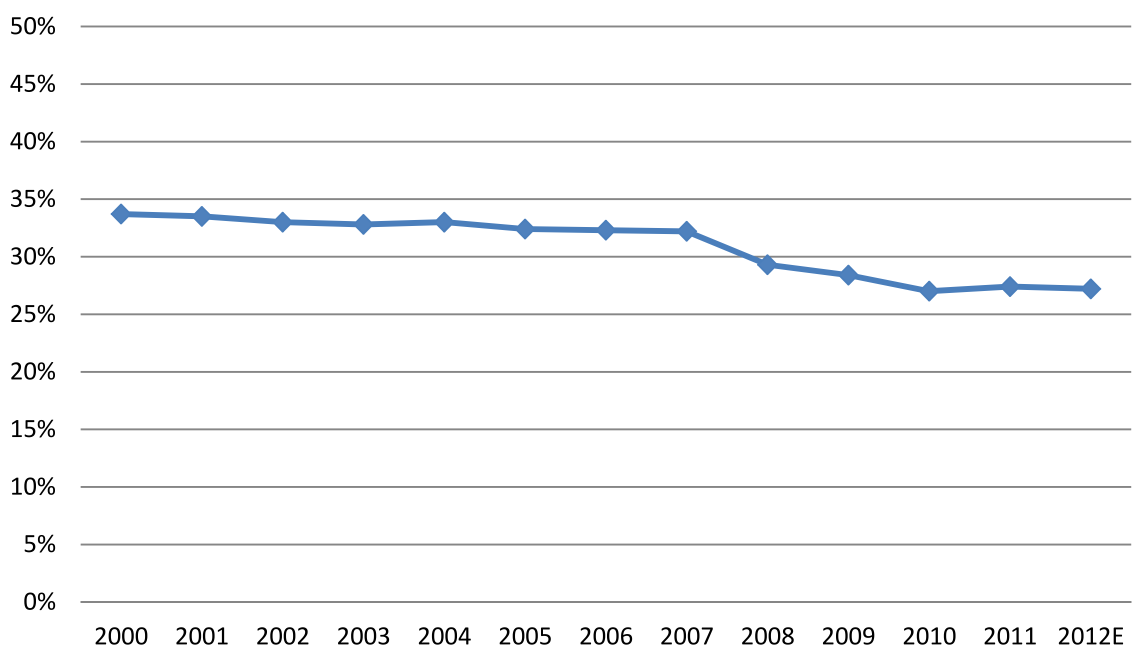


13. French-language daily newspaper paid circulation, and French households, Canada, 2000-2012



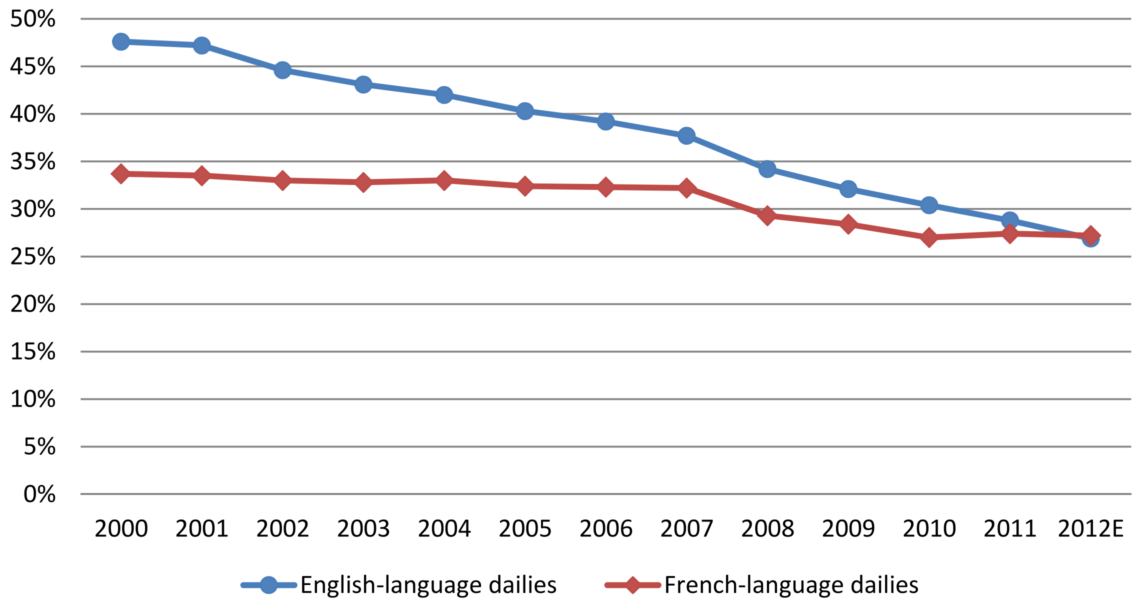
14. French-language daily newspaper paid circulation as % of households, Canada, 2000-2012

