



# Newspapers & Magazines

*Transitioning from a print past to a digital future – triggering new strategies and wide divergences between markets*

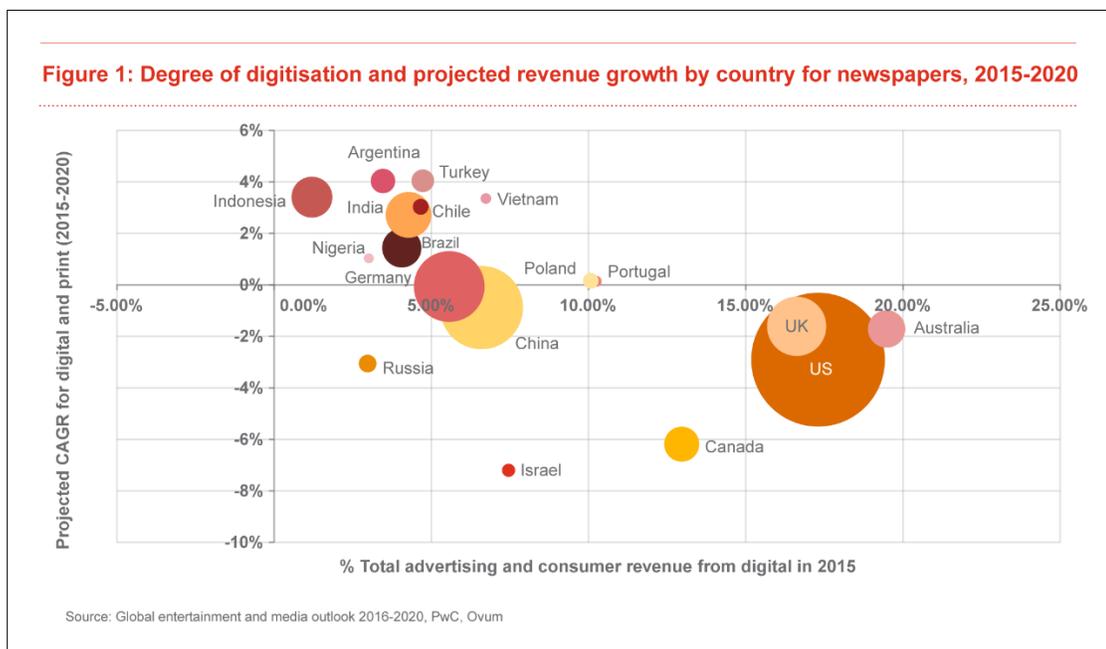
## Digital disruption is raising fundamental questions...

*Across the world, newspaper and magazine publishers are striving to adapt to the challenges and opportunities presented by digital disruption and economic shifts. There is no shortage of consumer demand for their core offering of news and information – but faced with competition from a multiplicity of alternative sources, many of them available online for free, their traditional position at the heart of consumers' lives is facing unprecedented threats.*

*As a result, both newspapers and magazine publishers are finding themselves facing up to some fundamental questions. For example, what does it take to be – and remain – a trusted source of information for consumers, in a world full of digital content and social media noise? How can they continue to attract people to their content no matter where or how it's consumed? And going forward, what will be their business's optimal balance of revenues between paid and advertising supported models?*

## ...underlined by global revenue shifts...

The vital importance of answering such questions is reinforced by global shifts in revenues. Figure 1 maps the projected compound annual growth rate ("CAGR") for total newspaper revenues across both print and digital in selected markets, against the size of those markets' digital revenues for newspapers. In stark contrast to overall global E&M revenues rising at a CAGR of 4.4% over the forecast period, global newspaper revenues is expected to decline at 1.5% compounded annually, with a 3% compound annual decline in print revenues partly offset by digital revenues rising at a CAGR of 9.7%. Within this, global newspaper advertising will decline at 2.9% compounded annually and global consumer revenue at 1.1%, shifting the revenue balance away from advertising and towards consumers.

