Impact Of The Digital Age On The New York Times Company – An American Newspaper Company Launching A “Paywall”

Part 1 – The New York Times and the U.S. Newspaper Industry

The role of traditional media has changed dramatically in the past decade. In the age of the internet-driven, 24-hour news cycle including the rise of social media platforms the flow and the speed of information has increased tremendously. Therefore, in the last 10 to 15 years technology and digitalization are two terms that became an integral part of businesses and are still up-to-date in 2019. Consequently, the traditional Newspaper Industry was forced to adapt fast to the change due to the increasing online competition.

The New York Times (NYT), one of the United States biggest print newspapers, addressed this issue already in the year 2011 and is still in its digital transition. In 2011, The NYT’ website has moved from being a “public good” to becoming a “club good” (Cook & Attari, 2012). Forthwith its electronic version was no longer available free of charge for everyone but only accessible for those who paid for it.

The New York Times

The NYT is an influential and national daily newspaper located in New York City, United States. It is run by the New York Times Company, which is an American leading global multimedia news and information company founded in 1851. “We seek the truth and help people understand the world” is the motto of the company, which it truly lives until today (The New York Times Company, 2019). The NYT focuses on stories from around the globe that no one else is telling. Many of the topics it reveals are highly controversial, which distinguishes its newspaper articles from other newspapers. Nevertheless, over time the customer habits have changed from reading a printed newspaper that takes away lots of space in New York’s crowded subways to just reading them on the phone or any other mobile device. Therefore, the company’s strategy had to be adapted to the changes.

Business Model – Metered Paywall

From 1996, when the NYT website was first launched, until 2011 it was always free for visitors (except a few months in 2006-2007 with TimesSelect) (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012). In March 2011, The NYT introduced a new model, the so-called metered paywall or freemium model. From now on The NYT online content was protected behind a “paywall”. This limits the free online content to a pre-specified number of articles including slide shows, videos and other features per month. To get access beyond this threshold a digital subscription is necessary (Humphrey, 2011). The company took the risk that it may lose customers through the drastic change but hoped as they capture the value by keeping up the high quality of journalism its customers have the willingness to pay for the digital subscription (Guaglione, 2017). Traditional newspapers had been struggling to maintain profitability in online media. Will the concept of a “paywall” be the solution to this problem?

The Newspaper Industry in the U.S.

The entire U.S. Newspaper Industry was facing significant challenges as overall circulation for both weekday and weekend newspapers was declining due to the digital age. The U.S. reported that in the past 24 years the weekday print circulation has shrunk from $60 million to $35 million including both print and digital circulation (McLeenan & Miles, 2018). Furthermore, subscriptions, classified advertising and retail were also declining which are the traditional sources of revenue (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012). Over a 6-year period the advertising revenue has reduced by $46 million (McLeenan & Miles, 2018). Moreover, the fixed costs – editorial staff, production and distribution – only had little room for reduction following an extremely small decrease in overall costs (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012).

To compensate the decline, publishing companies had different approaches. Mainly they choose between four options of designing a “paywall”. The first option is “All or nothing” – the customers get no access to any content unless they subscribe to the electronic newspaper. One example for this would be The Economist. The second approach is what The Washington Post does, it is called “Exclusive content” – the customer receives all content for free as it is a commodity, but they restrict access to exclusive content like opinion editorial (op-ed) articles and analysis. Third option is “Device-specific offer” – charge customers based on the medium, which is not really a command. Last option is “metered system” – the one that The NYT had chosen.

Because of the online media trend many publishing companies tried one of the models mentioned above. Some of them were successful and are still today, others highly failed (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012).

Nevertheless, the Internet not only brought up all those threats but on the other side also some chances for the industry. Reaching a huge audience in a short time, spreading important information as fast as possible while keeping quality upright. During the transformation when first content was free online the number of online readers grew sharply and therefore made the transition even more important for the industry (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012).

All in all, many developments are shaping the Newspaper Industry in the U.S. but yet there is no one-fits-all solution as each newspaper differs a little from the others.

Main competitor – The Wall Street Journal

The U.S. market is highly competitive and fairly concentrated. Key market participants include MediaNews Group Inc., News Corporation, Tribune Publishing, and The New York Times Company. In regard to paid circulation The Wall Street Journal is the number one daily newspaper in the U.S. and therefore the number one competitor to The NYT (statista, 2019). It is operated by Dow Jones, a global provider of news and business information. However, Dow Jones belongs to the News Corporation (News Corporation, 2019). For both Newspapers lots of similarities are recognizable. One factor is the geographical correspondence, as they are located in New York City. Moreover, The Wall Street Journal also chose the business model of a metered paywall and there is not a remarkable price difference in its subscription rates. Besides, The Wall Street Journal focus alike The NYT on high-quality journalism.

