INSIGHT

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The Time Is Right for Publishers to Leap into the Subscriber Economy

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This INSIGHT is the first in a series of articles outlining the background and imperative for publishers to embrace the continued growth in the subscription economy. In this series we will identify how different types of publishers are addressing digital transformation and preparing for the shift to subscriber-centric business models.

The Subscriber Economy

Every way you look at it, online subscription-driven media businesses are booming. Netflix, Amazon Prime and Spotify recently reported subscriber volumes of 118MM, 100MM, and 71MM, respectively, with 2017 annual growth rates ranging from +25% to +48%.[1] Netflix, Amazon Prime, and Apple Music have reached subscriber penetration levels that approach those of pay TV.[2]

Interestingly the growth is not concentrated in one vertical or industry. We find significant subscriber growth across a range of sectors including video, music, consumer goods, media and gaming, among others. Consumer behavior is shifting from one-off purchases of products and services to building long-term relationships with trusted brands.

Media companies have a sizeable opportunity to capitalize on these market trends.

The Appeal of a Subscriber-Centric Business Model:

What makes a subscriber-centric business model attractive to so many different types of companies? The major characteristic is the predictable and recurring revenue stream, which enables subscription-centric businesses to invest in both new customer acquisition and product development to grow their subscriber bases even more.

And the growing base of subscribers tends to increase enterprise value. The subscription technology platform Zuora measures a Subscription Economy Index (SEI)[3] against the S&P 500 Sales Index and U.S. Retail Sales Index. The chart below shows that subscriber-centric businesses are growing substantially faster than the broader S&P 500 or U.S. Retail Sales indices.

Subscription Economy Index vs. S&P 500 Sales Growth

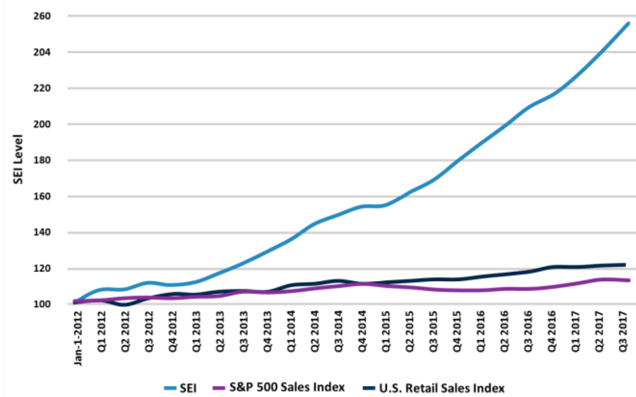

Figure 1

In addition, because of the recurring revenue dynamic and the opportunity for up-selling and cross-selling, many subscription businesses outperform one off-based models because they expand consumer engagement and create customer lifetime value, an important metric for increasing long-term business value.

Another advantage of utilizing a subscriber model for a media company is the ability to leverage subscribers to help inform product development. Because of the ongoing customer relationship and the knowledge obtained about that subscriber, companies can test new product features and enhancements with their existing base – at some level reducing the dependency on external market research.

Why It Makes Sense for Media Companies to Pursue a Digital Subscriber Model:

Media companies were pioneers of the subscription model, building large bases of print subscribers through home-delivered newspapers or magazines that arrived daily, weekly or monthly at the front door or in the mailbox.

But as the home delivery customers started to go away, the transition for historically advertising-centric newspapers and magazines to digital platforms has not been easy. Within the last two decades, very few industries have seen as much revenue decline as legacy media has. The chart below from the Pew Research Center shows that newspapers' circulation (largely subscriber) revenue has climbed steadily even as advertising declined.