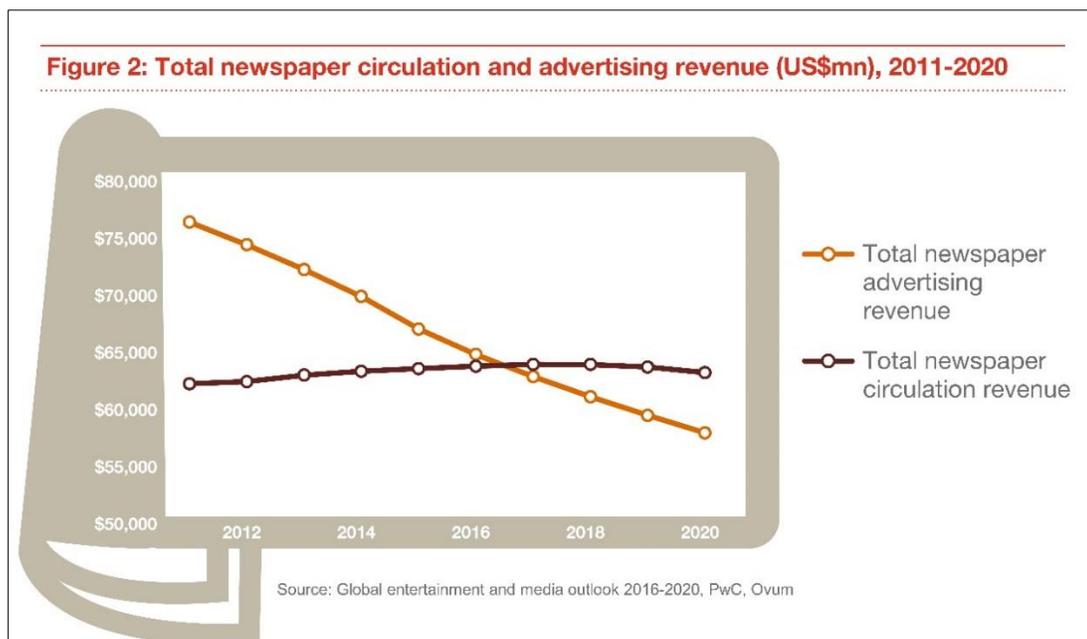


As the chart shows, the general trend is that the more digitized a country's newspaper industry, the faster its overall revenue are projected to decline – dynamics that are generating wide divergences between markets, and especially between mature and emerging economies. This diversity reflects the core theme that permeates this year's E&M Outlook: 'A world of differences'. The report paints a picture of a dynamic, diverse global E&M industry that has

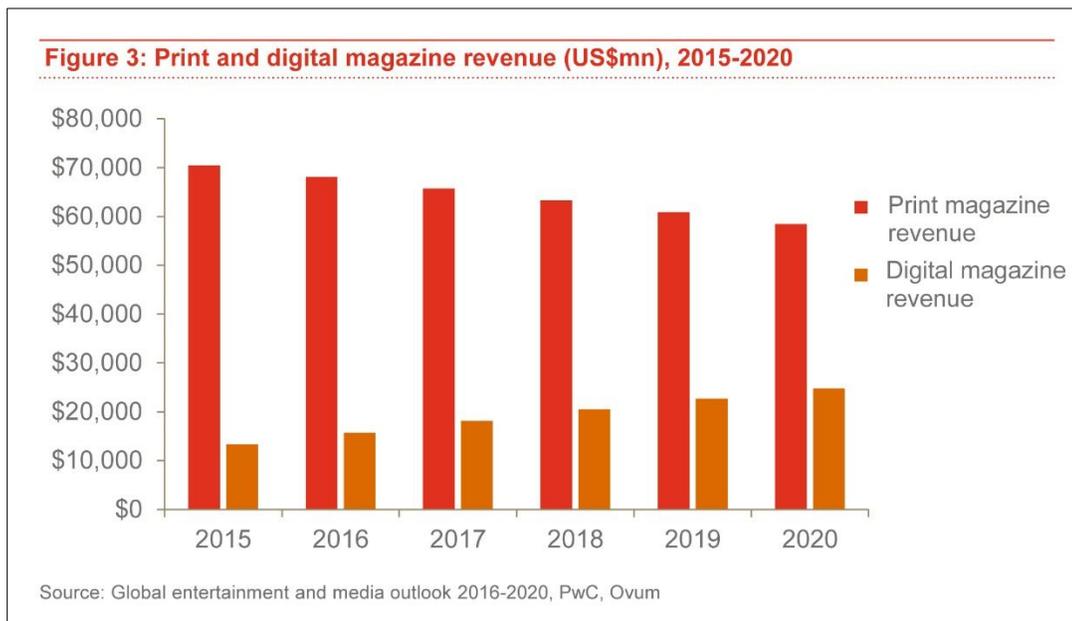
steady and sustainable aggregate revenue growth at an overall level – but where this growth is not shared equally by all participants. As a result, drastic slowdowns in some areas and stagnation in others coexist with spectacular expansion in “hot” countries, regions and sectors, creating exciting pockets of growth and opportunity for those smart enough to spot and capitalise on them.

