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# New And Emerging Business Models For Online News: A Survey Of 10 European Countries

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### **New And Emerging Business Models For Online News: A Survey Of 10 European Countries**

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#### **Abstract**

*The online music and news markets have changed significantly and fundamentally over the past few years, as more and more new players – many of them originally from other sectors – enter the market space of the original media companies. While online news venues have been available for quite some time, the major tragedies and news events of the past few years have highlighted their ability to provide immediate, constantly-updated information (Emmer et al., 2002). In this paper we describe the current state of play in the online news industry in ten European countries, as at May 2003. The findings are based on the first two phases of a three-phase, European-Commission-funded market survey. In the paper we consider in greater detail the Internet business models of these companies. After initially introducing some of the literature in this field and discussing the justification for our chosen research approach, we describe our research design. We then report the findings from the first two phases of the project – the “Expert talks” and our web-based survey of the online news industry. Finally we identify the key driving factors for online news today: the new competitive environment, the appropriate payment systems, the focus on core competences, end devices and the consumers.*

#### **1 Introduction**

Digital content is a topic of enormous interest world-wide, although much of this interest stems from the attempts by the music industry to stop the growth of illegal peer-to-peer music swapping. The past two years have, however, been a turbulent time for the digital content industry, with many new market entrants failing within their first 6-12 months of operation. In the wake of the dot.com and telecoms crashes, smaller companies are finding it increasingly difficult to obtain the advice they need to make strategic decisions (such as, for example, whether to modify their business model, or whether to buy or sell a subsidiary). This paper is based around the work of a European Commission Fifth Framework project (SimWeb) designed to explore the possibility of developing a multiple-agent simulation as a strategic decision-making tool for SMEs in the online

market-space, in the hope that this would provide an effective, but relatively inexpensive, alternative source of expert advice to companies unable to afford consulting services. Clearly, the consortium needed to restrict the domain within which it would work, since fully grasping the underlying business models of even one online sector is a major task, and we therefore decided to work with two sectors only: online news and online music.

The two markets are very different from a number of points of view – one of the most obvious differences being the amount of controversy they generate. Access to online news, in contrast to online music, is not seen as particularly controversial – to many consumers it is simply another channel (or possibly several channels, since mobile news access is increasingly important) through which they can obtain updates on world events in real-time. The existence of online news is thus fairly widely accepted although, as the Online Journalism Review points out:

*“the narrow definition of news - the classic paradigm of a reporter kicking up new information that is then tailored by an editor and sent, wrapped in ads, to a reader or viewer/listener - doesn't work online. Cybernews, to survive financially, has to come in a sophisticated bundle of news, services and e-commerce. This is a fundamentally new paradigm. And it changes the relationship between journalist and news consumer. Some content providers, like AOL and Yahoo, have figured that out. Others, like most newspaper sites, have not. They may perish” (Pryor, 2004).*

In this paper we describe the current state of play in online news in ten European countries as at May 2003. The outcomes are based on the first two phases of a three-phase, European Commission-funded market study, which included “expert talks”, an online survey and which, in the third phase, will include a series of face-to-face interviews. In the paper we discuss the Internet business models of companies working in this field. After briefly touching on the literature relating to online news, and discussing the justification for our chosen research approach, we describe the research design and report the findings from the first two phases of the project. The discussion of findings which follows combines the survey results themselves with literature-based data and analysis, in order to present a clear picture of the European online news industry. In the final section of the paper we identify the key driving factors for online news today.

## 2 Literature Review

Many researchers have published descriptions of business models for content and news. Some authors like Rayport (1999) and Niewiarra (2001) stress the aspect of a network as a central element of a content provider’s business model. For Weill and Vitale (2001), by contrast, the business model of a content provider concentrates on the production of content; whereas for authors like Wirtz (2001) or Farhoomand & Lovelock (2001) content providers act more as intermediaries in the value chain. Bartussek (2001) takes both of these aspects into account and in earlier work (Krueger and Swatman 2002; 2003) we discuss and endeavour to taxonomies these varying approaches to business models for online news.

One of the most highly-regarded authors in this field is Robert Picard, Professor of Economics and Director of the Media Management & Transformation Centre at Jonkoping International Business School in Sweden. In several books (Picard and Brody 1997, Picard 2002a, 2002b) and academic articles (Picard 1999, 2000) he describes the possibilities (and threats) for newspapers and other content providers endeavouring to deal with the challenge of new technologies. In one of his papers (Picard 1999) he

focuses particularly on the increasingly competitive environment for newspapers over recent years; and on the new consumer groups which newspapers should target. In more recent publications he describes the business models of major online content service providers (Picard 2000b) and the different business models which have been trialled over the past few years (Videotext, Paid Internet, Free Web, Internet/Web Ad Push, Portals and Personal Portals and Digital Portals (Picard 2000 p.63, Picard 2002b pp.27-30).

