Revenue Diversification Beyond Traditional Print and Digital

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About the International News Media Association (INMA)

INMA (www.inma.org) is a global community of market-leading news media companies reinventing how they engage audiences and grow revenue in a multi-media environment. The INMA community consists of 7,000+ executives at 600+ news media companies 80+ countries. Headquartered in Dallas, INMA has offices in San Salvador, São Paulo, Antwerp, and New Delhi.

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Introduction

The challenge facing modern media organisations is often likened to a rope with both ends burning.

At one end, traditional revenues, and print revenues in particular, continue to decline. At the other, hard-earned gains in digital revenues simply aren't large enough to offset other losses. Complicating matters, efforts to expand digital reach by selling traffic to other sites — or accepting it from larger networks — often further erodes already-thin digital margins.

Jim Moroney, publisher of The Dallas Morning News, describes the challenge more succinctly — and urgently: "As print volumes decline, our assumption is those revenues also continue to decline. We're not sure how much, but we're confident the rate of decline in the next year will be at least as much as it was the previous year."

Efforts to shore up print and digital revenue are critical, arguably existential, for media companies. But "alone or even in combination, they aren't going to offset declines dollar for dollar — and particularly in margins — as print revenues continue to deteriorate year after year," Moroney warns.

The Poynter Institute's Rick Edmonds calls this the "billion-dollar challenge."

"Every year that print advertising revenues fall a billion dollars or more, the companies need to generate a billion or more in other revenue to stay even," Edmonds, the institute's media business analyst, wrote in a Poynter blog post in July 2015. "2015 is shaping up as another such year, and it again seems unlikely that that much new revenue can be found. The math is daunting."

And while broadcast is currently faring better than print, it's no secret that its aging audiences have yet to be replaced by younger ones, particularly in the Millennial cohort.

The only alternatives for media organisations? Accelerate the pace of cost savings, redundancies, and retrenchment — or find new ways to grow.

New product development is firmly in the DNA of many media organisations, but the challenge is the scope of what's needed. To offset falling revenues, the dollars, euros, pounds, and rupees from new initiatives must be large — and so must the margins. Media organisations are focused like never before on EBITDA (essentially the measure of profitability to which investors most often pay attention). To support their core operations, many must look to diversify revenues in new ways that extend far beyond the core business.

In some cases, media companies are leveraging familiar ideas that connect to the core business — events, advertising services, and collaborative ventures with other partners — and, importantly, finding new ways to bring them to scale. In other cases, these organisations are moving far afield from the core business. They are becoming commercial property managers, software developers, even photo finishers, podcasters, postal carriers, and professors.

And as the need for new revenue sources grows, so do the novel new lines of business. To give just two examples, magazine publisher Condé Nast opened its Condé Nast College of Fashion and Design in London in 2013, offering Vogue-branded certificates and diplomas in fashion; it has since been referred to by one designer as "that posh college." This year in the United Kingdom, Hearst-Rodale's Men's Health magazine launched a branded line of vitamins in partnership with a European manufacturer of over-the-counter supplements. It is the culmination of a licensing strategy intended to extend the magazine's brand into consumer products across Europe.

STRATEGIES THAT DRIVE DIVERSIFICATION

To diversify their businesses and their revenue streams in this way, media companies are pursuing a variety of key strategies, which are detailed in the case studies that follow. They include:

- ***Opening new markets.*** When Costa Rica's Grupo Nación purchased the first digital press for its commercial printing operation, it was not only thinking about shorter, higher-margin runs for its commercial clients. It also was focused on being first-in-market with a digital photography and digital printing solution for consumers. "We've been accustomed to having very few clients print a lot of volume," says General Manager Pedro Abreu. "We're trying to switch to a model that has many customers print a little, with higher margins."

- ***Reaching new audiences — in particular, the media-averse Millennials.***

The Toronto Star uses “campus survival kits” aimed at college students to deliver to advertisers an audience unlikely to be reached in print. “Every marketer out there is looking for a way to target Millennials,” says Julie Murtha, director of audience development and innovation at the Toronto Star. “Instead of being that mass market newspaper, we can hit that demographic at a time when they are making their buying decisions.”

Broadcast-centric E.W. Scripps Company acquired the most prominent player in the podcasting space, Midroll Media, for much the same reason: to build relationships with Millennials who are more willing to consume, and perhaps even pay for, less traditional forms of digital media.

“It’s really important for media companies to be obsessed with where people are getting their content from,” says Carolyn Micheli, E.W. Scripps’ vice president of corporate communications and investor relations. “As a content company, we’re in a better position to continue to meet those needs because we’re adaptable.”

- ***Creating new partnerships.*** The Dallas Morning News created its own content marketing business by entering a joint venture with an established marketing agency. In Colombia, El Colombiano and a group of other regional newspapers built an independent company to wrest a larger share of the digital advertising pie from the national newspapers in Bogotá.

“The market is becoming more challenging, and getting together is becoming more and more of an advantage,” says Martha Ortiz, chief editor of El Colombiano. “Let’s grow the industry together.”

Such partnerships are not exclusively with other media organisations. In South Africa and Indonesia, media companies are working in new ways with government agencies and other organisations, forging partnerships that create new sources of sponsorships by third parties and additional revenue opportunities without compromising editorial integrity.

In Indonesia, Kompas’ recent “Smart Cities” initiative led to participation by the government as well as sponsorship revenue and future opportunities to build business around other public issues. Ignatius Hardanto Subagyo, the media company’s business director, says the venture “can be considered as evidence that newspapers as media companies can act in two different roles — first as a business, and second, with the kind of good content that we can become the fourth democratic pillar in our country.”