**...as both segments pass major tipping-points**

The resulting disruption is seeing both the newspaper and magazine segments experience significant tipping-points. For example, the economics of newspaper publishing passed a milestone in in 2015, when global newspaper circulation revenue exceeded global advertising revenue for the first time (see Figure 2). Looking forward, as more news moves online and demand for news – including in print formats – grows in emerging markets, global newspaper circulation will likely continue to increase while advertising revenues decline.



Global magazine publishing is expected to also see total global revenues decline over the coming five years, albeit at a slightly slower compound annual rate of -0.5%, from US\$68.43bn in 2015 to US\$66.62bn in 2020. However, in contrast to newspapers, magazine circulation revenue will likely fall particularly sharply, as consumers favour free content from both digital first and traditional magazine publishers. The difficulty of monetising digital magazines means digital growth will not make up for print losses – and while digital revenue will grow steadily, it will still make up only 30% of total consumer magazine revenue in 2020, up from 16% in 2015 (see Figure 3). This reflects the fact that consumers have proved reluctant to spend money on digital magazines, and digital ad space costs far less than its print equivalent.



### **New strategic imperatives are driving a focus on diversification and quality...**

Against the challenging background we've described, newspaper and magazine publishers are seeing new strategic imperatives emerge. One of the most pressing is the need to respond to the outflow of advertising dollars to Google and Facebook. At the same time, strategic cost reduction will remain a focus – witness the moves by *The Wall Street Journal* to collapse sections of its newspaper, and by Condé Nast to move *Self* to an all-digital publication. Other clear trends include growing use of technology, shared services and outsourcing, together with a focus on the bigger brands and franchises that have the most revenue and margin expansion potential. And it's increasingly clear that publishers are going to need multiple revenue streams to survive, since digital advertising alone will not be enough to sustain them. This requirement is seeing them move into areas like video, events and paid-for products.

A further emerging imperative – especially for newspaper publishers – is to play up their long-standing association with high-quality information. Given the recent glut of apparently “fake” news, newspapers' reputation for delivering credible and accurate information can be particularly attractive to major marketers, who want to be seen to be operating in “clean and well-lit” environments. The fake news phenomenon can also elevate the importance of curation and old-style journalistic fact-checking in the digital world: it's no coincidence that the *New York Times* saw its subscriptions boom following the US election in November 2016.

In combination, all these trends are seeing the high-level drivers of competition for the two segments coalesce around news quality and immediacy in the case of newspapers, and personal interests, hobbies and leisure in the case of consumer magazines. In each instance, the focus is on engaging the target customer segments in the most compelling way possible, via whatever format and channel those consumers prefer in their context at the time. Clearly, people are still interested – maybe more than ever – in news and relevant information, so the threshold question is how to attract new viewership, or at least stem the erosion of existing viewership. And while extending into areas like video can help, the overarching goal is to create enhanced user experiences.

Faced with these shifting imperatives, newspapers are moving away from being “just” newspapers and from being overly dependent on desktop-focused digital display advertising. For example, one of Germany's largest newspaper portfolios is currently undertaking a major digital transformation, in which it is building multiple pure-play classified digital businesses – i.e. companies focused on a particular product or activity in areas like real estate, jobs and autos that sit outside its newspaper portfolio and are not editorially intensive – in multiple European countries including Germany, the UK and France. It's also involved in performance and affiliate marketing businesses that stand to benefit

from the growth of ecommerce, especially as it goes mobile. And the same digital publishing house is partnering with multinational conglomerate company based in South Korea to create a new news brand, underlining the growing role of mobile and the strategic importance to content providers of finding creative digital distribution alternatives to the major social media platforms.

