

# Newspaper



Personalised content and advertising gain crucial relevance for both users and publishers

Changing consumer preferences in content consumption are especially dramatic for the newspaper industry



Digital subscriptions and advertising are increasing but unable to compensate for losses in print



## Segment definition

Newspaper publishing comprises spending on daily, weekly and Sunday print newspapers by advertisers and readers, as well as digital advertising on newspaper websites and mobile applications. Spending by readers includes newsstand purchases, subscriptions, payments for newspapers delivered to mobile devices and fees for accessing online content.

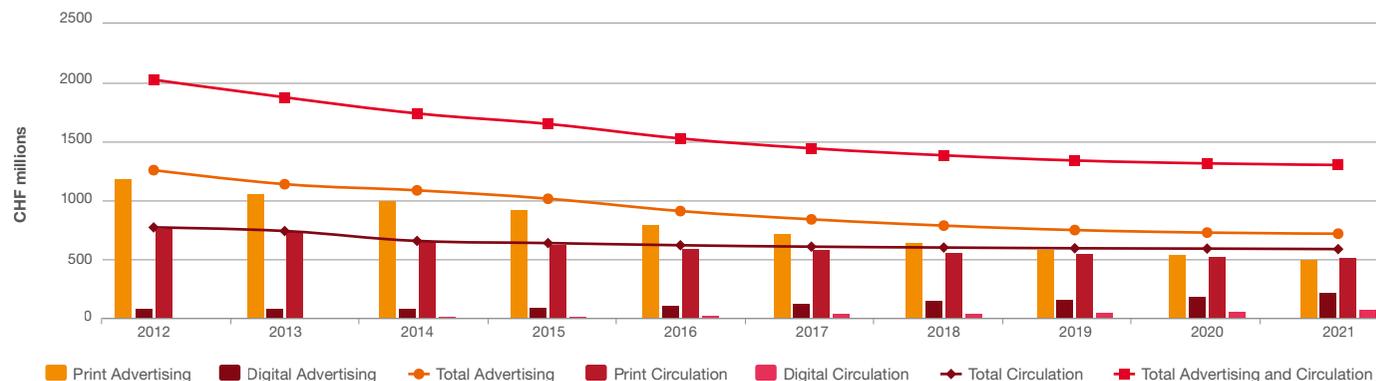
## Business innovation

The changing consumer preferences in content consumption are especially dramatic for the newspaper industry. A key trend here is the radical change of reading behaviour among the young. This customer segment will continue to exist and generate significant revenues in the future. The younger generation gets its news from other sources – say, their Facebook feed, YouTube, Google or Snapchat. Advertising money is moving away from classic media into new digital channels and advertising campaigns. Moreover, advertising revenues are losing importance compared to circulation revenues. Digital subscriptions and advertising are increasing but not able to compensate for losses in print. Therefore, it is crucial for publishers to find new innovative concepts in order to monetise their content.

A source of new innovative concepts is the Digital News Initiative (DNI). DNI is a partnership between Google and publishers in Europe to support high-quality journalism through technology and innovation. DNI launched with 11 founding partners in 2015. The DNI Innovation Fund has awarded more than CHF 77 million to more than 350 projects in 29 European countries.

One project from the DNI is virtual reality (VR) news – telling stories in 360°. News companies have been accustomed to competing and creating differentiation primarily by two means: content and distribution. But a third major trend is emerging, namely user experience. The virtual reality news project is keying

Newspaper Publishing Market  
by component (CHF millions)



Analysis by PwC

on this new trend. There are two things that make VR different from other storytelling forms: embodiment and perspective. Almost all news stories are located somewhere, so the location becomes the only requisition. The role of the user is one of being the protagonist of storytelling instead of just being a consumer of the news.

As already outlined in last year's Swiss Entertainment and Media Outlook, video is becoming a quintessential news format. The increasing trend of watching videos rather than reading articles is still intact. Publishers already use videos in their apps or websites in order to enrich the written content and attract younger people. This is as well interesting for advertisers and creates a new possibility to monetise the content. Video advertising allows the advertiser to evoke more emotion as multiple senses are engaged, which in turn increases customers' willingness to pay more compared to printed advertising in newspapers. Another new innovative concept is to combine video with the VR technology.

Bringing fully integrated VR journalism into reporting and regularly publishing 360° news videos could attract especially younger audiences. There is a wide range of reports on the use of this new VR technology to cover hard news, sports events, culture and feature-style 360° videos.