Our goal, as part of the EC project mentioned earlier, was to understand exactly what was happening in the European online news industry and to identify the business models currently being used by the various actors in this industry sector. While drawing on the academic literature in this field, we needed to obtain ‘hard’ data concerning the actual activities of online news providers in Europe over the past few years – both to provide an empirical foundation for future theoretical work on this topic and to provide a solid comparison with the substantial body of work which has already been undertaken in the US.

### **3 Research Approach**

Despite the levels of interest digital content has created, and the enormous and continually growing body of literature relating to business models, we began our project facing the problem that there is only a limited research base related to the identification of appropriate business models for either online news or online music. This issue of how to address problems which exist in what might be called a domain-theoretic vacuum is not new. Many researchers in fast-moving fields of research have faced the same problem over the past few decades (see, for example, Bonoma (1982) who related this issue to the marketing domain almost 20 years ago). We therefore felt it was crucial to gather the richest possible data on actual activities by companies working in these two fields across Europe.

Our initial research design initially called for a survey of 10 European countries, followed by more in-depth analysis by means of face-to-face interviews in these same countries, to provide triangulation. Integrating several different research methods is a strategy used by many IS researchers (see, for example, Kaplan and Duchon, 1988; Lee, 1991; and Gable, 1994), with the sequence and combination of the research methods selected depending on the characteristics of the problem under review.

Before we commenced our survey, however, we decided to gather some expert information on the two sectors under study, from experienced senior executives working in both sectors. These so-called ‘expert talks’ were undertaken in the two months before the launch of the survey and proved extremely useful in refining and improving the content of the survey questionnaires. Our two-phase research strategy thus became a three-phase strategy:

- Phase 1: expert talks (scene-setting)
- Phase 2: online questionnaire (quantitative data collection)
- Phase 3: face-to-face interviews (qualitative data collection)

with each phase informing and adding to the subsequent phase.

In this paper, we consider only the first two phases of this project (phase 3 is still underway) and restrict ourselves to discussing our findings from the online news sector.

### **3.1 Phase One – Expert Talks**

We held detailed, face-to-face discussions – the ‘expert talks’ – with a total of 13 executives from 11 companies, mostly located within Germany. The questions we asked were largely open-ended and provided wide-ranging information on the structure of the two markets, the companies operating within those markets, and the activities, strengths, weaknesses, opportunities and threats facing the ‘players’ in those markets.

Above all, the expert talks enabled us to identify the stakeholders in the online news market, which was a crucial factor in the design of the online questionnaire structure. For this sector, the stakeholders included: journalists, news agencies, news portals, online media companies, telcos/PTTs, Internet service providers (ISPs); payment system providers; and technology providers.

### **3.2 Phase Two – Online Questionnaire**

Questions were designed from both a theoretical and practical perspective. We had already undertaken a very extensive literature survey of both online business models and of the news industry (on- and offline) and based many of our questions on this theoretical understanding (see De Vaus (1995) for more detail on appropriate questionnaire design). Other questions were based on the responses we obtained during our expert talks, which had provided substantial information about this industry.

We surveyed as many European companies operating in this sector as possible during the Phase Two survey. Identifying these companies was the most difficult part of this task, requiring us to use of a variety of techniques to maximise market access and response rate. We used a combination of email and web pages to obtain the survey data (more thorough discussions of the use of the Internet for survey data collection is found, *inter alia*, in Comley 1996; Smith 1997; MacElroy 1999; and Grover 2000). The survey form was available on our web site and made as user-friendly as possible. Initial testing was done by several online news companies to ensure questions were unambiguous. The survey questionnaire itself was made available via the project’s website and individually-identified participants were invited by email to fill in the questionnaire, with the URL included in this invitation message as a hot link.

Numbers of responses to the online questionnaire were somewhat disappointing – largely, we believe, because of data complexity and the consequent length and nature of the survey questionnaires. Although we reduced the time needed to answer the questionnaire to around 20 minutes, not all respondents could or would provide the detailed and complex data we were asking for. We believed that the trade-off between quality and quantity was worthwhile, however, and decided to purchase ‘standard’ industry data from commercial providers in areas where we needed sheer numbers to round out our findings.

