

# INSIGHT

FTI Consulting

Publishing Practice

## 2017<sub>8</sub> Publishing Year in Review



EXPERTS WITH IMPACT™



# 2017 Publishing Year in Review

## Introduction

As is customary for the FTI Consulting Publishing Practice, we reflect on the trends we saw this year, and what we may expect for next. Because we rely on our partnerships with you as much as you rely on FTI Consulting, we take this opportunity to share with you our reflections on 2017 and our expectations for 2018. Looking back at 2017, we could see that both magazines and newspapers recognized that diversifying revenue is essential. And products and channels which we once thought could contribute or even lead revenue diversity, have failed to live up to expectations. A key theme for 2018 will be how to use consumer data as a catalyst for revenue growth.

## 2017 Recap

### Newspaper Sector Recap:

- Total U.S. newspaper revenue declined 4.1% YoY in 2017. Print advertising revenue declined 11%; digital advertising revenue rose by just 2.7% YoY.
- Print circulation revenue increased 0.6% YoY; digital circulation revenue increased 8.6% YoY<sup>1</sup>.
- Newspaper pre-prints, likely the least disrupted of the legacy business, is now declining in line with all other print advertising revenues, because of mobile couponing and other digital discounting methods.

### Magazine Sector Recap:

- Magazine print revenues are similar, down 5.6% YoY between 2016 and 2017. While digital magazine revenue is still increasing between 15%-17% YoY; 2020 forecasted to tail off to 11% YoY<sup>1</sup>.

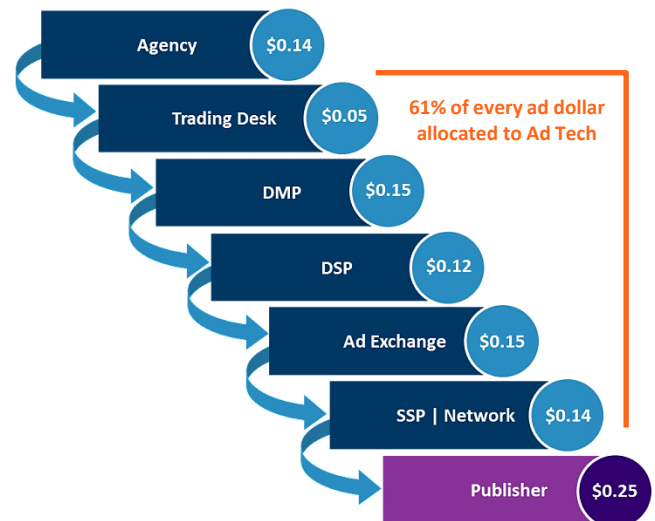
### The Media Market:

- Digital advertising spend is expected to account for nearly half of all media spend by 2021 according to eMarketer<sup>2</sup>, while print's share of the market appeared to shrink to under 10%. Search and social media platforms (i.e. Google and Facebook) make up nearly 75% of the estimated 2017 digital ad spend<sup>3</sup>, while display only represents approximately 10%. Growth attributed to the Big 2 in digital and mobile for 2017 was ~90%, while everyone else fought over the remaining ~10%<sup>4</sup>.

### Programmatic Advertising:

- Initially used as a way to monetize remnant inventory in 2017, programmatic became one of the leading vehicles for digital advertising sales.
- Expected to grow to \$46B by 2019, amassing an astounding 84% market share by that time, according to eMarketer.
- The 2017 World Press Trends study by WAN-IFRA (figure 1), supported by FTI Consulting experience, notes that publishers receive only 20-30 cents on every dollar of advertiser spend creating very low margins.

Figure 1: Programmatic Ad Dollar Allocation



- More recently, the US e-commerce leader Amazon has emerged as a new player in the digital advertising game, with a 33% increase in 3Q17 revenue YoY and an expected 3% market share by 2019<sup>5</sup>. While this new entrant is dwarfed by Facebook and Google, we expect Amazon to share outsized growth and to cause even more rate pressure.
- Four news websites account for 50% of the total traffic among the Top 100 US newspaper websites<sup>6</sup>? These sites are *New York Times*, *Washington Post*, *The Guardian* (US), and *Daily Mail* (US), two of which are based outside of the US. Given the concentration, there are opportunities for other newspaper entrants.