VR is expected to move into the mainstream. New headsets backed by all the major tech players are coming to the market, encompassing everything from cardboard to high-end headsets with laser tracking. Now more people than ever can have a go at it and experience a multitude of different worlds. The launch of Daydream, Google's platform for high quality mobile VR, is another milestone for VR. As these technologies move forward, they bring with them more potential for journalism and storytelling. There are already publishers who work with VR technology – the New York Times, The Guardian or Wall Street Journal, to name just a few.



An interesting VR format called 6x9 has been published by The Guardian. It was designed around the proposition that the user becomes a protagonist. The Guardian asked the question “What is life like in solitary confinement?” They placed the user in the shoes of an inmate in a solitary confinement cell. The Guardian has delivered some strong in-depth reporting on solitary confinement already, but through VR they were able to give the user an embodied sense of being in the cell. This has a very different impact and creates a whole new dimension for journalism.

There are already some interesting examples of VR technology in Switzerland. One which led to a huge response in social media was published by the Swiss public TV channel SRF. It was a 360-degree experience of the longest World Cup downhill ski race (the Lauberhorn) against the spectacular backdrop of the Eiger, Mönch and Jungfrau massif. This is a beginning, but still far away

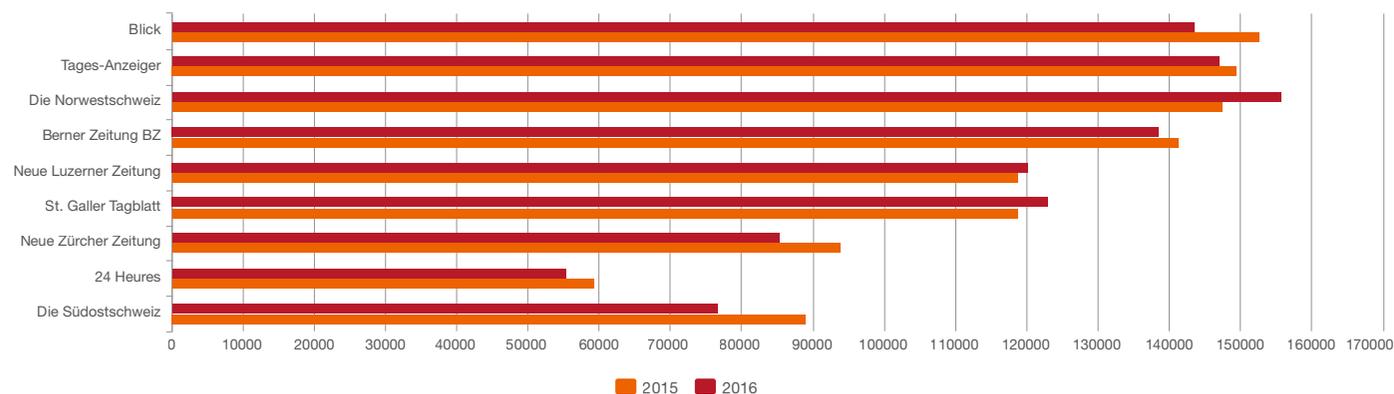
from the kind of fully integrated VR journalism explained above. For the Swiss market, it will probably be too expensive for one publisher to create a fully-integrated 360° workflow within the organisation. But VR technology companies could provide the service to the publishers and thereby create a new line of business for them, as VR has mainly focused on filmed entertainment and video games so far.

## The Swiss newspaper market

### Market overview

The global newspaper industry has been faced with continuous margin shrinkage over the past years. But forecasts for that shrinkage are disturbing: the rate of decline has begun to exceed expectations. New trends and insights include a worsening of the outlook in established markets.

Newspaper Paid Circulation (Selection)



Analysis by PwC



*“The unique selling proposition in the Swiss market is local news. It is difficult to differentiate from competitors with national and international news.”*

**Dietrich Berg**  
Head of Newspapers | AZ Medien

Switzerland’s newspapers are not entirely comparable to those in other countries because of language diversity. The linguistically fragmented Swiss market poses a challenging situation for Swiss publishers. However, this is likely one of the reasons why local newspapers remain or even gain importance in Switzerland. As globalisation progresses, local values are becoming more important. This trend also applies to newspapers. People are willing to pay more for local products as there is a high degree of identity. Furthermore, Switzerland is country with many small and medium-sized enterprises which seek local advertising channels. Thus, as in the past, local businesses’ advertising in local newspapers is the most significant source of advertising revenue. Swiss newspaper publishing remains special, not only because of its distinct geographic and linguistic boundaries, but also thanks to its influence on politics. In Switzerland’s direct democracy, most decisions are taken at local or regional levels, which makes local and regional news particularly important in the political discourse.