We obtained 104 responses from companies from the online news sector from eight different European countries, in addition to 45 respondents who classified themselves as active in both online news and online music and who are therefore included in this paper. The largest number of respondents came from the UK and Germany, with Spain and Italy being next in number of respondents.

## **4 Findings**

### **4.1 The Original Creators Of Online News**

Content in the online news sector has a very short life-span and is archived only for research purposes – who, after all, wants to read last week’s or last month’s news? The original creator of news is the journalist who writes news stories and these creators are adept at acquiring information in the most effective and up-to-date manner possible. The development of digital content has had a major impact on journalists’ working lives and on the way in which they work. Journalists are no longer restricted to writing and editing for a single employer and/or medium, but can more and more frequently be found writing stories for a variety of media – with a consequent need to become increasingly flexible in their writing style, content development skills and marketing practices. At present these changes are still working their way through the journalism environment and it is possible to find journalists who are trying to cater for both online and offline content production. Many journalists still choose not to go online with their work and a viable market still exists for those writing exclusively for the ‘traditional’ press – although this may not continue indefinitely (Hooffacker, 2002).

### **4.2 Online Media Companies In The News Sector**

Media companies moved quickly to make use of the Internet as an alternative distribution channel, but online news, as our initial quote from the Online Journalise Review pointed out, is an entirely different business from offline news, and it has different needs: not only does it require a relative sophisticated technology infrastructure, but also a new way of reporting information. Both of these requirements lead to increased costs for the provider of online news, but the Internet user as consumer is used to obtaining everything for free, so the question of how to generate revenue becomes a pressing one. Two additional factors have further complicated this issue:

- the current global recession has limited many companies’ capacity for investing in the development of sophisticated new business models
- the classical news revenue source (advertising) is not very successful in this new environment.

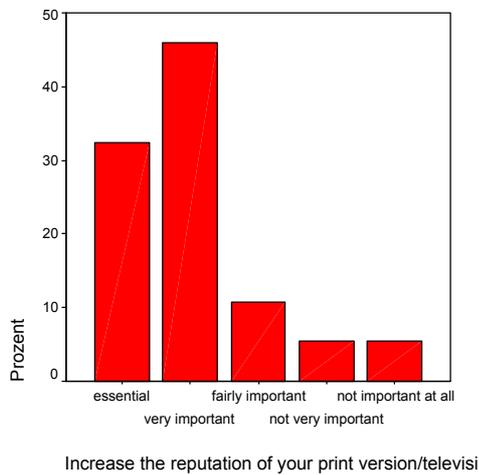
At present the following phenomena can be observed in the online news sector:

- Today most regional and national newspapers in Europe have an online version. Online newspapers have continued to increase over recent years in terms of numbers of titles despite the fact that few, if any, profits are being made.
- By contrast, it is impossible to identify the number of Internet-only publishing dailies without a corresponding print version, although we know there are only a handful of new ‘pure-play’ online news sites. The majority of Internet publishing dailies have a print brand backing them.

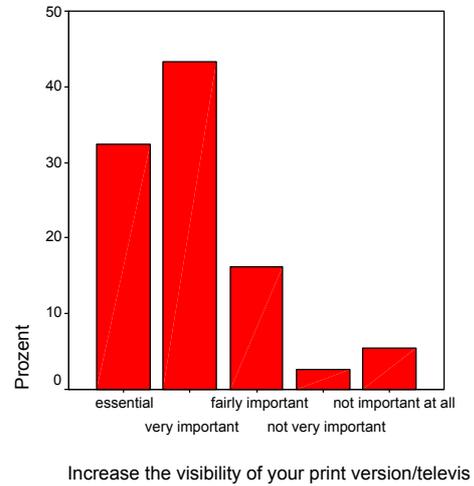
100% of the respondents of our questionnaire have a newspaper (or TV or radio) with the same brand.

The industry complains about its inability to make a profit from content. Cost cutting and rationalisation programs are still the most popular approaches taken to address this problem for companies in this sector to date (IRN, 2003) – and, as yet, only a few newspapers have tried to introduce paid content (for example, WSJ.com, RZ-Online.de,

ft.com). Nonetheless, the newspapers stay online – either because they believe there is no alternative, or because they trust that profits can ultimately be made. Figure 1 (a / b / c / d) summarise our respondents’ answers to the questions of: the importance of the connection between the online and offline versions of a newspaper; and the value of the online presences as a tool for future revenues.