(Based on French households)

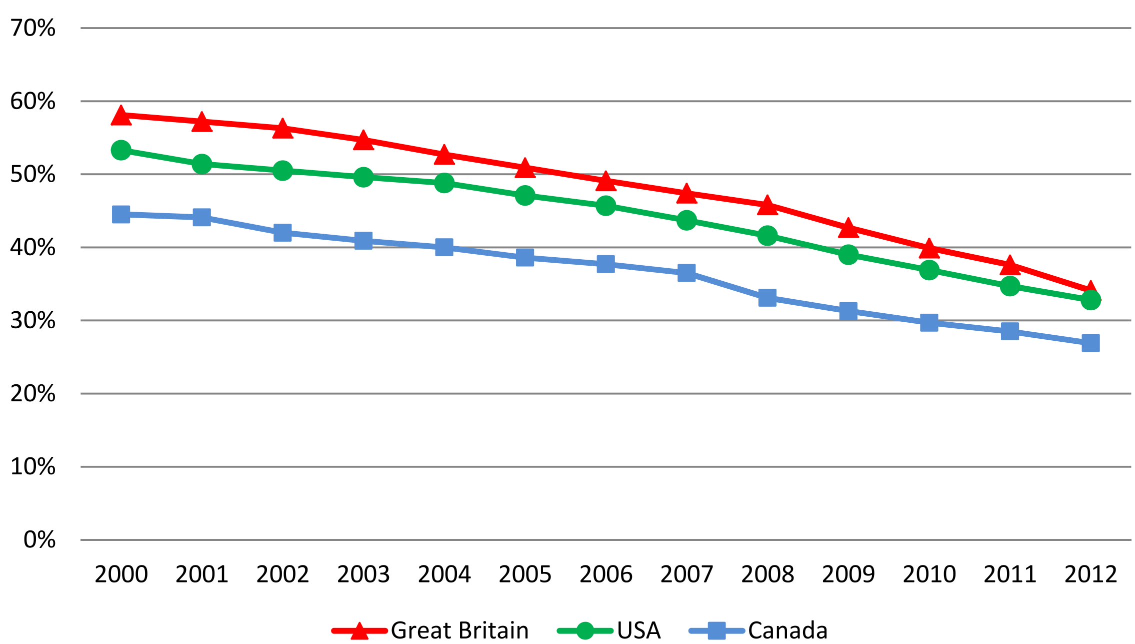


15. Comparison of English-language and French-language daily newspaper paid circulation as % of households, Canada, 2000-2012

(Based on English/Allophone households for English dailies and French households for French dailies)



16. Total daily newspaper paid circulation as % of households, Canada, USA, and Great Britain's national dailies, 2000-2012



The result is that, in 2012, the total paid circulations of English and French language daily newspapers were equivalent to about the same percentage of households – 27 per cent – in their respective language markets.

There may be numerous explanations for this phenomenon, and perhaps we should not read too much into this, since the French-language market obviously has different characteristics. But the data do raise the possibility that, within the long-term decline of circulation, there may be, from time to time, a plateau.

Figure 16 compares the 2000-2012 Canadian trend line with data for the U.S. and the U.K. As we can see, the trends are still similar for all three countries.

One impact of unbundling: The collapse of the classifieds

For many decades, classified advertising was one of the most important, and one of the most profitable, categories of daily newspaper advertising.

Indeed, in past years, classified advertising may also have helped attract circulation, as job-seekers or accommodations-seekers would be introduced to the content of newspapers they had purchased for the classified advertising sections.

In recent years, however, along with the growth of the Internet, alternative suppliers of classified advertising emerged to compete with daily newspapers.

Those alternative, online, suppliers of classified advertising have had a major negative impact on daily newspapers, and, in most cases, an impact far greater than one might have expected from the decline in circulation alone.

And that means that, even if there are brief pauses in the circulation declines, unbundling can still have a major economic impact.

In Figure 17, we can see that classified advertising revenues for Canadian daily newspapers were relatively stable from 2000 to 2008. From 2008 to 2012, however, the volume fell from over $800 million to less than $300 million.

In Figure 18, we can see that Canadian daily newspaper paid circulation fell 29 per cent from 2000 to 2012, while daily newspaper classified advertising revenues fell 66 per cent over the same period.

(The results for daily newspapers in the U.S. and the U.K. also show greater declines in classified ad revenues than in circulation, over the same period.)