Historically, circulation revenues at Swiss newspapers have been less than those from advertising. This still holds true, but there is an ongoing, strong shift to circulation revenue. Globally, the economics of newspaper publishing already have passed a tipping point: circulation revenues now exceed those of advertising. As to Switzerland, we expect that this tipping point will be reached within the next five to eight years. In Switzerland, the





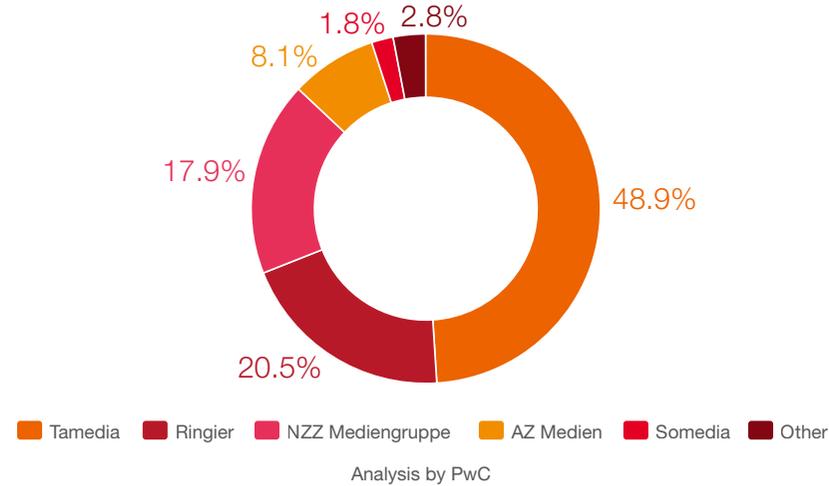
*“The daily printed newspaper as we know it today is an outmoded medium. As news is available at any time on all mobile devices for free, the focus is on reporting background news and high-quality content which is not published on a daily basis.”*

**Dietrich Berg**  
Head of Newspapers | AZ Medien

approximate revenue shares for 2016 came in at 60% advertising and 40% circulation. By way of, from 2009 to 2011 the allocation was stable at approximately 65% advertising. As reader revenues become more important, content gains importance as a key revenue generator. In today’s globalised world, it is nearly impossible for comparatively small Swiss publishers to keep up with the flood of instantly available, international news. Not only national but also local newspapers are therefore focusing more intently on reporting background news. Nonetheless, overall circulation revenues decreased in 2016 by some 3% and will decline even further, albeit at a slower pace (2016-2021 CAGR: -1.1%). This loss of readers has been partially offset by price increases in reflection of innovative and high-quality content as well as an increase in digital circulation. Digital circulation rose from CHF 14 million to CHF 20 Million in 2016 (45%). In the same time frame, print circulation decreased by 4%.

Like print circulation, print advertising is continuing a downward spiral that started in 2012. True, print advertising was expected to shrink, but the scale has been startling. Its decline continues in 2017 at a surprisingly high rate. Net advertising sales in Switzerland for daily, regional weekly and Sunday press decreased from CHF 898 million in 2015 to CHF 783 million in 2016 (-12.8%). And the trend persists: in the first half of 2017, the print advertising market decreased by approximately 11%.

Market Share: Newspaper  
Market shares per 31.12.2016



Although revenues from digital advertising are growing (15% in 2016), digital advertising is not yet strong enough to compensate for the losses in print advertising. Many publishers have built large online audiences to offer display marketers, but advertisers still crave the kind of returns and efficiencies afforded by pay-per-click platforms.

Especially the Sunday papers are suffering heavily under a collapsing print advertising market. As a result, AZ Medien merged ‘Schweiz am Sonntag’ with the Saturday edition of ‘az Nordwestschweiz’ in late February 2017. There is only one newspaper under the name ‘Schweiz am Wochenende’ which is published on Saturday.