### **...with a growing focus on delivering video and collecting data...**

These moves reflect wider trends being seen across newspapers globally, as they look to create expanded capabilities and revenue growth around areas like mobile, advertising technology, video, digital audio/podcasts, and data analytics/data mining. Virtual reality is a further area that newspaper publishers are starting to look at, and is already a major focus for some. And more generally, publishers are looking to collect more first-party data through mechanisms like registration, interactive environments, events and subscriptions, including getting more users to register even if they do not subscribe or pay. The data gleaned through such techniques can enable publishers to create and tailor better experiences for users as well as advertisers.

In combination with these efforts, newspapers in countries with mature high-bandwidth telecoms networks are making a concerted drive to provide more and better video content, a push that's effectively seeing newspapers – and, increasingly, magazines as well – morph into multimedia content companies. Interestingly, in developing markets such as India, there's a trend towards using licensing deals between local print and often global online/video news providers to enable this expansion.

For newspaper publishers investing in video content, the increased production costs are justified by the higher degree of user engagement and advertising monetisation it generates. A further focus for newspapers – as noted above – is finding ways to deliver video and other content to consumers via channels other than third-party social media sites. The dilemma for newspapers is whether to build their brands and audience by offering their content aggressively on social media in the hope of monetising the resulting engagement later on, or to seek to use their content to more directly support increased monetization of their owned and operated properties. While some are taking the approach of opening up their content on social media, others are trying to create destination sites and mobile experiences that are more directly and immediately monetisable through advertising and – in the case of some premium content – through customer paywalls.

### **...pursuing opportunities in transaction revenues and content marketing...**

A further way for newspapers – and magazines too – to fight back against revenue declines is to tap into transaction revenues. In Europe, more and more publishers are offering per-article micropayments, enabled by digital platforms. Blendle, based in Utrecht, the Netherlands, launched an English-language version in March 2016 with 20 high-calibre publishing partners including The Economist and New York Times<sup>1</sup>. This experiment may prove attractive to digital consumers used to paying small amounts for apps, songs, and mobile games.

Another opportunity both for newspapers and magazines is to use their core strengths in content to move into content marketing. In Australia, the three biggest newspaper publishers have all set up or bought a content marketing business in the last couple of years, and magazine publishers across the world are also moving into this area. Newspaper and magazine publishers can be well suited to capture this opportunity because of the trust equity that lives in their content and brands, and which may help to reassure consumers who have privacy concerns.

### **...and taking a more holistic approach to targeting and marketing to potential advertisers**

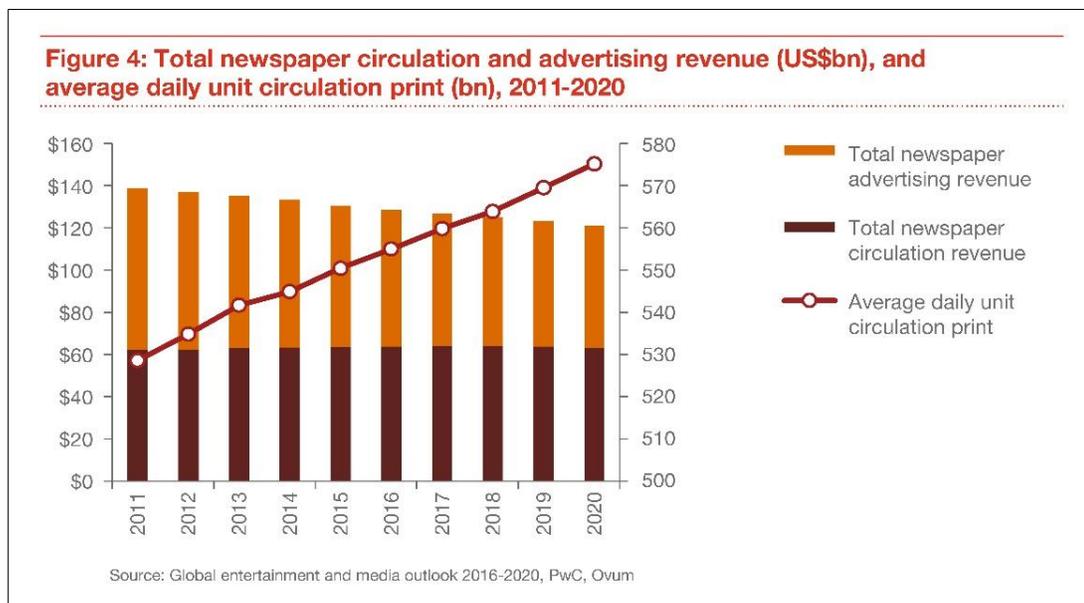
A number of the trends seen in newspapers – notably the drive to offer video content – are also evident among magazine publishers. However, a strategic shift that's emerging more specifically within magazines is a move away from business models founded on publishing a set of separate titles, and towards selling a audience demographics to advertisers across the whole magazine portfolio, including multiple titles in both print and digital formats. Under this approach, advertisers looking to reach young males – for example – will be offered bundles of ads across various titles that engage that demographic. This more effective way of selling audiences across their portfolios reflects a more

