

FTI Consulting and its Publishing team would like to thank our clients for sharing your challenges with us and letting us partner with you once again to help drive margin improvement and position your publications for stability and growth. As we start 2017, we would like to share a recap of 2016, informed by our work on more than 25 publishing engagements and speaking frequently with many of you.

For those who recall our Year in Review reflections since 2013, we have focused primarily on driving revenue and building a sustainable business, while identifying opportunities to optimize expenses. We've emphasized the imperative of doing so as top-line growth continues to be elusive for most newspapers while many magazines are beginning to experience legacy ad revenue declines and increasing subscriber renewal challenges. This year we will again highlight the need to diversify revenue, but our thoughts will be expressed through a slightly different lens. We have summarized some of the best literature on revenue growth, including online video and mobile. So much has been written about the explosion of online video and mobile that we have cited these sources for those of you who wish to review the original articles.

From 2016-2019, ad spending is forecasted to drop an average of 5 percent per year for newspapers and 4 percent per year for magazines according to a ZenithOptimedia forecast.¹

Given the continued decline in print advertising and the proliferation of online, video and mobile access to news and information today, we ask the question: Is it all about content?

One excellent illustration of content-focus stood out this year: Presidential election years have long been busy times for the newspaper and magazine industry, as issues of national importance take center stage, the chronicles of candidates are detailed and debated across media platforms big, small and (today) handheld. But no one could have predicted the wild ride that was the 2016 presidential election and the chaotic mix of facts, half-truths, misinformation and fake news that dominated the national conversation and social media.

What is clear is that the role of judicious, fact-based journalism is needed more than ever. It follows that established, trusted media brands have an opportunity to rise above the fray, attract new audiences and build relationships with readers seeking out accurate, reliable information amid the myriad news sources that bombard them daily.

- ▶ Because traditional and digital media buyers are migrating from buying brands to buying audiences, we must focus on leveraging brand value and perception, lest we end up competing on price in a commoditized world.
 - We should remember music labels that have lost valuable information about customer behavior, and that relationships with consumers are now dominated by Apple, Amazon and other electronic distributors.
- ▶ Companies must harness their trust and brand equity to build audiences and revenues, whether by winning in the “social frenemy landscape,” monetizing content, building content marketing capabilities or leveraging new technologies (especially video) while continuing to streamline operations.



Navigating the Social “Frenemy” Landscape

In 2016, many publishers began asking whether social sites were ultimately their friends or foes. The answers were mixed, but we suggest that you enter every social partnership with “eyes wide open,” leveraging short-term opportunities while developing your own alternative long-term strategies.

The importance of social media is clear. According to the Zenith expenditure forecast released in December², global social media advertising spend will exceed that spent on print newspaper ads during the next four years – and it is already larger than magazines in the U.S.³ Zenith also forecasts that 20 percent of the rapidly growing internet ad spend pie will be directed to social (principally on Facebook and Twitter) by 2019, compared with 16 percent in 2016.

Beyond the increasing spend on social media advertising, accessing social media is quickly moving to mobile devices. Eight out of ten users access Facebook using a mobile phone, which reinforces the continuing decline in desktop.⁴ Social media is also benefiting from the explosion of online video and mobile, considered separately by Zenith, which estimates that from 2016 to 2019 global spending on online video ads will grow 18 percent and they will total \$35.4 billion in 2019.⁵ Apart from video, aggregate spending on mobile ads, many on social media, is forecasted to rise by 2019 to \$160 billion. Together, Facebook and Google account for more than 76 percent of U.S. digital advertising revenue growth according to Mary Meeker, an American venture capitalist and former Morgan Stanley tech analyst now working primarily in the internet and new technologies industries,⁶ and both are growing faster than their competitors. At the recent Digiday Publishing Summit in Key Biscayne, Florida, publishers were asked: “Is Facebook friend or foe?”⁷ Here’s what two said:



I think it’s a friend, but not all friends are created equal. One of the difficulties is, a lot of media companies feel Facebook has some moral obligation towards media, and it does not. You have to understand where they make their money...

Paul Rossi, President, *The Economist*



...For my business, there’s a lot more to be gained from Facebook. We’ve seen a lot of engagement and seen a way to monetize there. Even though the algorithm has affected everybody, it’s a way to stay in contact with our audience. The frenemy part is, at the end of the day, they want 100 percent of the ad budget, and at some point, we’re competing for the same budget...

