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Evolving Funding Models of News Publishers and Public Service Media

Newspaper publishers in multiple countries – including Nordics – have introduced digital subscriptions to enhance their revenues. However, in most cases, paywalls only contribute a fraction to publishers' total revenue. To compensate, companies, such as Schibsted, have invested in digital advertising businesses. There is evidence that news publishers' digital earnings are increasing and diversifying, and therefore new business model frames are needed to evaluate these streams. As the public interest journalism is under threat, new funding ideas – such as special levies – have started to gain ground.

In early 2016 it was clear that no single business model has emerged in the Western economies as a replacement to a traditional newspaper revenue model, which has been based on earnings from advertising, circulation and single copy sales. In the Western economies, the print circulation and advertising revenue has continued to decline rapidly. In 2015, the advertising revenue of American newspapers alone declined four percent year-on-year.[1] Similarly, in 2015 "a perfect storm hit national newspapers" in Britain: for the first half of the year, newspapers advertising revenue fell dramatically, "down unprecedented levels of as much as 30 percent in some weeks."[2] Against this background, most of the Western newspaper publishers are experimenting with their business models, but building new revenue streams has proved challenging as the competition between traditional and new media outlets is increasing, especially in online advertising. In 2015, 57 percent of the revenue of American newspapers still came from advertising, 36 percent from circulation, and 6 percent from other sources such as events or research.[3] It is predicted that by 2020 29 percent of news publishers' earnings will come from advertising, 28 percent from paywalls (paid digital-only subscriptions), 15 percent from video streaming, and 26 percent from other sources such as events.[4] Current and predicted revenue sources are illustrated in table 1.

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Table 1. Current and future revenue sources of newspaper publishers

Revenue source	Now (in the US)	In the future
Advertising	57%	29%
Circulation	36%	
Paywalls		28%
Video streaming		15%
Events		13%
Other	6%	15%

Source: Barthel[3], Berliner[4]

Paywalls, which restrict the public's access to some, or to all, digital news content, have become a popular revenue model in the Western economies, including Nordic countries. However, in some countries, such as New Zealand, newspaper publishers have not introduced paid digital content for their readers. A study comparing paywall implementation in Australasia found the news publishers only launched paywalls in Australia, but not in New Zealand, although they had newspaper operations in both countries. The study found that market size and lack of competition have restricted general newspapers ability to launch charges for digital news content in New Zealand: the market only supports two major newspaper publishers Fairfax and APN, and neither has been willing to introduce paid digital content in fear of losing online traffic.[5]

Paywall can be defined as a digital subscription model which limits public's access to all, or to some digital news content, without a payment. Most popular paywall model implemented by news publishers is a metered model, which typically allows readers to access 10-20 stories a month without a payment. Another popular paywall model is a freemium model, which allows readers to access certain content for free, but requires a payment for the 'premium' content such as editorials and analysis.

In the West, some newspapers have substantially increased their earnings from digital-only subscriptions. In 2014, a study of eight countries found that paywalls, on their own, are not a sustainable business model for newspapers. The research concluded that the digital-only subscriptions did not offer enough revenue for newspapers to support their newsrooms and newsroom structures. The research found that digital-only subscriptions made approximately ten percent of news publishers total revenue[6] However, it suggested that digital subscriptions may yield better returns for the financial newspapers than for general ones. For example, for the Finnish financial daily *Kauppalehti*, paywalls added "millions of turnover" and "over ten percent" to its circulation revenue.[6] The research also found that the Finnish national newspaper *Helsingin Sanomat* had sold digital subscriptions to its existing print customers, and as a consequence its digital income rose 14 percent of its total revenue. Nevertheless, the research also found some flaws in news publishers' paywall strategies, because "some newspapers have started to lower prices for their online news content and to offer discounted packages in order to enhance their subscription numbers, but in the short term this is most likely to erode their digital revenues."[6]

Another study of seven large newspaper publishers found that in 2014 digital-only subscriptions contributed 10.6 percent to New York Times Company's revenue and 22 percent to Financial Times Group's revenue.[7] The study also estimated that in 2014 Schibsted's online newspapers (in Sweden and Norway) contributed 13 percent towards its total earnings. However, the study observed that the way Schibsted discloses information doesn't "reveal anything" of the company's digital-only subscription revenue." [7] Additionally, some large newspaper publishers have gained in digital advertising income. For example, Schibsted (Nordic), News Corp (US/Australia/Britain), Axel Springer (Germany), and Fairfax Media (Australia), have all invested substantial amounts in online classified advertising and listing services, and this has boosted their advertising revenue.[7] To exemplify, in the first half of 2015, Schibsted increased its classified advertising revenue by 13 per cent from the same time in the previous year.[7]