<sup>1</sup> Source: <http://www.niemanlab.org/2016/03/testing-its-pay-per-article-model-in-english-blendle-launches-in-the-united-states-with-20-publishers/>

holistic approach to targeting and marketing potential advertisers – one that moves magazines closer to the approach taken by online giants, and enables them to bridge the structural divides that used to arise both between their different titles and also between their print and online sales teams.

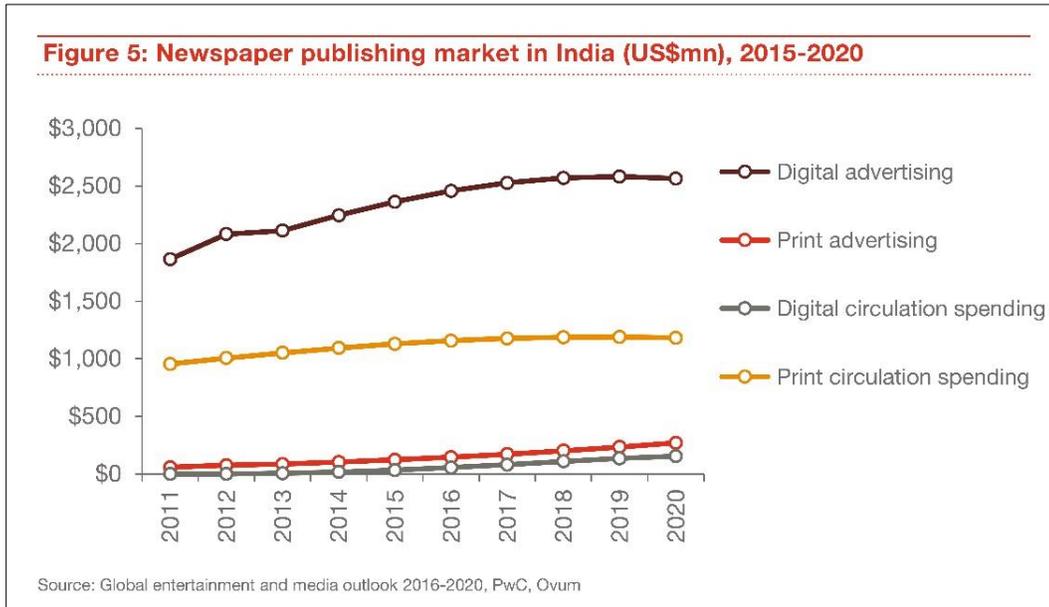
**Global newspaper circulation shifts towards emerging markets...**

As such strategies play out, the projections in this year’s E&M Outlook reflect several manifestations of the ‘world of differences’ across both segments. One of these is that newspaper print unit circulation globally is rising strongly even as total circulation revenues remain flat (see Figure 4). With consumers in North America and Western Europe – where newspapers are at their most mature – continuing to turn away from print, the industry is losing volumes among the highest-priced titles in the world. At the same time, while newspapers continue to grow in popularity among the aspirational classes in parts of Asia Pacific and Latin America, these are typically priced more cheaply, in line with local consumers’ expectations. However, the fact that circulation is growing in emerging markets opens up clear opportunities for future growth in spending in those markets as audiences reach critical levels.