Pete Spande, CRO, *Business Insider*

Change in Facebook Desktop Referral Traffic for the Top 10 U.S. Media Publishers*, Q2 2016

% change vs. prior quarter

1. MSN	0%
2. Matt Drudge	50%
3. The Walt Disney Co.	-9%
4. Yahoo	-45%
5. Google	67%
6. Time Warner Cable	-36%
7. Fox Entertainment Group	-24%
8. Advance Publications	-23%
9. Gannett	-26%
10. Comcast NBCUniversal	-19%

Note: represents activity tracked by similarWeb, broader industry metrics may vary

*Ranked by July 2016 combined desktop and mobile page views

Source: SimilarWeb as cited in company blog, Aug. 14, 2016, www.eMarketer.com

So let's refine our initial question to ask: **"Can the print medium leverage its branded, high quality, edited content?"** Recent events suggest some ways it can.⁸

The Fake News Outbreak

A recent study indicated that 75 percent of Americans are fooled by fake news.⁹ Will new apps and social networks like Facebook address the problem? Recent reports say they are trying. By partnering with human fact-checkers, Facebook recognized that it "can't simply reduce things to algorithms and wash its hands" said Gabriel Kahn, a professor of journalism at USC who believes that these measures are considered to be the first material steps Facebook has taken to address fake news.¹⁰

The Post-Election Subscription Bump

Immediately after the presidential election, *The New York Times* got 132,000 additional print and digital paid subscriptions¹¹ and *The Wall Street Journal*, a 300 percent subscriber increase.¹²

Recent articles also point to the focus on search engine optimization ("SEO") as a counterpoint to Facebook's scale. "We need to make sure we have a diversified amount of traffic coming in and have all areas of referral traffic growing," said Beth Buehler, the newly-named Chief Operating Officer at health publisher, Rodale. "So when Facebook changes its algorithm, while it hurts, it doesn't cripple us because we still have a healthy amount of [other] search traffic coming in."¹³

Another case of the shift toward search optimization is *The New York Times'* conversion of thousands of archived stories since the 1970s from PDF form to retagged and republished versions that are easily discovered by search engines.¹⁴

Vox and *The Boston Globe* also have optimized for Google using information cards and stacks to offer context for trending Google topics while back linking original content to improve their page rank. This system links to the fast-growing world of selling advertising programmatically. The automatic nature of programmatic advertising mixed with election year confusion has resulted in some companies taking a more self-conscious approach when placing ads. For example, as reported in *Advertising Age*, Kellogg's stopped running ads on the Breitbart News Network website "because it determined that the site wasn't 'aligned' with Kellogg's 'values as a company.'" ¹⁵



Content Monetization

As print circulation continues to decline, publishers need to experiment and discover new ways to monetize digital content. After the "fake news" phenomenon that dominated headlines in 2016, there may be an opportunity for publishers once again to charge for their trusted premium content that users currently access online for free.

Here are some of the most noteworthy digital initiatives taking place with publishers and some new technologies that allow publishers to experiment with micropayments.

- ▶ *La Presse*, Montreal's daily French-language newspaper, drove readers to the free La Presse+ tablet app by producing digital-only weekday editions, keeping the Saturday edition in print. "While smartphones are conducive to quick, on-the-run news catch-ups, tablets support a rich editorial experience designed for longer reading sessions (La Presse+ users average a print magazine-like 40 minutes per weekday and

60 minutes on Saturday).” According to La Presse+, they take advantage of this audience and charge a C\$51 cost per thousand (“CPM”) for tablet ad rates (75 percent of total ad revenue), a much higher rate than for mobile or desktop.¹⁶

- ▶ The Seattle-based Pioneer News Group, which runs 23 newspapers spanning Washington, Oregon, Idaho, Utah and Montana, debuted the uReporter app, which encourages readers to become reporters themselves by contributing their own local news through the app in an effort to convert a new generation into subscribers and bring back ex-subscribers. Readers receive a Windows 10 tablet that has uReporter preloaded when they sign up for a \$15 monthly fee, one-year digital subscription with participating newspapers. Members can also have the Sunday print newspaper delivered to their doorstep. Microsoft and Pioneer are working together to promote citizen journalism in a similar format to that of Facebook, Twitter and Snapchat; instead of running from this idea, Pioneer sees it as an opportunity for traditional news business.¹⁷
- ▶ The Dutch micropayments platform Blendle has quite a lineup of publishers making use of its services, including Condé Nast, Time Inc., *The Wall Street Journal* and *The New York Times*. “Blendle’s ambition is to be a content platform for journalism in the same way that Spotify is for music or Netflix for film” and it has 650,000+ users in Germany and the Netherlands, with two-thirds under 35-years old. This pay-per-story format (most articles are 19-39 cents and magazine stories, 9-49 cents) has no ads and also offers a variety of content from different publishers, using both algorithms and editors to provide recommendations and instant refunds for articles (which amounts to approximately 10 percent of articles) if the reader is dissatisfied.