The Newspaper market in Switzerland is rather stable. There were no major changes in the competition landscape. One transaction

worthy of mention: BaZ Holding AG, which is headquartered in Basel and publishes the Basler Zeitung, acquired Zehnder Regiomedien AG and Zuger Woche AG in 2017.

But similar to 2016, only a handful of publishers issue most of Switzerland’s newspapers. The market is dominated by four players: Tamedia, Ringier, NZZ Mediengruppe, AZ Medien AG and Somedia (previously Südostschweiz Medien). With its free newspaper 20 Minuten, which is available in all Swiss regions and languages, plus a variety of important newspapers such as Tages-Anzeiger, Tamedia is the highest-circulation publishing house in Switzerland. It is followed by NZZ Mediengruppe with titles like Neue Zürcher Zeitung, St. Galler Tagblatt and Luzerner Zeitung, and then Ringier which offers Blick as its flagship newspaper and also the free newspaper Blick am Abend.



## Principal drivers

### **Digitisation is changing the rules of play**

The smartphone now constitutes the central interface for a constantly increasing number of internet users. For young people, the mobile phone is the primary platform for the majority of their social activities. This is especially true for media use and communications, but also for buying goods and services. Accordingly, the mobile phone has become an increasingly important platform for the distribution of advertising. A project that is keying on this trend is the Companion app of Neue Zürcher Zeitung, which is part of Google's Digital News Initiative (DNI). They are working on an algorithm that can be used to contextualise and personalise their news delivery. It accompanies users throughout their day, offering them a different newscast when they are commuting in the morning than when they are sitting at home on the sofa in the evening. By combining its editorial depth and the aforementioned algorithm, the NZZ will be able to deliver to its readers a stream of personalised (and yet surprising) content based on their location, interests and personal situation. Accompanied by advertising which is linked to the content and/or location, this will create a new revenue source for publishers, and will be of great interest to advertisers, given its ability to actually reach the targeted customers.

### **Social media are competing for the audience's attention**

Domestic news media are now not just competing against each other for the digital audience. They are also coming up against heightened competition from completely different types of actor that are offering a completely different type of media content. If the smartphone has revolutionised the way we consume media, the emergence of social media has involved a revolution on at least as large a scale in terms of the type of media we consume. Social media is becoming increasingly important. More and more people are finding their way via social networks to the news platforms and the specific news they are interested in. Realtime journalism – from on-the-scene, not necessarily professional reporters – is becoming self-evident and ever more influential.



### **Daily newspapers adopt the style of weekly papers**

In contrast to fast-paced newsfeeds and instant, internet-based news, a growing number of daily print newspapers are adopting the style of weekly papers. Articles are longer, more background is provided, and more exclusive stories from the region or locality are included. Nonetheless, this distinction – putting extensive background reportage in print, and putting fast, short news online – is not applicable since platforms such as Spiegel.de offer their best background online, at no charge. Publishers will need to find other ways to increase readers' willingness to pay.

### **Monetisation remains a crucial success factor that has not yet been optimised**

Established publishers are still struggling to create value through digital channels as they did with printed newspapers before. Several price models and payment methods have been introduced and tested, but an ideal solution has yet to emerge. Here, the introduction of new pricing models might be worthwhile. Because



*“Paywalls will not work in the Swiss market. Publishers need to generate media reach with innovative content, and monetise it with personalised advertising”*

**Peter Neumann**  
Head of Digital | AZ Medien



of the prevailing ‘free-content culture’, publishers will need strong arguments to convince customers to pay. Therefore, it is important to invest in technology that supports the possibility to generate money from the content. Introducing so-called ‘paywalls’ is one option some publishers have chosen. Most paywalls in place are ‘soft’, i.e. non-paying users are not blocked entirely. This ‘metered’ approach allows consumers to read a certain number of certain articles for free, before payment is required. But so far this had only worked for international media companies that provide high-quality content to a large number of users (e.g. The Economist or New York Times). The market in Switzerland is very small and focused on local news. To compensate for the losses from such paywalls due to fewer users and therefore less media reach, it would take prices which nobody is willing to pay. In contrast, many consumers, especially those in the most attractive demographic segments such as high earners and millennials, prefer ad-free environments, especially when they are viewing or reading high-quality content. This shift is evident in the increased use of ad-blocking and ad-skipping technologies and the rapid growth of ad-free/ad-light subscription revenues. Publisher can sell different types of subscription with no or less advertising and price it accordingly.