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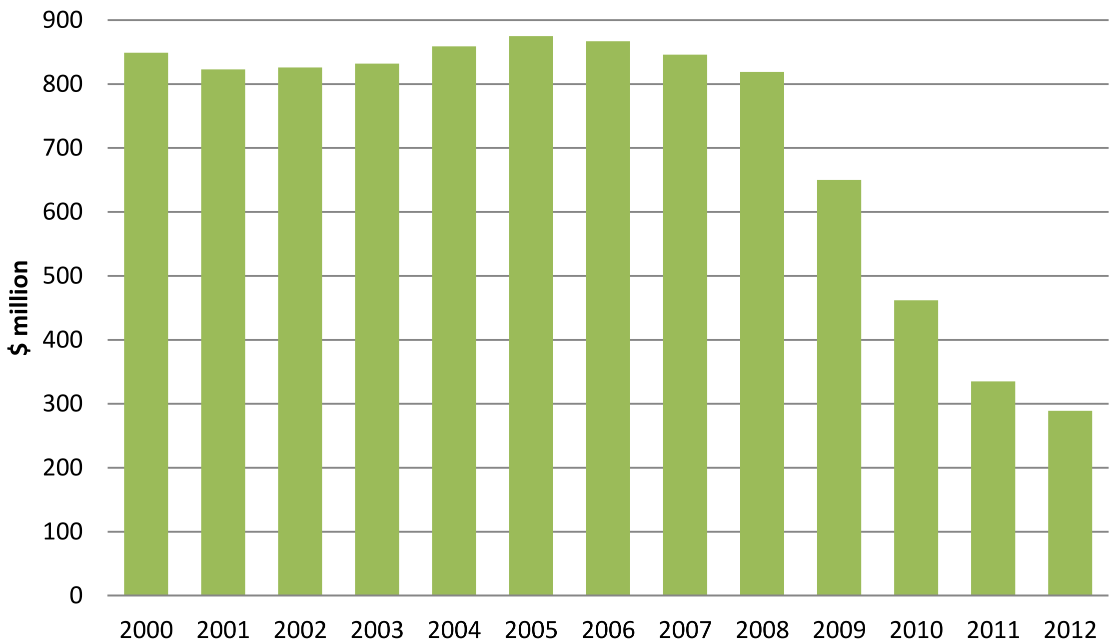
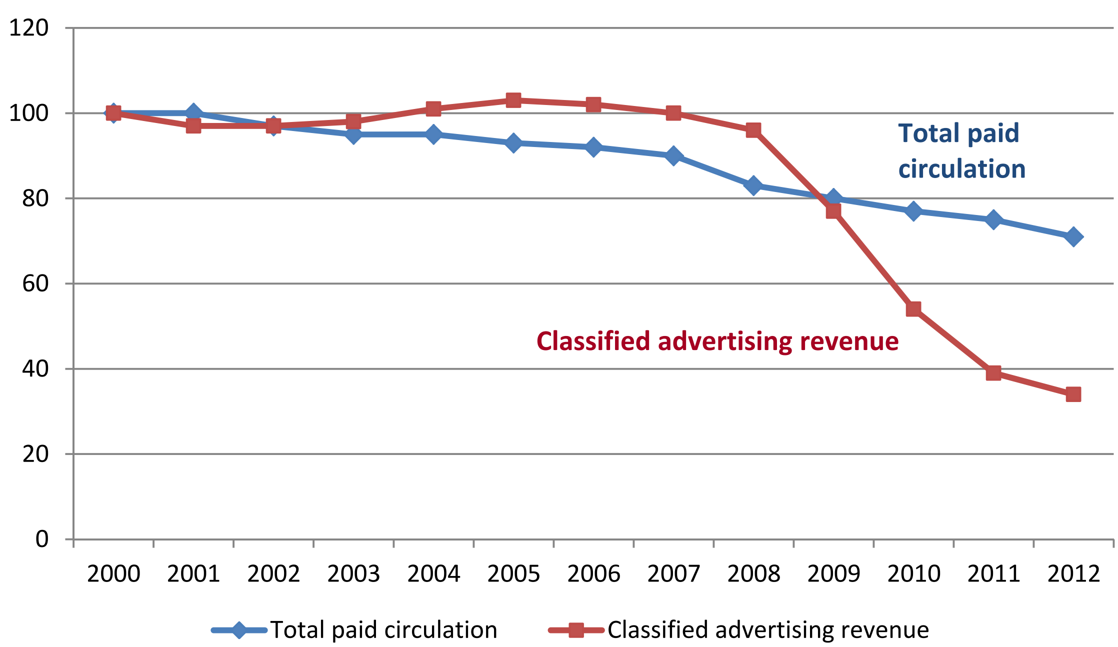
17. Total classified advertising revenue, Canadian daily newspapers, 2000-2012



18. Comparison of paid circulation trends and classified advertising revenue trends, Canadian daily newspapers, 2000-2012, Index basis (2000=100)



Responding to change

Most legacy newspaper publishers were slow to respond effectively to the changes described above. In recent years, however, many "solutions" have been advanced, including "paywalls" or "digital first" strategies, or "native advertising", or attempts by some newspapers to become "world news brands" in the online environment.