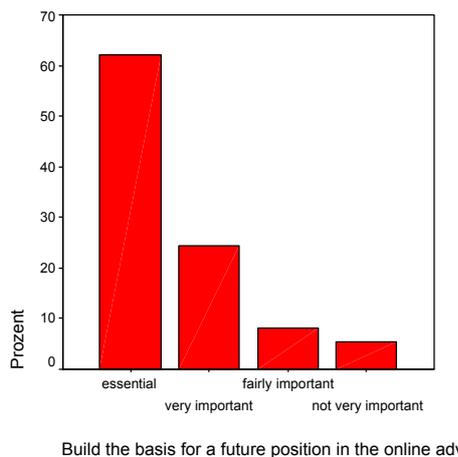


**Figure 1a:**  
*Increased Reputation Of Offline Version*

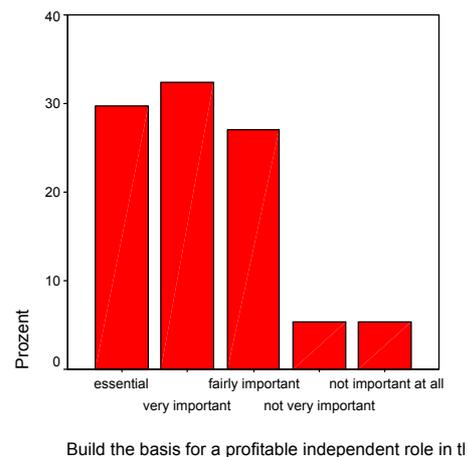


**Figure 1b:**  
*Increased Visibility Of Offline Version*

Almost 80 % of online news suppliers believe their online presence is essential or important for increasing the reputation of their offline brand (Figure 1 a / b / c / d). We obtained similar answers when asking about increased reputation of the offline brand due to the existence of an online version – and an empirical study of the Finnish newspaper and online news market (Sääksjärvi & Santonen, 2003) also found that the most important goal of the online news venues in their sample was to support and strengthen the print version of the newspaper.



**Figure 1c:**  
*Basis For Future Online Advertising Market*



**Figure 1d:**  
*Basis For Independent Market*

86.5 % of respondents believe that distributing news on the Internet forms the foundation for a future role in the online advertising market and 62.2 % believe that such an investment in the future it is important to ensure a profitable independent role within the online news market.

Despite the fact that newspapers are thus far essentially working on faith in investing money into online versions of their brand, the picture is not all black for online content. A positive trend for the online content industry seems to be slowly developing: there is an increasing acceptance of paid content by consumers, in particular with online newspapers. This applies especially to exclusive, personalised and high-quality news, which has a good chance of being accepted as paid content (heise-online, 2003a) and is often seen in the financial papers, such as the Wall Street Journal or the British Financial Times, both of which are successfully selling content to both subscribers and casual readers.

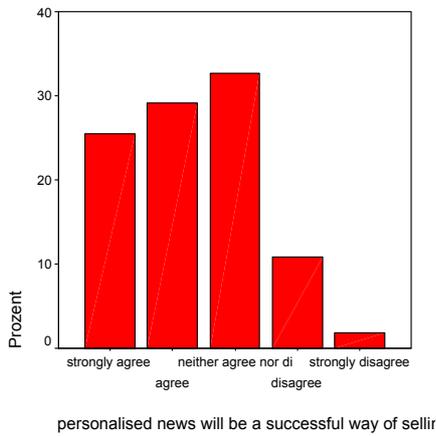
And despite its rather depressing beginnings, the development of advertising spending in the Internet is gradually turning positive. Online news advertising is still not a big proportion of total advertising expenditures (see Table 1), but growth rates increased noticeably between 1999 and 2000 and it is anticipated that, following an economic upturn, advertising spending on the Internet will further increase.

**Table 1: Internet Adspend In Online Editions (US\$ mill. at Current Prices)**

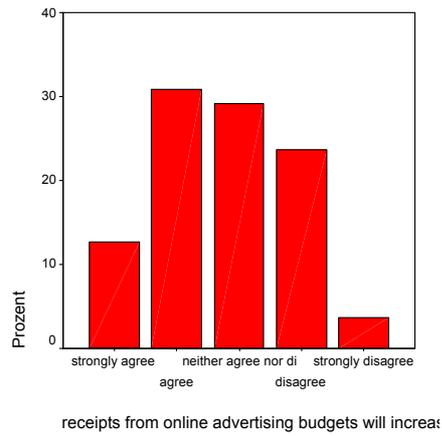
	1999	% of total adspend	2000	% of total adspend	2001	% of total adspend
<b>Belgium</b>	6.1	0.4	11.8	0.7	16.6	1.0
<b>Finland</b>	5.7	0.6	8.8	0.9	15.1	1.5
<b>France</b>	72.8	0.9	196.6	2.1	190.7	2.2
<b>Germany</b>	70.9	0.4	141.3	0.8	124.4	0.7
<b>Italy</b>	24.7	0.4	71.4	1.0	71.4	1.0
<b>Spain</b>	13.8	0.3	49.2	1.0	44.3	0.9
<b>UK</b>	81.9	0.6	159.2	1.0	204.7	1.4