- ***Making smart acquisitions.*** Instead of building businesses in the events and multi-channel space, some media companies are buying them outright — and acquiring a new client base along with their new businesses. Both Singapore Press Holdings and The Dallas Morning News, for example, didn't create their own headline events. Instead, they acquired existing events with the proven ability to draw crowds — and sponsors. "Events are not about driving [direct] revenue for media companies," Moroney says. "It's about building events that their customers can sponsor and [leverage to] activate products."

- ***Seeking steady income.*** Investments in retail properties and other businesses that don't follow the media market's economic cycles don't just provide a reliable contribution to EBITDA. These investments also provide revenue that can be invested into developing other new revenue streams. Singapore Press Holdings' three retail centres "enabled us to unlock value in the properties, releasing capital for our growth initiatives, and also strengthened our balance sheet," says Janice Wu, head of corporate development for Singapore Press Holdings.

Media companies also can leverage physical assets to finance other new ventures. "When you think about developing the company and taking loans for larger acquisitions, for banks [the property] is very good security," says Johannes Werle, group managing director at Rheinische Post Mediengruppe, which developed and manages a retail centre in the heart of Düsseldorf, Germany.

DEVELOPING KEY COMPETENCIES

What's surprising, though, is that many of the companies that have moved into unfamiliar territory — managing shopping malls or building new businesses — first began doing so a decade or more ago.

This speaks to the innovative spirit at the heart of media organisations. But for new ventures to bring in the significant levels of revenue now required to sustain the core business, additional competencies involved with evaluating and executing in new areas of business must also be developed. They include:

- ***Understanding the skillsets needed — and where to get them.*** A common — and important — realisation of many executives at media organisations undertaking a new venture is how little they know about business opportunities that are different from the organisation's core competencies. When the Rheinische Post considered redeveloping its downtown offices into a shopping centre, "none of the executives at the time had any clue how a commercial centre works," Werle says. "The group took an opportunity risk." At the same time, these executives knew they needed to identify the right talent to do so, contracting with architects and commercial property managers as the project moved forward.

The Morning News' Moroney is unapologetic about acquiring the talent needed to pursue new ventures. "I've got some really smart and talented people in my company, but I think different businesses require different experiences," he says. "If you're going to play golf, you're not going to hire a tennis instructor."

Understanding the strengths and limitations of the organisation's skillsets is critical. "Like other media companies, we have a whole matrix of skills," says Neil Webster, commercial director of KM Media Group in the United Kingdom, which has expanded its creative services offerings into a full-service advertising division. "The vast majority of media operators will find that the talent is there. The big discipline has been making sure we're not pitching for things we cannot do."

- ***Thinking about markets in new ways.*** When South Africa's Independent Media restructured in 2014, executives added government as an equal category to direct and agency sales in its commercial department. It was recognition that, in a country still seeking to improve its institutions' outreach, media organisations could play a valuable role — and could win sponsorships in doing so. In similar fashion, The Toronto Star's campus survival kits reflected a way of winning the business of the consumer packaged goods customers that traditionally eschew newspaper advertising — by literally delivering an audience of Millennials at a key time in their lives.

- ***Prioritising diversification.*** Many media organisations that have explored new revenue streams have formalised the process at high strategic or organisational levels. Singapore Press Holdings has a designated division that examines growth opportunities and makes a broad range of investments. As part of a reorganisation of strategic goals in 2012, Rheinische Post made diversification one of only three overarching strategic goals for the media organisation. "We defined this goal, saying we want to develop this [non-traditional] business to become a pillar of the overall revenue and earning structure," Werle says.

- ***Understanding the importance of scale.*** "When you make an acquisition, you have to have good knowledge of the specifics of the market — is it a platform big and stable enough to handle, and with the potential to grow?" Rheinische Post's Werle asks.

But when are new ventures large enough to have a real impact on the overall organisation? In some cases, the answer is a matter of total revenue and the potential impact on the revenues and profitability of the media organisation as a whole.

In others, the new venture could have a large enough market share in its narrow vertical to have the potential for significant growth. Or it could be first to market, as Grupo Nación was with digital printing in its marketplace. Another factor is whether a new revenue stream can help make an existing cost-intensive operation more profitable. That's one reason the Rheinische Post added bulk-letter delivery to its traditional newspaper distribution business. And finally, a new venture could open business segments that wouldn't otherwise be viable, as was the case with the Toronto Star's campus giveaway packs.

- ***Identifying unexpected challenges.*** When the Rheinische Post began delivering mass mailings of letters in competition with the German post office, the logistics weren't the challenge. Selling the service to large companies accustomed to working with the monopoly post office was. "To go to companies and sell this new service took some time," Werle says.

It is critical to assess the organisation's mindset. When The Washington Post decided to first develop, and then sell, its own content-management system, it was acting on a shift towards becoming a technology-focused company. The impetus for that shift came from owner Jeff Bezos and subsequently permeated senior management. It also led to what Shailesh Prakash, the Post's chief information officer and vice president of technology, calls "an appetite to build."

"You don't run off and immediately find a vendor to solve your problem," Prakash says. "You analyse what you need."

Prakash explains the shift in strategic thinking in this way: "Amazon is a retailer. Home Depot is a retailer. If you ask Home Depot who is supplying their e-commerce platform, you'll hear it's a mix of Microsoft and IBM. If you went to Amazon and asked that question, they would laugh you out of the room. The first thing you have to do is get that mindset. ... It's not easy and often taken for granted."

What INMA aims to do in "Revenue Diversification Beyond Traditional Print and Digital" is surface efforts that we believe will be more and more vital in the coming years. We hope INMA members are inspired by the ideas — as well as the entrepreneurial thought process behind them. ■