The most successful publishing organizations in 2017 were those with a strong base of consumer revenue who have a defined strategy for offering unique value to consumers. In the end, for those not named Facebook and Google, consumer-based revenue will be essential. Newspapers and magazines must know their audience intimately, provide the content it seeks, accelerate engagement, and then monetize customer loyalty with the data they provide around interests and what is important. Below are four ways publishers can create value from their data:

**Figure 2: Data Monetization Evolution**

- 
**Data Sales:**  
*The packaging, vetting and sale of a company's proprietary data to other companies*
- 
**Data-Driven Products:**  
*New media and advertising products designed around insight from customer base*
- 
**Data-Driven Engagement:**  
*Modeling and prediction of high engagement and lifetime value to drive consumer-based revenue*
- 
**Data-Driven Sales:**  
*Propensity-to-buy and similar analytics to better target sales and marketing*

**Value Dynamics**

- ✓ Typically a low margin business  
 ✓ New revenue stream and business model
- ✓ Margin higher than existing products  
 ✓ New revenue stream, existing business model
- ✓ Increased margin and customer lifetime value  
 ✓ Shifting from advertiser to new consumer model
- ✓ Increased sales, conversions and audience info  
 ✓ New revenue streams, existing business model

## A Contrasting Story In Consumer Revenue

The following are highlights from two studies FTI Consulting conducted this year.

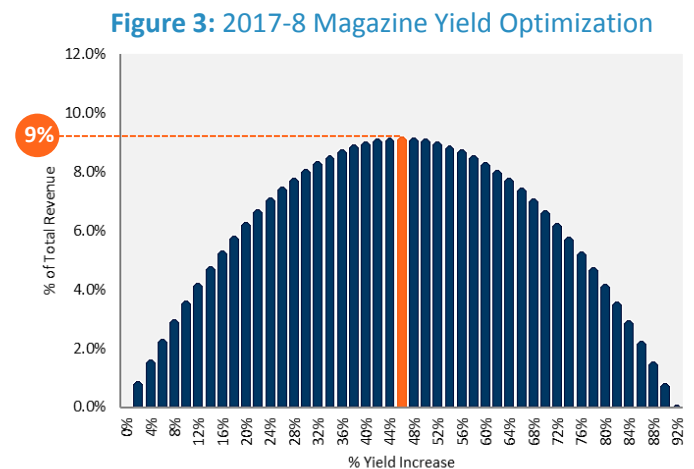
### Magazines: Are High Rate Bases Sustainable?

Though the magazine industry now faces similar advertising pressure as the newspaper industry, supplementing the loss in ad revenue with consumer-based revenue poses a different challenge. Rate base commitments to advertisers are commonplace in many contracts and have been used to justify ad rates. But as digital disruption continues and the challenge to obtain loyal readers grows, keeping an inflated rate base can become untenable.

- High churn and flight from print often results in an attempt to reach for fringe readers to maintain volume. Yet, advertisers value consumers that spend time engaged with a product, not fringe readers.
- Magazines that have rate bases clouded with “low-value” sales channels and corresponding subscribers impact their ability to serve advertisers.

The solution is to arrive at a market-responsive rate base [if any] and increase subscriber contribution or yield. FTI Consulting recently developed models for over 20 magazines testing various levels of subscriber yield increase to understand the net margin impact. Increased revenue per subscriber and reduced PP&D expenses from fewer print subscribers (due to price sensitive cancellations) contribute to positive margin while lost subscribers (again from price sensitive cancellations) and reduced ad rates per page contribute to negative margin.

- FTI Consulting found that of the >20 magazines analyzed, all could benefit from subscriber yield increases and, in most cases, a significant increase.
- Further, FTI Consulting identified the inflection point of diminishing returns where the benefit of a yield increase peaks. An example is shown to the right; up to a 45% increase will yield positive cash, over 9% of total revenue.