But "paywalls" is simply a new term for "subscriptions". And "native advertising" is simply a new term for "advertorial".

Some of these strategies may work for some newspaper companies some of the time. But these strategies do not deal in a broad way with the fundamental dilemma facing our traditional daily newspapers:

- *Daily newspapers were once a bundled product with limited competition*

- *Daily newspapers are becoming an unbundled product with unlimited competition*

La Presse+: Saving the newspaper industry?

In the context of all of these trends, how do we assess one of the most recent efforts to make the transition from print to digital – La Presse+, an advertising-supported once-a-day product for tablets?[6]

In October 2013, there was a long and interesting article about La Presse+ on a blog called "fagstein.com", and the headline on that article posed an interesting question:

"Can *La Presse* save the newspaper industry by doing everything wrong?"[7]

The simple answer to that question is "no" – because the solution that works for one newspaper "brand" may not work for another.

But what if we rephrase the question:

"Can *La Presse* save <u>*La Presse*</u> by doing everything wrong?"

Then the answer might be ... "maybe" – if *La Presse* regards La Presse+ as the first step in a journey of discovery, not as an end in itself.

La Presse+ is visually pleasing, but does not make full use of the available technology to add utilitarian and reference features that would enhance its value and increase consumer time with the product.

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[6] "La Presse+" was launched by the Montreal-based daily *La Presse* in April 2013.
[7] Accessed at: http://blog.fagstein.com/2013/10/22/la-presse-plus-analysis/.

***La Presse* has a long history of innovation and adoption of new technologies …**

La Presse was one of the first newspapers in the world to establish a radio station – CKAC – back in 1922.

Perhaps less well known is the fact that *La Presse* launched the first experimental television station in Canada – in 1931.

And, by 1946, when commercial television was on the horizon, *La Presse* had filed an application to the CBC for a commercial television licence.

PRACTICAL TEST IS GIVEN TELEVISION

Demonstration by Station CKAC Reveals Advances Made in Science

RADIO EYE ADDED TO EAR

Programme Broadcast Foreshadows Great Development in Near Future Through New Medium

Television became an accomplished fact last night in the studio of CKAC. It was good entertainment. with very good definition of performers' heads and shoulders, and undoubtedly marked a step forward in the technique and scope of radio broadcasting. The show was given to a select group of spectators by the Canadian Television Ltd., and was the first representation of living performers in Montreal, apart from various experimental tests.

An article from the Montreal *Gazette*, July 20, 1932, commenting on *La Presse*'s experiment with television.

One hopes the *La Presse* planning process is considering its future in the context of the three key questions raised earlier – unbundling, unlimited competition, and the relationship between content creation and content aggregation.

Looking ahead … five to 10 years …

- There will be fewer print newspapers – perhaps dramatically so.
- There will be a smaller number of surviving newspaper "brands" in various digital formats.
- Some will be "world brands" that will have left their local (or even national) roots behind in an attempt to aggregate enough users to achieve viability.
- And there will be a variety of subsidized or "endowed" ventures – some with a single-issue focus, and some with a broader focus; some endowed with a

sense of charity or public service, and some endowed to propagate a point of view.

- Most of the internal cross-subsidies will have been wrung from the system, which might leave us with unmet journalistic needs in local coverage and investigative reporting.

- In some cases, local news might come to be delivered by, and attached to, a variety of other online services.

But, at that point, the transition will not be over … it will merely be entering its next phase, as new models continue to emerge, combine, and emerge again.

Many of the "solutions" being proposed or tested today will not yield long-term viable business models, but they may be necessary to enable access to tomorrow's opportunities.

Is there "une souricière numérique" – a digital mousetrap?

At this stage, the best we can say is that the digital mousetrap is still a work in progress.

There is an old saying: "Build a better mousetrap, and the world will beat a path to your door."

But that world has changed. Very few would actually beat a path to your door. They would read about the mousetrap on Facebook, watch a demonstration on YouTube, and order it from Amazon.

And keep this in mind – the oldest of those companies is only 20 years old, and each of them now is also part of the media ecosystem.