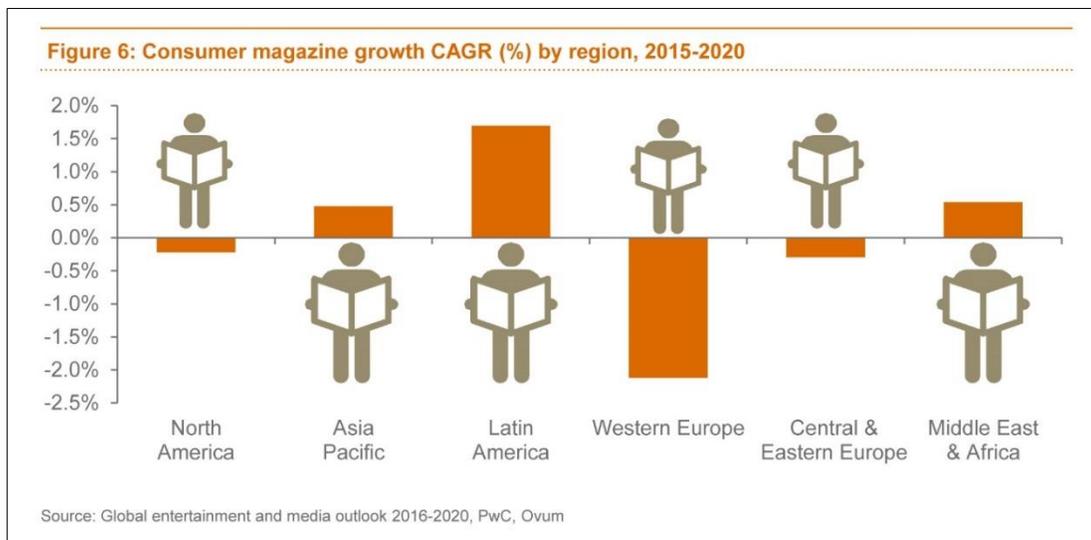
That said, the divide between those markets where print newspaper circulation is falling rapidly and those where it’s holding up isn’t just a matter of emerging and developed counties. The E&M Outlook confirms that younger people across the world tend to be more open to adopting digital behaviours and therefore to digital spending. However, older, less digitised markets have a large base of consumers comfortable with traditional media, helping to sustain print newspaper revenues. Japan, for example, has 44.3 million newspaper subscribers (about 0.8 per household), a number that has declined by only 10% in the past four years. So there’s no immediate rush for Japanese newspaper companies to go all-digital.

Many other countries will also buck worldwide trends. Despite the global shift towards digital, India will likely continue to see rises in both print circulation and print advertising revenues in the near term – although by 2020 print is expected to decline, as digital revenues accelerate (see Figure 5). Meanwhile, even in the US, print circulation revenue will likely continue to rise until 2019, recording a 0.5% CAGR increase over the five years to 2020 before starting to slip back. And China, where total newspaper revenue is forecast to fall to US\$11.53bn in 2020 at a CAGR of -0.9%, remains a unique market where the ruling party sets the circulation targets for state newspapers.



**...where consumer magazines are also thriving**

Turning to magazines, the coming five years will see growing middle classes and economies drive consumer magazine revenues in developing markets, while developed economies wane. Total global magazine revenue – including consumer and trade – will likely be virtually flat through 2020, suffering a compound annual decline of 0.1%. But running counter to this trend, several emerging markets will exhibit healthy growth in total magazine revenue. Examples include India, with a 4.1% CAGR; Indonesia, with a 3.4% CAGR; and Peru, with a 6.3% CAGR, the highest in the world. This growth differential will also be clear at a regional level, with consumer magazine revenue rising in Asia Pacific, Latin America and Middle East & Africa, while falling in North America and – more markedly – Western Europe (see Figure 6).



However, even countries within the same region will differ markedly. Finland has a relatively high proportion of consumer magazines sold via subscription, helping its overall magazine market to outperform the Western European average – with Finland’s total magazine revenues projected to rise at a CAGR of 0.8% through 2020, compared to a

compound annual decline of 1.5% for Western Europe. In contrast, much of Germany's consumer magazine market revolves around celebrity and gossip titles, which have been hit hardest by digital competition. As a result, Germany's total magazine market forecast to decline at 2.5% compounded annually.

Globally, it's clear that the past few years have been tough for newspaper and magazine publishers, and the challenges will continue. Nevertheless, in a 'world of differences', there are still opportunities for companies in these segments to tap into new sources of value and revenues across the world. The race is on.

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## **Global entertainment and media outlook**

*PwC's Global entertainment and media outlook 2016-2020 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 13 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. Subscribe to the Global entertainment and media outlook at [www.pwc.com/outlook](http://www.pwc.com/outlook)*

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