Content Marketing

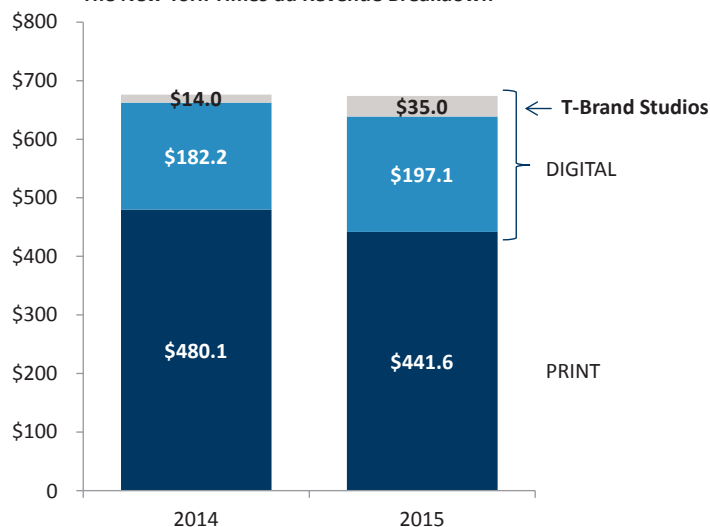
Whether you refer to it as sponsored content, native content, branded content or content marketing, it has become one of the fastest growing new revenue streams in digital publishing. *The New York Times* for example has created T-Brand Studios, an in-house ad agency consisting of 110 employees providing 18 percent of total digital ad revenue in 2015, approximately \$35 million.¹⁸

There are other noteworthy content marketing initiatives. For many digital media companies, content marketing is expected to contribute large portions of revenue: this year BuzzFeed forecasts \$250 million in revenue, Vice Media \$750-\$850 million¹⁹ and *The Atlantic* anticipates 75 percent of ad revenue to come from native advertising.²⁰ Time Inc. employs 125 for its centralized advertising-content agency, The Foundry. WSJ Custom Studios, with 45 employees and forecasting \$60 million in revenue by 2017, has worked with Netflix, Daimler AG’s Mercedes-Benz and MetLife, most recently creating a hub where 360° video and articles are published for Morgan Stanley. Mr. Jordan Hyman, executive director of content sales for WSJ Custom Studios, said “that type of work would previously have been carried out by Morgan Stanley’s digital agencies.”²¹ Story Studio at the *San Francisco Chronicle* is another success story, which even offers an affiliate program.²²

Print Media

Publishers look to boost their digital revenue with in-house ad and content production.

The New York Times ad Revenue Breakdown



Source: Pew Research, 2016

U.S. native ad revenue is projected to be 74 percent of all display ad revenue by 2021 compared with 56 percent in 2016 according to *BI Intelligence* predictions.

Video

In 2014, mobile web traffic tipped the scale to exceed desktop traffic; and in 2016, mobile ad revenue will likely exceed desktop ad revenue. Publishers need to prepare for the next big change in user behavior and ad revenue, and that change began in 2016 with the shift to video. Mobile video is one of the fastest growing digital revenue opportunities for publishers today; by 2017, about 74 percent of all internet traffic will come from video and 82 percent by 2020.²³ 2016 became the over-the-top (“OTT”) tipping point for most U.S. households with an estimated 56 percent of them expected to have internet-connected TV.²⁴

According to Cisco, the amount of video content that is forecasted to cross global internet protocol (“IP”) networks each month in 2020 would take a viewer more than five million years to watch. By 2020, global IP networks will have a million minutes of video crossing them per second and 82 percent of all traffic will be video traffic. In 2020, overall video traffic will be three times as much as 2015 at 26 percent compound annual growth rate (“CAGR”) and internet video traffic will be four times as much (31 percent CAGR). Between 2015 and 2020, virtual reality traffic is projected to grow 61-fold (127 percent CAGR).²⁵

Beyond the incredible growth in video, it is critical to consider your video strategy. YouTube is an important distribution channel, and would inevitably be an essential part of your content and ad mix, but it shouldn’t be your only video strategy. YouTube wants people to stay on their site; YouTube can only be used by companies to convert traffic to your own site. So beyond including backlinks in YouTube video descriptions bringing traffic back to your website, the ideal video strategy will create that kind of addicting video experience on your own site with your own branded content.²⁶