Newspapers' Circulation Revenue Climbed Even as Advertising Declined

Total revenue for U.S. newspapers in U.S. dollars

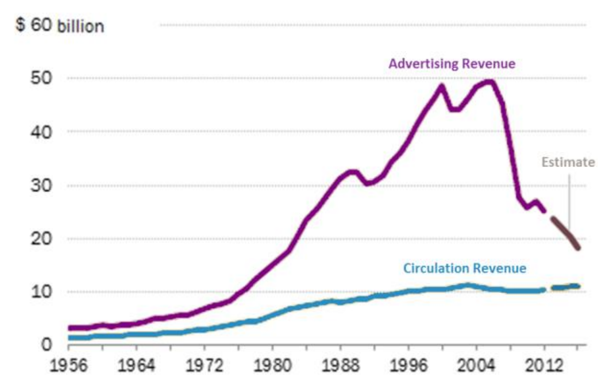

Figure 2

Who Is the "New Consumer"?

The "new consumer" descends from two unique states: *digital native* [has never held a print subscription] and *print-to-digital* [historical print subscriber now digital]. Surprisingly, these two consumers are closely related. Demographic attributes like age, income, education, and gender are remarkably similar. However, there is one important distinction that publishers must focus on: consumers' behavioral patterns and digital signals they display in media consumption. How often do they visit a website; what type of mobile phone do they employ; how much time is spent with particular content, and what type of web browser do they use? To successfully compete in the digital subscriber economy, publishers must concentrate their attention on the changing and new consumer, and learn to answer these questions.

Some Companies Are Growing Unique Visitors and Subscribers:

National and metro newspapers have been able to grow unique visitors and convert them to paid digital subscribers. *The New York Times* and *The Boston Globe* have been the most successful, demonstrating conversion rates of 2.0% and 1.5% [of unique visitors], respectively, significantly above the 0.5% or much less of most all others.

The idea of building the new business model with digital subscribers at the core makes a lot of sense for media companies, and publishers are well positioned to make the pivot to a subscriber-centric model:

Current Conversion Is Low vs. Best Performers

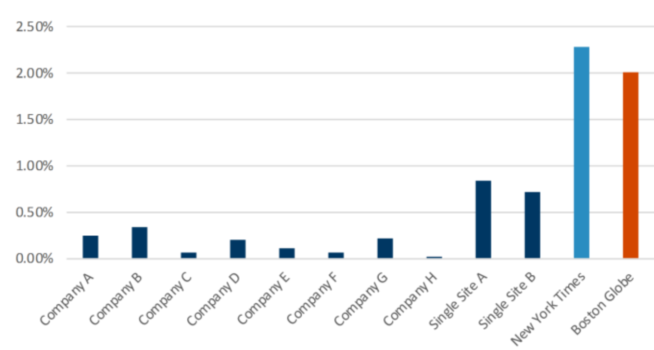

Figure 3

Alignment with content strategy: Editors can move away from the "chasing clicks and eyeballs" game of a scale-driven advertising model and instead focus on content creation for their highest-value subscribers.

These are the engaged consumers that value content enough to pay for it.

Curation: Online consumers are bombarded daily with potentially irrelevant items in a social news feed and annoying display ads. Consumers are increasingly preferring well-curated content for a price.

Rich behavioral data: Many publishers have millions of visitors each month to their websites and mobile apps, sampling content and providing signals of their preferences and interests. This behavioral data is the gold for a subscription business: highly predictive in both determining visitors who are likely to convert and subscribers that are likely to churn.

Personalization: With the increasing ability to track subscriber behavioral trends, publishers can build new personalized products and features, which are the keys to driving engagement, usage and retention. The process described here is called “management of conversion funnels” and is shown best in the graphic below:

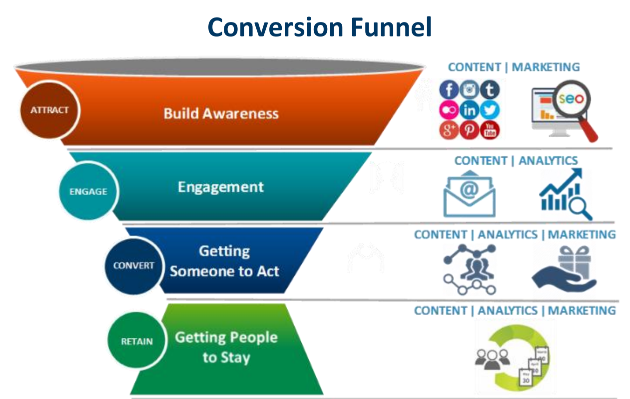

Figure 4

Why the Time Is Right Now

The digital advertising market is a crowded and competitive space, dominated by the duopoly of Google (38.6% of total digital advertising in U.S.) and Facebook (19.9% of total digital advertising),[4] making it difficult for publishers to generate significant revenues through digital advertising. In addition, consumers use of ad blockers continue to rise, with 27% of U.S. consumers using ad blockers, an increase of 4% Y/Y according to the Reuters Institute,[5] continuing to put downward pressure on ad revenue.