Nevertheless, the rivalry among these two competitors does not shut down the success of The NYT. Comparing them, looking at records the NYT has more than twice as much digital online subscribers, leading the market in this section (Appendix A). Furthermore, in 2010 Diane McNulty, spokeswoman of The NYT, already stated that the strong affinity with its readers as well as the big variety from government and politics to culture and fashion creates a value to its customers and leads to a loyal and engaged audience that is three times bigger than the size of The Wall Street Journal (Hatch, 2010). Consequently, The NYT has been and still is ready to compete on every newsstand and in every format counting on brand loyalty.

Customers in the U.S. market

The main goal of The NYT is to always acquire new customers, preferably online and at the same time maintain its loyal traditional customers (Kumar, Anand, Gupta, & Oberholzer-Gee, 2012). Possible customers are of any age but eager to know what is happening in the world. Especially young and better educated adults are the target group for online media and important (Appendix B) as print subscriptions go down lately. As more and more of them think out of the box and are focusing on high quality information The NYT has positioned itself quite well in the market with the second highest circulation (Appendix C).

The NYT aims to reach those customers by keeping the subscription process as easy and simple as possible. Basic subscription includes unlimited access on any device, cheap fares with $1 per week and cancelation option at any time (The New York Times, 2019).

As well as keeping the focus on the core strategy of delivering exclusive, well researched journalism that attracts and engages audience across multiple-platforms (Abdalla, 2015).

The New York Times - sustainable success in the Online Newspaper Industry?

One main reason for the success of The NYT is the size and importance of its market. It is located in New York City, the largest and most influential media market in the world. Furthermore, it is viewed as the newspaper of record serving this region. It covers local activities quite well, however its true focus is globally, leading to international readers. Another reason for the success is that The NYT provides high-quality content by hiring top journalists and opinion writers. Moreover, those receive all the support they need including a required budget to accomplish their tasks (Abdalla, 2015). As a result, the paper has earned its place at the top of the journalistic pantheon. As reported in 2019 The New York Times Company generated more than $709 million in digital revenue, so far it seems that The NYT is performing well and continuously growing. Due to the results its chief executive Mark Thompson stated that the company’s new target is to grow the subscription business to more than 10 million subscriptions in 2025 (Peiser, 2019).

The overall question that needs to be answered is: Does The NYT have a chance of sustainable success with its paid online subscription business in the U.S. Online Newspaper Industry?

Part 2 – Industry Analysis

In order to examine, whether The NYT will have a chance of sustainable success in the

Newspaper Industry in the U.S., an analysis will be conducted using the framework of Porter's five forces. The analysis will evaluate the overall attractiveness of the Newspaper Industry and thus the chances of success for The NYT (Appendix D).

Rivalry Among Existing Competitors

Due to the fact that in the U.S. market multiple newspapers exist and a quite big percentage thereof is focusing on local and global news only it can be stated that there is high rivalry in the market. Furthermore, looking at the fact that there is only little differentiation and the publishing companies are of similar size and have the same market position the rivalry increases. As mentioned already earlier the big four market participants - MediaNews Group Inc.; News Corporation; Tribune Publishing; and The New York Times Company – control almost the entire industry. To follow it, their newspapers are the most popular ones in the United States. Furthermore, they also compete for the same customers.

Nevertheless, the possibility of electronical newspapers opened up an entire new market. Being able to easily publish information to the world, which is exactly The NYT' goal. As the resources already exist on the basis of the printed newspapers most of the newspaper companies did a similar structural change as The NYT did with its online paywall.

This leads to the conclusion that only little variety in value for the end users exists between the several news publishing companies. Moreover, the rivalry enlarged for the reason of the digital age, so competition for The NYT is higher than ever before.

Threat of New Entrants

The entry barriers of the industry are relatively high, which leads to a low threat of entrants.

To become a publishing company first of all requires sufficient funds and also strong R&D is required. Moreover, excellent journalists (suppliers) are rare and hard to recruit. Competing against the four market leaders and creating a well-established reputation takes plenty of time and is hard to achieve.

But if you take a closer look on the Online Newspaper Industry the entry barriers decreased by little as anyone can create a website. Despite all, publishing companies can only operate in cooperation with their suppliers – journalists and opinion writers. Without the suppliers exist no content for a website.

For the New York Times Company, as one of the global players, new entrants are not a relevant threat especially as the threat is already low for the entire industry. Moreover, it has an advantage through the so-called "Network effect".

Threat of Substituted Products or Services

The threat of substitutes in the Newspaper Industry exists. As this paper focuses on the electronical newspapers the main substitute is the traditional printed newspaper. In the past years the trend to online media increased extremely, following that electronical news also get more and more popular. Especially for younger customers it is quite attractive. The increasing

availability of news sites on the Internet in combination with a wide use of smartphones and other electronic devices is one of the major factors affecting the circulation of printed newspaper and made it obsolete.