Source: WAN (2002)

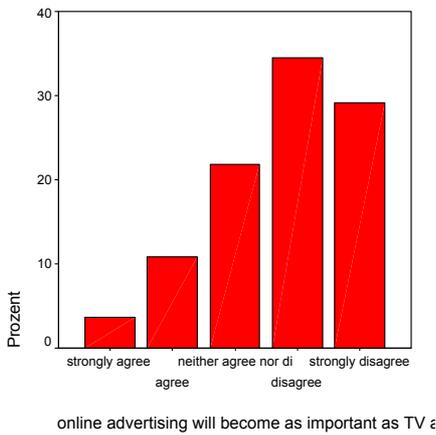
When respondents think about increasing their future revenue, there are still high levels of uncertainty. In fact 54.5 % of respondents to our survey agree (or strongly agree) that personalised news will be a successful way of selling content, although 32.7 % neither agree nor disagree and 10 % remain pessimistic (see Figure 2 a / b / c / d). 27.2 % remain pessimistic regarding future receipts from online advertising budgets, although the surprisingly optimistic figure of 43.6 % think the online ad budget will increase during the next year. Most respondents doubt that online advertisements will be as important as TV (or Radio/Print) advertisements, with 63.4 % disagreeing and 52.7 % strongly disagreeing that online advertising will become as important as advertising in the traditional media; and only 14.5 % (21.8%) agreeing or strongly agreeing that online advertising is as important as TV (Radio/Print) advertising.



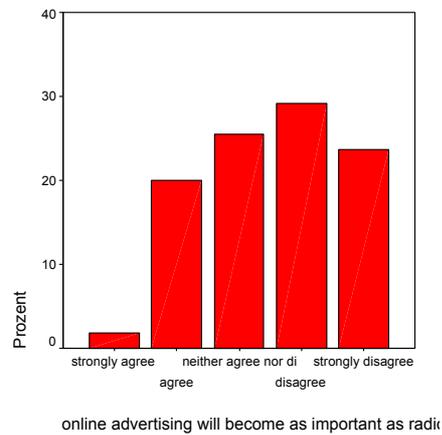
**Figure 2a:**  
*Personalised News As New Way Of Selling*



**Figure 2b:**  
*Online Advertising Budget Will Increase*



**Figure 2c:**  
*Importance Of Online Compared To TV Advertising*



**Figure 2d:**  
*Importance Of Online Compared To Radio/Print Advertising*

#### 4.2.1 News Agencies

News agencies’ core business is selling news to online media companies – and they are the principal producers of news. Major news agencies such as Reuters, dpa or afp deliver different kinds of news to newspapers, magazines, radio and TV – as well as to Web portals. They either have a network of correspondents, or they purchase their content from freelance journalists or even from other news agencies and media companies (company or editorial staff policies from, e.g. dpa.de, Reuters, ap-online.de clarify this point). 62.5 % of the companies responding to our survey produce the news they offer in-house. When they buy news, they purchase it from freelance journalists, other news agencies and other media companies. The most common way(s) to add value to news is association with the off-line brand (22.2%), technical integration, or the sale of news related products (both 16.7%) and convergence of information (11.1%). News is mainly distributed through Web sites (26.3%), print (21.1%) and databases (15.8%).

Respondents use the Internet mainly as an additional delivery channel, making it easier, cheaper and faster for the news agency and the business customer to integrate content. Type of customers, mainly businesses such as portals, online newspapers, or other corporate customers is another important factor in news agencies' customer relationships. The B2B nature of the relationship means that contracts are usually long-term, in contrast to individual customers' short-term or even casual buying decisions – and the duration of the relationships is seen as one of the reasons why the news agency's content is so often integrated with the customer's own offerings. 42.6% of agencies charge for access to complete articles and access to archives. The main charging mechanism is contract (27.3%), followed by download, pay per view and pay per download (each 18.2%).