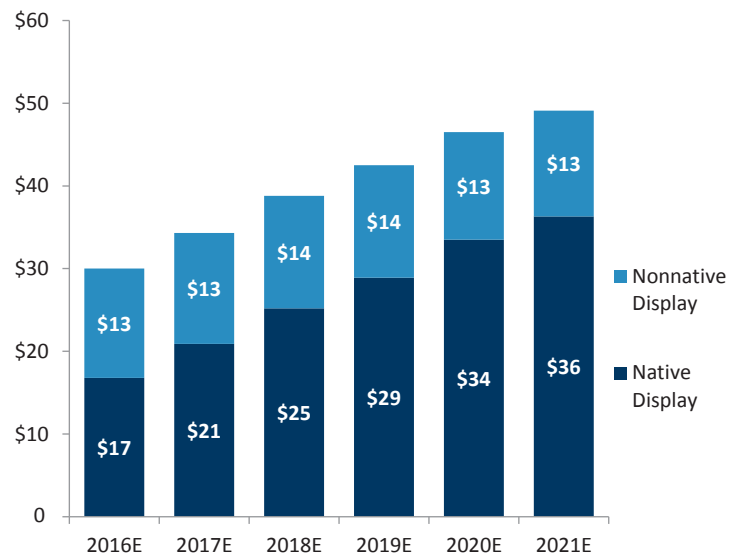
Expense Optimization

While we have a few clients that will be nearly flat or slightly up in total revenue in 2016, most are still facing revenue declines. That means expense optimization is still an imperative, beyond the investment needed to compete in our digital world. And if we believe that, ultimately, we are in the content business and need to monetize it fully from a journalistic perspective or through native content, then continued cutting in this area may make the journey that much more difficult.

Therefore, the following thoughts come to mind when considering expense optimization:

- ▶ Whether peers and competitors can consolidate further is an intriguing possibility to consider. Clearly, New Media and Gannett strive to reduce costs by leveraging infrastructure and scale when acquiring newspapers. In 2016, Condé Nast and Hearst Magazines formed a third-party entity called PubWorx (FTI Consulting was an advisor to both companies) to provide procurement, consumer marketing and

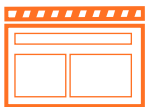
U.S. Native Display Ad Revenue
billions



Note: Display includes all banner, rich media, sponsorship and video ads
Source: BI Intelligence estimates based on historical data from the Interactive Advertising Bureau and PricewaterhouseCoopers, and IHS

production services for both companies, as well as to third-party publishers. Can and should there be more combinations within, and between, these industries?

- ▶ After years of attempts with early wins around cars.com and careerbuilder.com the industry recently formed a revenue consortium leveraging audience more than expense, but collaboration all the same. Gannett, Hearst, McClatchy and Tribune Publishing – now Tronc – created a joint content marketing solutions venture in order to cast a wider net in the market.²⁷ Nucleus Marketing Solutions is the newly formed network, which asserts it will have access to “more than 70 percent of consumers in the top 30 U.S. advertising markets.”²⁸
- ▶ While few newspapers have followed the Advance Newspapers’ move to less-than-daily, it is a rare meeting with clients when the topic is not mentioned, or pilloried, depending on your point of view. Clearly, changing culture and habit is difficult, and the change in frequency for Advance, while a jolt, was an impetus to move to a digital-focused company. Putting aside the issues on both sides of the debate, printing and delivery of third-party products clearly reduces expense savings associated with less-than-daily.
- ▶ The economics of distribution will continue to be a challenge as penetration decreases and costs are not removed, as carriers will need to travel the same streets with fewer deliveries. As companies have attempted to take out costs, customer service levels have fallen, especially when effective carrier profit per hour became too low. If new products cannot be delivered, such as magazines, with early tests happening now, we believe larger routes and longer delivery durations are preferable to driving down carrier profit per hour or compensation. The magazine industry is also looking to reduce costs in the form of USPS postal expenses. Could this be a solution where both sides can win?



Conclusion

After considering these recurring themes from 2016, we once again ask the question **“Is it all about content?”** Beginning with where to find trusted content and how best to monetize it, to the new types of content emerging as frontrunners, including content marketing and video and the diverse options for optimization of content production and distribution, we conclude that 2016 was a year that elevated the value of trusted content and the importance of monetizing it.



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About the Publishing Practice

The Publishing team at FTI Consulting advises the publishing and digital media industries, working with newspapers, magazines, digital and direct mail companies to deliver original insights that help clients better understand company revenue, new business models, cost optimization, digital substitution, emerging technologies and evolving trends impacting overall transformation.

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