## Market growth

The 2017 prognosis for compound annual growth is rather negative based on the first-half results of publishers in Switzerland. For the next five years, we are projecting that annual growth (CAGR) for total advertising and circulation will average -3.2%, mainly due to losses in print advertising. In 2016, print advertising decreased by 12.8% and the trend has continued in 2017 (-11% in the first half). Tamedia announced the largest austerity programme in its history. Ringier, the second-largest player, announced a CHF 2 million per year cost reduction programme at its ‘Blick’ group.

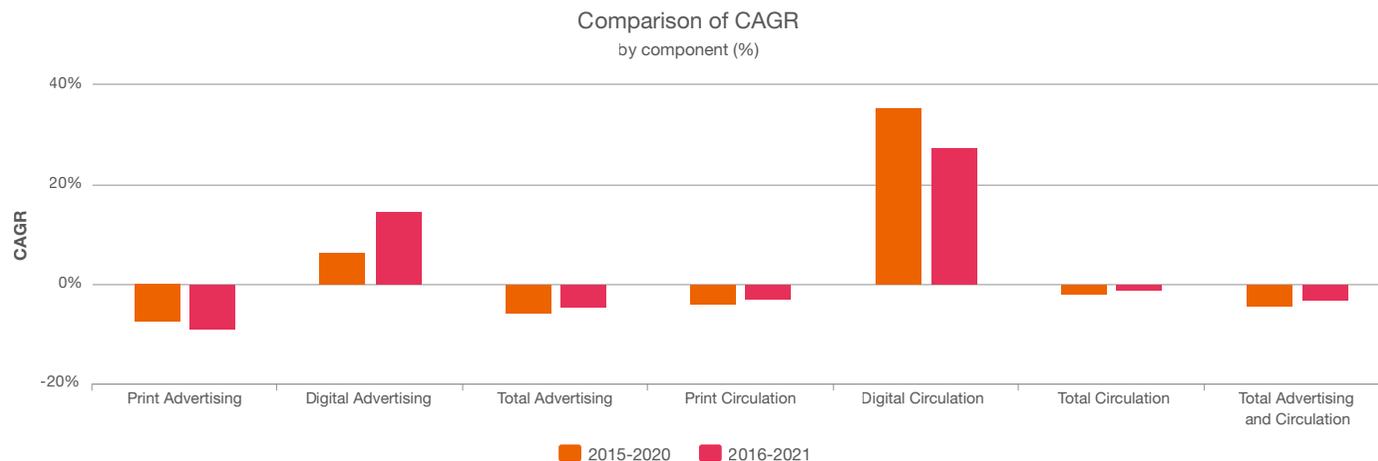
However, there are still some positive developments which will

impact the market. Most notably, the euro/franc exchange rate has reached its highest level in a long time. When the EUR/CHF exchange-rate floor was eliminated in early 2015, especially the print advertising sector suffered severe losses. In addition, the general outlook for the European economy is favourable, which could lead to more subscriptions and increased advertising budgets.

Although print advertising revenues continue to fall, they will remain the primary source of income over the forecast period. In the long run, we still expect print advertising to shrink, however at a pace that gradually slows. For the next five years, we are projecting that annual growth in print advertising will average -9%; for print circulation, the CAGR should be -3%. Reader

spending, although also on the decline, will become ever more important, especially in regard to digital circulation. As print advertising and circulation revenues fall, revenues from digital offerings are expected to grow further. We project a 2016-2021 CAGR for digital circulation of 27.3%; for digital advertising, a rate of 14.5%.

We do not assume that the digital business will supplant print entirely. Granted, print is struggling, but it has potential for innovation that could revive the interest of certain consumer segments. While national papers have seen their digital revenues grow, many regional and local papers have actually had problems fostering interest in their digital offerings. Regional and local audiences remain print oriented.