#### **4.2.2 News Media Companies Online**

Asked for their competitive advantage in the online news market, 63.2% of the respondents<sup>1</sup> believed that their competitive advantage in the market lay in their high quality product, the same number give credibility, or in their regional focus (60.5%). Service provision (10.5%) wasn't seen as an existing advantage.<sup>2</sup>

The core process of the media companies was the production of news (81.6%), adding value (55.3%) and distribution of news (44.7%). 78.9% of respondents said that their strategic decision-making is influenced by the advertising market's expectations, 73.7% identified their customers as the source of strategic decision-making, 47.4% their competitors and the financial situation, and 55.3% technology.<sup>3</sup> Most of the news media companies use external Telcos/PTTs (44% of all companies), network providers (64.3%) and payment system providers (66.7%) to operate their online business.

Production decisions differed widely, with 56.7% of the companies producing everything in-house. The news, which are purchased comes from free-lance journalists (41.2%), from news agencies (82.4%) and from other media companies (29.4%).<sup>4</sup> The companies add value to news by associating it with their off-line brand (72.7%), by offering hyperlinks to further information and interactivity (both 66.7%) and by news-tickers (48.5%).<sup>5</sup> Most media companies in our survey distribute news through different channels, e.g. through Web sites (93.9%) and via the print version (60.6%).

90% say that their revenue comes from online advertising and 43.3% obtain income from content sales and sponsorship<sup>6</sup>. 30% say they will continue to offer digital content free as a service to their customers.

Much of the news offered online is still free – with

- 96.7% offering current news freely,
- 82.1% offering abstracts of articles without charge,
- 78.6% making even full articles freely available and

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<sup>1</sup> These numbers are % of cases, where there was "Multiple Entries Possible" (MEP). All questions where such multiple entries were possible therefore have a footnote stating MEP.

<sup>2</sup> MEP

<sup>3</sup> MEP

<sup>4</sup> MEP

<sup>5</sup> MEP

<sup>6</sup> MEP

- 71.4% offering financial and business news for free.

Other chargeable services are beginning to emerge, with:

- 58.6% charging for access to archives
- 7.1% only charging for newsletters, and
- 25% charging for subscriptions to the print version online.

Personalised news facilities are offered at no cost by 37% while 11.1% charge for personalised news (48.1% of respondents do not offer personalised news). The usual charging mechanism for news services is subscription (72%), followed by pay per view and pay per product (both 32%).<sup>7</sup>

As the Internet continues to develop, media companies can purchase technological infrastructure, find a technology partner or become a technology provider themselves and simultaneously offer the appropriate technological infrastructure plus content to their own customers. They can even go a step further, as the New York Times has, and offer their technology to other newspapers and magazines worldwide. The NYT's platform is called NewsStand and is a wholly-owned subsidiary providing value-added benefits from the use of the parent company's existing technology base. The company takes the Quark Express output of its client newspapers and converts them into an online facsimile version of the paper which can be downloaded by customers to a particular PC. NewsStand is not simply a Web platform for the New York Times, but also a promising new business for a company which was once merely the publisher of a single (if well-known) newspaper. NewsStand currently provides access to 43 European newspapers and journals alone (as at April 2004), in addition to 52 US newspapers and magazines – and still others from around the world.

### **4.3 News Portals**

Many traditional intermediaries are being replaced by their Internet equivalents. The Internet can cause disintermediation within either the marketing or the delivery channel, as partners such as wholesalers or retailers are bypassed. The impact of these changes in terms of the resulting channel conflicts needs to be carefully assessed. The Internet can also enable re-intermediation, as new intermediaries with a different purpose are formed to help bring buyers and sellers together in a virtual marketplace or market space (Chaffey *et al.*, 2000).

Disintermediation can be seen clearly in the online news market space. Traditional companies offering news to end consumers face new competitors on the Web. National newspapers (dailies) used only to compete with a few other national newspapers – now they must compete against news portals like Google or Web.de (offering news on their Web sites to attract more users and increase the “stickiness” of their homepages). When the day's headlines are universally available, it is increasingly difficult for an online news provider to depend on headlines alone for its attractiveness. Clearly, some other way of gaining and keeping subscribers is needed.

In terms of re-intermediation a new group of news portals is emerging online. Web sites such as europemedia.net aggregate information – either for a special clientele or for a special region. Europemedia.net, for example, aims to identify and provide information

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<sup>7</sup> MEP

about Internet and new media developments in Europe on a country by country basis. The user can obtain news reports, articles, newsletters and much other useful material for business activities and research. Premium content revenue models include subscriptions (for 1 or more users) and pay-per-view sales of surveys, reports and datasheets.