Revisiting business model frames

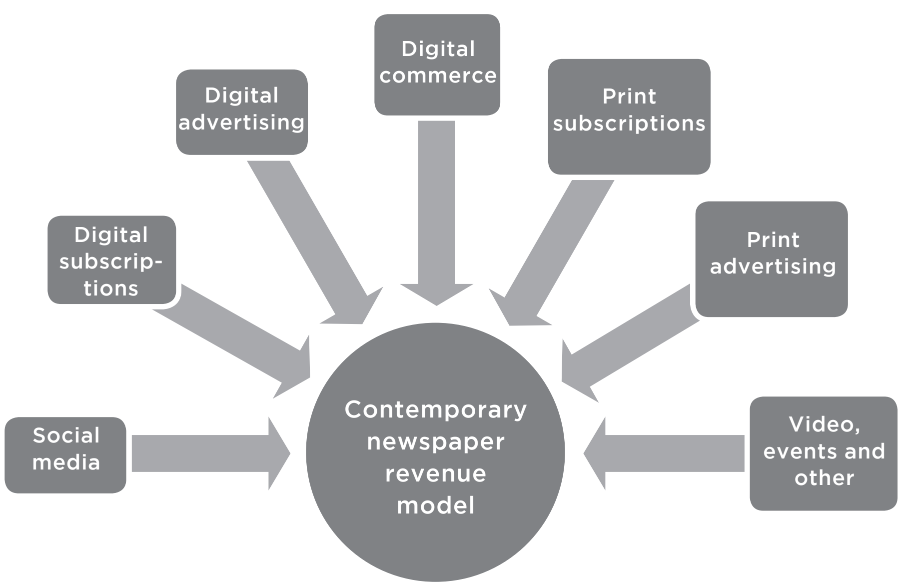
Revenue models of newspaper publishers are an important area for academic researchers because they affect newsrooms, newsroom jobs and how journalistic work is conducted. Costa notes that "to produce quality journalism and perpetuate their role as independent, critical moderators among increasingly diffuse centres of power, they must come to terms with a new business model and another value chain."[8] There is some evidence that news publishers' digital income is increasing and sources diversifying. However, in many cases total digital income contributes only a fraction to news publishers' total revenue. An Australasian study shows that, in 2013, 14 percent of Fairfax Media's, and 3 percent of APN News and Media's came from digital sources – including digital subscriptions, digital advertising, and e-commerce.[9]

As newspaper publishers' income sources diversify the business model frames identified in earlier academic research need to be updated to reflect more complex nature of contemporary news publishers' earning structures. Traditionally, news publisher revenue analysis has been based on newsstand sales, print subscriptions, and print advertising.[10] More recently, researchers have started to pay attention to income derived from digital subscriptions and advertising.[11] However, there is lack of transparency in news publishers' disclosure about their digital earnings, although companies such as New York Times Company, and Fairfax Media detail information about digital-only subscription and advertising revenue.

Costa suggests that a "plausible business model" for digital news publishers comprises three revenue sources: advertising in various forms; sales and/or subscriptions of digital content; and revenue from value added services such as third party products and services.[12] Based on business model research concerning Fairfax Media and APN News and Media, this article suggests that media researchers should aim to evaluate the following digital earnings of news publishers: social media; digital subscriptions; digital advertising income (classified ads, listings, native adverts); digital commerce (including group buying and auction sites); print subscriptions; print advertising; video, events and other (such as research)[13]. Figure 1 further illustrates a business model framework suggested to analyse the earnings of a contemporary newspaper publisher. This model combines the traditional print income sources with newer digital earnings sources.

The model identifies the most likely revenue sources, but it doesn't take into account how the revenue streams are allocated, or how commercial news corporations invest in new technologies, newsrooms, news jobs, and content. In order to analyse these aspects one needs to build a more sophisticated business model which takes into account expenses and investments including money spent on developing new digital platforms and pay systems.

Figure 1. A contemporary newspaper revenue model



Source: Myllylahti.[13]

Ideas for funding public service media

At the same time as the funding mechanisms of commercial news media outlets in the West remain challenged: public service media – especially public broadcasting – is facing budget cuts. Public broadcasters in countries such as in Britain, France, Finland, Australia, New Zealand, and Switzerland have already reduced workforce in order to balance their financing. These budget squeezes are concerning. As Picard argues, societies can "no longer take quality news and information for granted", and therefore there is a real need to find future business models to support public interest journalism.[14] Picard further observes that commercial news outlets have a role in society, but "they cannot fully meet the fundamental information needs of a democratic society – and the scope of what they cannot offer is widening today." Thompson also points out that public broadcasting corporations are crucial for any democratic society: "the existence of public service channels can exert a positive influence on the media ecology by anchoring quality standards and increasing content diversity."[15]

In many European countries public broadcasting is mainly funded by a licence fee. According to Arriazza et al. in Germany and Sweden, 80-90 percent of funding comes from licence fees; in Italy and France 66-70 percent comes from licence fee and rest of the funding comes from state grants and advertising; in Poland and Spain public broadcasting is dependent on commercial income and state grants.[16] Since 2013, the Finnish public broadcasting corporation, Yleisradio, has been funded by a special public broadcasting tax. This is gathered at the rate of 0.68 percent of an individuals' earned income and capital income each year. The minimum individual payment in 2015 was 51 euros, and maximum 140 euros.

In New Zealand, public broadcaster Radio New Zealand has faced a funding freeze for several years, and in 2015 it cut jobs to adjust. A campaign group, the Coalition for Better Broadcasting, has suggested a new kind of levy to aid funding of public service media, and this has been supported by the NZ Labour Party. This group is proposing that telecommunication companies, commercial broadcasters, and internet service providers should pay a one percent levy from their annual revenue to ensure funding for public service media. According to the coalition, a one percent levy would provide Radio New Zealand with extra funding of around 60 million New Zealand dollars. The coalition also argues that the funding model is "cost-neutral for the taxpayer" and "beyond the reach of politicans."[17] At the time of writing, it was unclear if the levy will materialise as a funding model for the New Zealand's only public broadcaster.

Notes

1. Mitchell, 2015
2. Sweney, 2015
3. Barthel, 2015
4. Berliner, 2015
5. Myllylahti, 2015a
6. Myllylahti, 2014
7. Myllylahti, 2016, forthcoming
8. Costa, 2013, p.92
9. Myllylahti, 2015b
10. Moro & Aikat, 2010
11. Edmonds et al., 2013
12. Costa, 2013, p.93-94
13. Myllylahti, 2015a
14. Picard, 2014, p.9
15. Thompson, 2011, p.10
16. Arriazza et al., 2015
17. Coalition for Better Broadcasting

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