Analysis by PwC

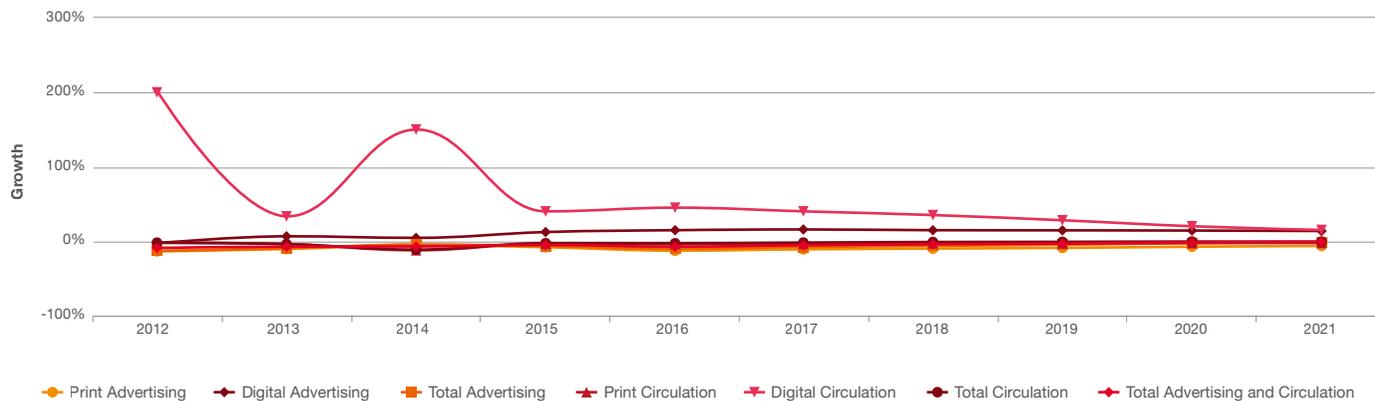


## Comparison to Western Europe

Globally, total newspaper advertising revenue is on course to lose a cumulative total of roughly CHF 23.8 billion between 2012 and 2021. Consumers in Europe continue to abandon print for digital channels. Free newspapers are also losing readership across Western Europe, after having grown impressively in previous years. The areas that are showing growth, such as internet advertising, are not sufficiently large to overcome the stagnation in other areas. The digital sector can hardly offset the diminution of the overall newspaper industry. Growth in digital circulation has been strong in recent years, and still is in 2017. Nonetheless, growth today is weaker, and we expect it to slow further as publishers gradually approach their limit of possible subscribers. Moreover, ad blocking has become a revenue suppressant in digital advertising. A 2015 study by Sourcepoint and comScore found that, although only 10% of users block ads in the U.S. and U.K., about 25% do so in France and Germany.

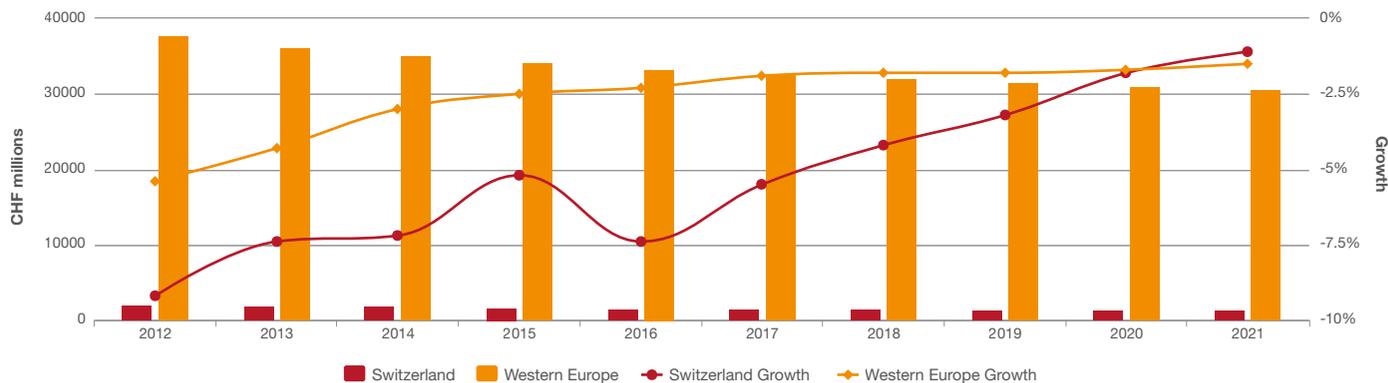
Switzerland accounts for 4.5% of the Western European newspaper market. Given Switzerland's slow shift to digital, we expect overall newspaper revenues to decrease faster than the Western European average. But the gap is getting smaller from year to year. The 2016-2021 CAGR for Switzerland is projected at -3.2% for total advertising and circulation, compared to -1.8% for Western Europe.

Newspaper Publishing Market Growth  
by component (%)



Analysis by PwC

Newspaper Publishing Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