#### **4.4 Telecommunications Companies And Technology Providers**

This group is common to both online news and online music – although some of the companies involved have set up specific joint ventures to take advantage of a particular niche market. British Telecom, for example, has built an alliance with Yahoo to take advantage of Yahoo's 'cool' image among young readers by having them provide content (heise.de, 2003). The German regional online news supplier RZ-Online is working with Kevag-Telekom (a well-known regional telco) to create an ISP/ASP subsidiary; and the joint venture between T-Online and the German tabloid Bild has led to the creation of a highly successful news portal.

Although some European telecommunications companies are offering full-service portals with traditional media content (e.g. the Finnish webservk.telia.fi, or the French Wanadoo which is 70.6% owned by France Telecom), others see their competitive advantage in the content sector in terms of their technological expertise and their high quality product (as did 80% of respondents to our survey). Developing and implementing software as well as developing and operating telecommunications networks and systems are their core processes. Customers (87.5%), technology (79.2), competitors (58.3%) and the financial situation (10.4%) are the major influences on their strategic decisions.<sup>8</sup>

The companies in our survey mostly provide software (58.3%), Internet application services (54.3%) and payment systems (50%). 80% of this group says they provide the infrastructure for content providers.<sup>9</sup> Revenue for these companies comes mostly from software sales (65%), content sales (45%), revenue sharing and consultancy (each 40%).<sup>10</sup>

The core competence of the telecommunications companies once lay in their supply of the physical telecommunications infrastructure. A two-way dependency exists: on the one hand the telcos need the content providers to add value to their pure telecommunications product; on the other hand content providers need telcos because of the breadth of their customer base and because the telcos actually physically deliver the content to the end consumer.

Content providers either do not have the expertise needed to maintain their own technology, or find it too expensive to do so; and therefore seek partners who can provide this capability and are willing to share it. Of course they also cooperate with ISPs or online portals, even though these are competitors. The united effort to win new customers and satisfy their needs forces these companies to develop cooperation. Revenue and the customer relationship must be shared in an adequate and mutually-agreed way.

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<sup>8</sup> MEP

<sup>9</sup> MEP

<sup>10</sup> MEP

## 5 Driving Factors For The Online News Industry

Our survey shows very clearly that news and content companies do not focus on their online business but use it as a support for their offline and more traditional brand. In addition, no company is willing to miss out on the opportunity to make money online in the future - either from advertising or even through content sales.

The main problem for the online news market is the fact that financing online business through advertising revenue has not proven to be a successful strategy. Newspaper advertising has become vulnerable with the advent of the Internet (Clemons, 2002) and the transfer of the traditional business model, where 75% of the income came from advertising, simply doesn't work online. This problem has been exacerbated by the global economic recession, causing advertisers to limit spending wherever possible (Frey *et al.*, 2003). But even when the economy recovers, online media companies must rethink the way they use advertising as an income source: the 'classic' classified advertisement groups (employment, autos and real estate) are already being lost to other, sometimes more specialised, online companies. Traditional media companies have thus been forced to restructure their online businesses.

Despite the lack of absolute success criteria in the online news sector, we have identified some trends from our survey data:

*Identification and branding:* some newspapers have sufficient standing in their community to charge for content on the basis of their name – for example, the Wall Street Journal and the Financial Times have been successfully charging for content for some time now because their analysis and editorial content is considered sufficiently valuable to the financial community they service. Those news organisations which have not been fast enough to catch the cyber-wave, or which do not have a sufficiently saleable brand within their industry sector, must now decide whether they wish to join those already offering their paper through a common front-end such as NewsStand, or whether they can distinguish themselves in some other way.

*Combination business models:* newspapers which are not so immediately memorable, or which do not have a traditional of excellence in an area of significant demand such as finance, find it considerably more difficult to create an effective new business model. Both regional and national newspapers have had to learn how to make money from their online versions. Many of the most successful have used combination business models, where content quality is complemented by innovative advertising policies and – particularly in the case of the regionals – the development of virtual communities.

*Identifying comparative advantages:* comparing the business models we have identified in the literature, it is obvious that only a combination of the individual approaches is working in the real world. A regional online newspaper, for example, is a producer of news for its region and simultaneously an intermediary for international, national, business and financial news, which it must purchase from news agencies or other newspapers and magazines. The regional provider must then add value to this purchased content to adapt it to the demands of its own readers. The German regional newspapers are also creating regional networks (this is obvious with the three regional German newspapers we have analysed in depth – see Krueger and Swatman, 2002 for more detail on this topic): RZ-Online is building a network to sell Internet access and homepages; SWOL is also offering topic-centred Web sites; and RON Online has even created a regional marketplace.