As shown below, FTI Consulting's yield model estimates the ratio of subscribers lost for every % increase in consumer yield. Each value within the table represents the results of the optimal percentage increase in yield (peak of the curve on the previous page) when parameters of loyalty (horizontal axis) and associated print ad revenue loss (vertical axis) are considered. The values within the table represent the percentage of net revenue improvement over current.

- Any increase in yield, regardless of subscriber loyalty and associated ad loss, results in net margin improvement for the given parameters. The highlighted orange cells show what FTI Consulting would consider to be likely scenarios.
- Implementing a subscriber optimization strategy is worth consideration but is not without risks as it would drive subscription volumes down, potentially violating current rate base agreements.

**Figure 4: 2017-8 Magazine Margin Improvement | Yield Increase vs Print Ad Loss**

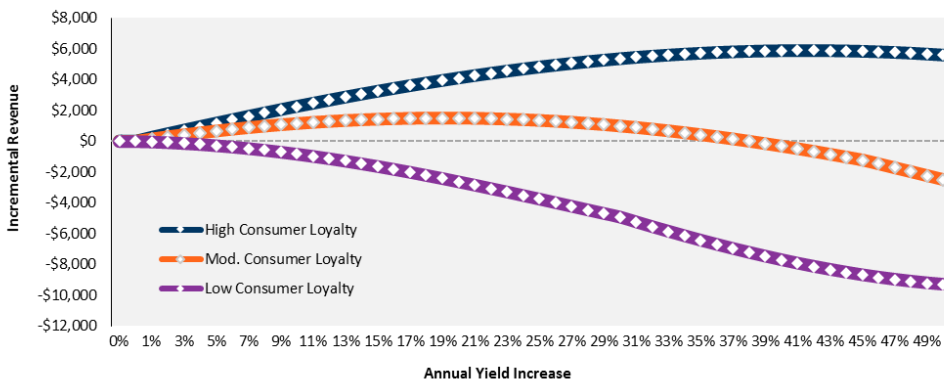
		Subscriber Loss per Yield Increase						
		2.00%	1.30%	1.00%	0.80%	0.67%	0.57%	0.50%
Print Ad Loss Per Subscriber Loss	0.00%	7.1%	8.7%	10.5%	12.5%	14.6%	16.8%	19.0%
	0.05%	5.3%	6.8%	8.6%	10.7%	12.8%	15.0%	17.2%
	0.10%	3.6%	5.1%	6.9%	9.0%	11.1%	13.3%	15.5%
	0.15%	2.3%	3.6%	5.4%	7.4%	9.6%	11.7%	14.0%
	0.20%	1.3%	2.5%	4.2%	6.1%	8.2%	10.4%	12.6%
	0.25%	0.7%	1.7%	3.2%	5.1%	7.1%	9.2%	11.3%
	0.30%	0.4%	1.2%	2.5%	4.2%	6.1%	8.1%	10.2%
	0.35%	0.2%	0.8%	2.0%	3.5%	5.3%	7.2%	9.2%
	0.40%	0.1%	0.6%	1.5%	2.9%	4.6%	6.4%	8.4%
	0.45%	0.0%	0.3%	1.2%	2.4%	4.0%	5.7%	7.6%
0.50%	0.0%	0.2%	0.9%	2.0%	3.4%	5.1%	6.9%	

**Newspapers: Beware of Continued Subscriber Yield Increases**

Subscriber yield increases have been the “go-to” option for publishers attempting to offset legacy advertising declines. Over time however, increases in subscriber yield alienate price sensitive consumers which results in reduced volume/readership and increases pressure on advertising rates.

To explore subscriber optimization tradeoffs, FTI Consulting developed a circulation yield model that allows us to better understand net revenue and margin considering various levels of subscriber price increases and varying degrees of consumer loyalty. As expected, success for publishers is heavily dependent on the brand’s consumer loyalty.