However, there is an increasing willingness to pay for content and a desire to get news from trusted sources. In the chart below, you can see that according to Reuters Institute,[6] the willingness to pay for online news content for all U.S. adult segments has increased significantly year-over-year, particularly with younger demographics.

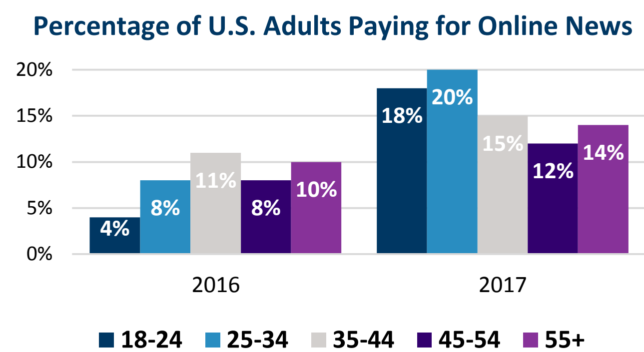

Figure 5

The trends are encouraging for advertising-centric publishers in their pursuit of a digital subscription model.

So, Where Do We Go from Here?

The macro trends of digital advertising and subscription revenues point us to the path of pursuing a digital subscription model. We will explore different types of media companies in depth, and assess the specific opportunities and challenges of pursuing a digital subscription model for each.

FTI will address the subscription economy in this *INSIGHT* series in the months to come. The other articles will address these businesses:

Issue 2 | Newspapers
Issue 3 | Magazines
Issue 4 | Pureplay Digital
Issue 5 | Video Players

Media companies that are savvy enough to recognize the seismic shift to the subscriber economy can ride that wave to new-found growth and success. Those that do not, run the risk of being left behind.

Content Sources:

1. Mary Meeker Internet Trends, May 2018.
2. FTI Consulting Hot Topics in Media & Entertainment, January 2018.
3. Forbes, December 2017.
4. eMarketer, March 2018.
5. Reuters Institute Digital News Report, 2018.
6. Ibid.

Figure Sources:

1. The Subscription Economy Index Report, 2017. *Note: Quarterly levels of the Subscription Economy Index (SEI), in comparison to indices of the S&P 500 Sales per Share and U.S. Retail Sales. All indices take a base value of 100 on 1/1/2012, and grow in proportion to the quarterly increase in the one-year trailing total sales that they measure. Over a period of just under 6 years (1/1/2012 - 9/30/2017), the SEI grew at an average annual rate of 17.6%. The S&P 500 Sales index grew at an average annual rate of 2.2%, while U.S. retail sales grew at an average annual rate of 3.6%.*
2. Pew Research Center, May 2017. *Note: Break in line indicates switch to estimated revenue. There is no data for circulation revenue in 1990. Source: News Media Alliance, formerly Newspaper Association of America (through 2012); estimate based on Pew Research Center analysis of SEC filings of publicly traded newspaper companies (2013-2016).*
3. FTI Consulting compilation, 2018. *Note: Uses data sets from AAM and SimilarWeb.*
4. FTI Consulting compilation, 2018.
5. Reuters Institute Digital News Report, 2018.

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About the Publishing Practice:

Having worked on over 200 engagements with over 100 publishers in the past five years, the Publishing team at FTI Consulting advises magazines, newspapers, digital and direct mail | marketing companies on how to transform business and operational models, grow and diversify revenue and optimize expenses amid digital substitution and emerging technologies.

Experts with Impact

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