As these examples suggest, a major issue for a profitable online news provider is the need to have several sources of income (such as online subscription + archive

pay per view + Internet access). At the content level the newspaper has to be the number one in its region or country to attract enough people to its Web site and generate page impressions – or must have some special credibility or exclusive content which will encourage paying customers.

*Technology push:* broadband and mobile Internet access are increasingly popular and are widening the uptake of Internet services – and as the profile of the average Internet user becomes closer to that of the average citizen, these new market niches will become progressively more important. The Internet is becoming a medium like TV or radio with which the user is spending more and more time. Competition between these three media – and the convergence of all three – is placing increasing pressure on media companies to guess correctly what will catch users' interest over time.

*Niche marketing:* in consequence of the higher levels of competition in the online content sector, exacerbated by the fact that content providers, ISPs and telcos are becoming less and less distinguishable, companies must try to sharpen their own profile and thus stress their core competence(s). One possibility is to look for a niche market – on the content level, on the regional level or on the technology level. Another way out of this dilemma could be to join together with complementary companies to offer something unique – or at least something very attractive. Content providers and Internet service providers, for example, could offer a joint product to one another's customers – or even offering the competitor's product or service to their own customer base. This kind of "coopetition" can be based on revenue sharing. 64.3% of the telecommunications and technology providers in our survey believe that content providers won't survive if revenue isn't shared.

## **6 Conclusions**

It is obvious that not all content providers can afford to set up their own technological platform. But joining existing platforms allows companies to profit from these advantages. Content providers in the broader sense – additional services, community creation and convergence, together with an innovative approach to advertising revenue – seems to be the most promising online business model at the moment, although other categories also offer opportunities for growth (or, at least, for survival). But businesses must concentrate on their core competency. So there are two groups of promising Internet business model:

1. Those Internet business models which integrate the creation, acquisition, value-adding and digital distribution of content with the help of a software platform and therefore profit from the network effects.
2. Those Internet business models which concentrate on what they know best, their core competence, and which find the right partners to support this strategy.

Another driving factor for the online content industry is the consumers themselves. It is unlikely that the 'classic' Internet consumers described by the participants in our online survey (primarily male, middle income, and aged between 30 - 39) are really those who should be targeted. New studies reveal e.g. that more and more older people are using the Internet in Europe and are a promising target group for online content providers (Nielsen//Net Ratings, 2003). The Internet has made it possible to access – in a simple, fast, convenient and relatively cheap manner – information or music and, indeed, content in general. Consumers on the Web have more power over their buying decisions than they do in the real world. The next offer is only a click away and could contain almost the

same information. Online retailers can develop their offerings, (e.g. personalised news services, or creative advertising targeting to an individual), develop a competitive pricing strategy, and place servers worldwide for easy access for their consumers and offer an always accessible Web site. To better serve and understand consumers, online retailers have to build up an extensive data base, analyse the users' behaviour on the Web site and create customer profiles. This knowledge has the potential to increase sales if it is used in a marketing-savvy way.

Our survey revealed that 42.3% of the online media companies will continue to offer digital content free of charge as a service to their customers, while 19.2% are already charging for content and a further 19.2% are planning to charge for digital content this year or next.

But companies need to see that they are moving into a new competitive environment where TV stations are competing with radio stations and with the Internet for customers' attention, as well as for their limited time and money. The different kinds of companies answering our online questionnaires made it clear that they all are involved in the online content business in one way or another – and see themselves as stakeholders in this market. And the offers from all these market players are becoming more and more similar, making competition still more difficult. Convergence in the online content sector is very clear, with former media companies, as well as companies previously offering telecommunications or technology provision, moving into the online content business. As Porter's (1980) five forces model suggests, under these circumstances companies in the online news sector are facing more and more competitors online than ever they did in the offline world – and many more than they did only a year ago!

In consequence of these higher levels of competition, companies have to try to sharpen their own profile by emphasising their core competence(s). Porter and Millar's (1985) competitive strategy types include price leadership, differentiation, and niche marketing. All three of these strategies are already in evidence in online news provision: niche markets – whether at the content level, the regional level or the technology level – are an existing alternative for many online news providers, as T-online has already shown.

The Internet offers almost unlimited potential for marketing, for selling and for using customer information and buying history to maximise profits. But none of this is possible unless the companies concerned are willing to throw away their pre-conceived ideas of how business must be done – and accept that in this brave new world, new ways of doing business and new business models are the norm. The only certainty for the digital content industry is that there is no certainty!

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