**Figure 5: 3<sup>rd</sup> Year Incremental Subscriber Revenue by Loyalty Level**



- FTI Consulting assumes Low Consumer Loyalty is one in which a 1% yield increase results in a 1% decrease in subscribers.
- Moderate Consumer Loyalty, subscriber declines are ~2/3 of the yield increase, or a 1.5% yield increase results in 1.0% volume loss.
- High Consumer Loyalty is categorized by a circulation decline of 1/2 of the increase in yield – 2.0% yield increase = 1.0% volume loss.

The chart above shows that over a 3 year period of homogeneous price increases, we find:

- A market with high customer loyalty will still yield positive margins (dark blue line), albeit at the unknown expense of audience loss on advertising.
- A market with moderate customer loyalty shows that pressure on ad rates could more than offset continued subscriber price increases (orange line).
- Low loyalty suggests very little circulation yield increase opportunity and an unquantified risk of downward ad rate pressures. In a moderately loyal market, publishers should deeply examine the long term risks associated with volume loss.. FTI Consulting will send out the full study to our partner clients early in 2018.

## The Digital Ecosystem

According to Magna Global, big growth continues in Search (Google), Social (Facebook), mobile, and video. There are various opportunities for newspapers and magazines to enjoy meaningful digital revenue growth. The following summarize our view on a few key areas within the growing digital ecosystem.

### Topics in Programmatic

The Financial Times fraud investigation has brought the “Quality” argument to the forefront and publishers are starting to see the benefits.

- Both header bidding and private market places are helping to re-establish the premium associated with rigorous, verifiable journalism.
- Noted in the 2017 Recap, the rapid and opaque expansion of the programmatic advertising tech stack erodes margins considerably.

### Native Advertising

Native advertising is seen as an extension of journalism and a function of content production.

- Native advertising will make up 74% of the total display revenue by 2021, showing a significant increase from 56% experienced in 2016<sup>8</sup>.
- US native digital display ad spending is projected to be nearly \$22.1B, an increase of 36.2% from 2016<sup>9</sup>.

### Digital Video

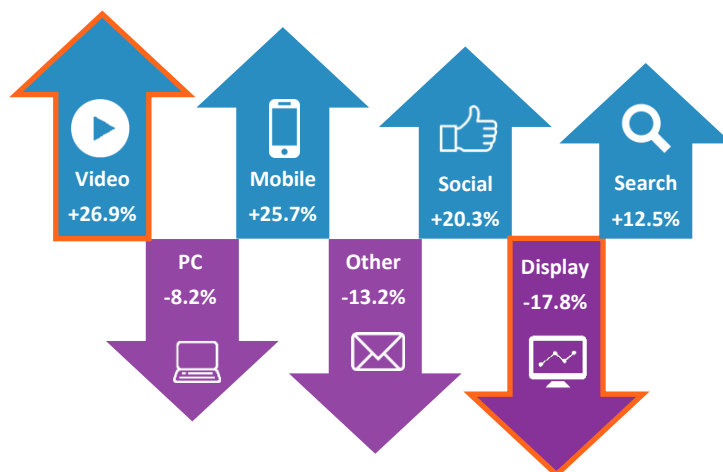
Video continued its upward trajectory as ad spending followed consumption increases.

- According to eMarketer, ad spend on video has the second fastest growth rate of all display formats in 2017 at 23.7%<sup>2</sup>, with mobile accounting for the bulk of that growth.
- According to Cisco<sup>10</sup>, the amount of video content that is forecasted to cross global IP networks each month in 2021 would take a viewer more than five million years to watch.

Publishers continue shifting to video as CPMs commanded are higher than those of traditional online. The strategy is not without its pitfalls.

- Video content is comparatively more

Figure 6: 2018 Forecasted Growth by Channel



time-consuming and expensive, requiring specialized editing skills.

- An August 2017 study by Buzzsumo<sup>11</sup> found that the most engaging video topics on Facebook are food, lifestyle, and animal.

### Ecommerce for Newspapers and Magazines

E-commerce poses a significant opportunity to further enhance relationships with advertisers and to provide additional revenue streams.