However, there are four more main substituted products – magazines, radios, television and social media websites. Nevertheless, magazines and social media websites most of the time do not have the same quality as newspapers. Radio and television focus on up-to-date news. The time slot for news is short, therefore they only report a selection of the latest and most important news.

Overall, due to the fact that switching cost for the buyers are zero these are likely to switch to a substituted product for price or convenience reasons.

Concluding, that even though there exists a high threat of substitutes in this industry, for The NYT it is not as high. By reason of the loyalty of its audience and the securing position of curated information. However, it should not be underestimated.

Bargaining Power of Buyers

The bargaining power of buyers in the U.S Newspaper Industry is very high. But first of all, it has to be differentiated between buyers of printed newspapers and electronical newspapers. Printed newspapers have end-consumer as well as magazines stores or other wholesaler as buyers. For electronical newspapers only one kind of buyer exists – the end-consumer. Because of that, this analysis focuses on end-consumers only.

As buyers have low switching costs there are sensitive to price. Meaning that if costs for subscriptions of one newspaper goes up, they switch to another newspaper with lower costs. This is possible as there is only limited differentiation in content and for most of the readers it is not of high importance which newspaper they read. Furthermore, the buyers have the possibility to choose substituted products.

Due to the change to online newspapers the power even increased as they can easily compare subscription prices and some of the content. Moreover, the number of buyers is incredible high as anyone who has access to Internet can read electronical news. Furthermore, it is a lot easier than before due to all kind of online platforms.

For The NYT it is important that it connects with its buyers and integrates their needs and expectations of a newspaper in its structure. But as The NYT readers are mainly from the U.S. until now the online newspaper opens completely new opportunities. One is to increase foreign end-consumers, resulting in more subscriptions and hence more revenue.

Bargaining Power of Suppliers

In the Newspaper Industry the bargaining power of suppliers is quite high. Suppliers in this industry are journalists, opinion writers and editors. As mentioned earlier, the industry is highly dependent on the suppliers. Additionally, the number of qualitative suppliers is low and consequently these can charge higher prices. Substitutes do not exist and the differentiation of the services of the suppliers can vary a lot regarding quality.

Overall, the suppliers are powerful in this industry and this rather increased due to the digital age. It increased because the quantity and speed of circulation increased. The quality in parallel rather decreased and therefore the necessity for high-quality information is highly valuable.

Nevertheless, for The NYT' suppliers the bargaining power is limited compared to the industry as the cost of switching is low for the company and the demand of suppliers is high on the basis of the power of the 3rd largest publishing company.

Conclusion

Based on the conducted analysis it can be indicated that The NYT has a chance of sustainable success in the Newspaper Industry in the United States. Especially due to its high-quality content and the fact of its established clientele. Nevertheless, some facts might retard or even prevent the long-term success.

Not as expected before the analysis, all of the big market participants have undergone a structural change from the traditional printed newspaper to an electronical newspaper. Furthermore, most of them chose the same business model – the "paywall". That means even though The NYT was the first newspaper introducing a metered paywall the competitive advantage vanished as fast as it came. Therefore, The NYT has to use it expertise on journalism in combination with offering a sophisticated and consumer friendly digitalized service.

What is necessary to lead a successful paywall is to start from a large built-in audience. Globally The NYT has about 34 million unique visitors per month - a large pool for conversion to the "paywall". In the fourth quarter of 2018 The NYT had about 3.3 million digital paid subscribers (Appendix E) and in total 4.3 million. A continuous increase in digital subscriptions can be detected from 2015 until 2018 indicating that the transformation is successful. However, it takes time to be accepted. First of all, the existing customers have to become registered customers. Secondly, the paywall will be tightened with less and less articles available for free. As The NYT already did the second step after one year it indicates that the willingness of its customers to pay for the content is high. Another point that is highly important for success and non-negotiable for The NYT is quality. Lately confirmed by Mr. Thompson, president and chief executive of The New York Times Company as he had stated that The NYT is confident that its digital subscribers will also understand why the price paid for high-quality journalism sometimes increases if the journalism itself flourish (Peiser, 2019).

The well-established U.S. Newspaper Industry is definitely a challenge for The NYT. However, due to its solid market position and the continuous investment in quality journalism, product and marketing it will be able to compete against the other well-known newspapers. Furthermore, it has to be taken into account that only 16 percent of the subscribers live outside the United States. So, the potential of new customers is extremely high, especially as The NYT can reach them a lot easier through the structural change and the digital transformation. Moreover, as mentioned earlier it can be considered an attractive industry for the reason of acceptable returns.

To sum it up, The NYT will face some challenges and threats in the future, however it is well positioned and prepared for the competition.

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