- Meredith’s E-commerce Network is a good example: it processes over 140MM products per day from various sources including direct, resellers, and affiliate partners. For example, Meredith partnered with Amazon to enable *AllRecipes* (Meredith owned) to purchase the ingredients for a specific recipe through Amazon’s Fresh delivery service.<sup>12</sup>

For publishers, e-commerce is a customer experience enhancement which can further improve engagement. The special interest nature of editorial content in magazines may align better with e-commerce but today newspapers have shown the most success.

- The NYT, with its acquisition of Wirecutter (a product review site that links consumers with the products or similar products they are reviewing) has seen promising results.
- Fulfillment can be challenging, expensive and risky. Taking a smaller margin by establishing partnerships may be the most effective approach.

## Digital Subscribers and Consumer Data

From subscriber yield increases to alternate revenue sources, newspaper and magazines alike can be better informed about their readers and better inform their advertisers through collection and analysis of consumer data. Whether using data to build better consumer engagement, or to drive targeted digital advertising, it must become a *foundational element of your business in 2018*.

Use of consumer data needs to be a cornerstone of a focus on consumer engagement. The consumer marketing funnel developed by FTI Consulting (below) shows the eventual on-boarding of subscribers / consumers.

- The process of gaining loyal consumers is no longer binary (subscribe or not). Rather it is a continuum of targeting, channel access, pushing and pulling of content, inducement and hold-backs, and experiences that build trust in the brand that is being offered.
- Subscriber knowledge is facilitated through the collection and the use of data to follow individual consumption patterns and interests.

**Figure 7: Consumer Marketing Funnel Best Practices**



## What Does The Future Hold?

Magna Global's most recent forecast revision suggests publishing industry challenges are far from over.

- Print advertising revenues are expected to decline 15.2% for magazines, and 16.4% for newspapers, both declining in the later forecast.
- Digital advertising revenues are expected to increase by nearly 12%<sup>13</sup>.

**Figure 8: 2018 Magna Global Full Year Forecast**

2018 Forecast	As of June 2016	As of Sept. 2017
Digital	▲ +11.8%	▲ +11.8%
News	▼ -15.4%	▼ -16.4%
Magazines	▼ -14.2%	▼ -15.2%

To continue to increase their digital footprint, newspapers and magazines must:

- Change cultural and organizational design.
- Increase content velocity and frequency (i.e., a content-first mindset with immediate posting to digital channels, then to print products).
- Increase responsiveness to consumer-desired content, including collection and analysis of data.
- Embrace innovation and responsiveness to change. This step will also likely entail hiring and/or transitioning resources and skills to enable a digital culture.

**Whether it's to improve legacy or digital revenues, increase engagement or expand into e-commerce, newspaper and magazine publishers need to gain more knowledge about their readers' characteristics and behaviors. With this increased knowledge, publishers will be able to target their audience with advertising and services that consumers will want, and advertisers will pay for.**



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6. Similarweb, November 2016 through October 2017 (analysis excluded business news sites such as WSJ and Bloomberg)
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9. eMarketer Unveils Estimates for Native Ad Spending – eMarketer
10. Cisco 2017 [Source](#)
11. Buzzsumo 2017 [Source](#)
12. Business Insider 2017 <http://markets.businessinsider.com/news/stocks/Meredith-E-commerce-Network-Awarded-Innovator-Of-The-Year-By-Commission-Junction-Affiliate-1003663840>, [Source](#)
13. Magna Global | US Advertising Forecasts, Fall 2017

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1. WAN-IFRA World Press Trends 2017
2. FTI Consulting Data Monetization in Media
3. FTI Consulting Magazine Model 2017
4. IBID
5. Magna Global US Advertising Forecast 2017
6. FTI Consulting Magazine Model 2017
7. Magna Global
8. IBID

### **Authors:**

**Ken Harding**, *Senior Managing Director*

**Tim Thompson**, *Managing Director*

### **Contributors:**

**Darin Miller**, *Managing Director*

**Luis Martinez**, *Senior Director*

**Stephen Roberts**, *Consultant*

*Views expressed here are those of the authors alone, and do not represent the views of FTI Consulting, Inc. or any of its other employees.*

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