

The British Newspaper Industry Supply Chain in the Digital Age

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ABSTRACT *Newspapers are operating in increasingly competitive and fragmented markets for audiences and advertising revenues, government media policy and changing audience requirements for news and the ways in which it is presented and delivered. A growing army of bloggers and amateur citizen journalists now delivers—but rarely edits—content for all media platforms, while new media technologies, combined with the changing structure of global news industries, are changing radically the ways in which newspapers and media business functions and struggles for profitability. Our research sought to answer the question of how the Internet is impacting on different value activities in the newspaper industry supply chain. To answer these questions, 15 semi-structured in-depth interviews were conducted at three regional newspapers in the Manchester area. The findings showed that in spite of initial fear and rejection, the Internet is now firmly embedded in newspaper industry supply chain operations. Firms are now using the Internet as an operant resource and working proactively with consumers to develop various forms of relationship value. We highlight the role of consumers in the creation of news (editorial) content and consumer-driven moves toward a merged media platform of distribution (including television, online, mobile and printed forms). Newspapers will probably survive if they supply an ‘elite’ service to a leadership news audience. This will be in the form of ‘hybrid’ content: analysis, interpretation and investigative reporting in a print product that appears less than daily combined with constant updating and reader interaction on the Web.*

Keywords: regional newspapers, Internet, value, ‘hybrid’, content, interaction

1. Introduction

The sustained decline in circulation, sales and readers for print editions of newspapers, coupled with the more recent challenge to advertising revenues posed by the Internet, has prompted pundits to speculate about the fortunes of the UK press.¹ The decline in reader numbers has also been observed in regional newspapers:² sales declined from 2.1 billion in 2000 to 1.7 billion in 2005. This decline is predicted to continue so that by 2010 sales will have fallen further to 1.4 billion

copies. While the decline in newspapers' circulation is undoubtedly significant, the suggestion here is that newspapers are not about to 'vanish' or disappear.³ Rather newspapers are changing and adapting their contents, style and design, in response to the challenges they confront in an increasingly competitive and fragmented market for readers and advertisers.⁴ Furthermore, it is suggested⁵ that the biggest challenge facing newspapers today is the changing means of distribution of news through the new media platforms of the Internet and telephony, '... which deliver news, blogs, text alerts, news updates, podcasts and user-generated content (UGC) to "readers" at a greater pace, in more accessible formats and when readers demand them'.⁶

Our research therefore sought to investigate the important influence of the Internet on the industry supply chain. The paper is structured as follows: Section 2 presents a conceptual model; Section 3 outlines the research design and methodology; Section 4 details the interview results from our research; and Section 5 concludes by reviewing the findings and assessing the strategic implications of the Internet for newspaper firm managers.

2. Conceptual Model

Figure 1 presents the guiding conceptual model for this work. This shows the value creation system for a newspaper supply chain. The size of readership and level of advertising revenues directly impact on the profitability of newspaper firm supply chain operations.

There are a number of external influences: stories are community sourced from the general public, police, courts and local government (though this view has been revised to include the increasing amount of local news content sourcing from

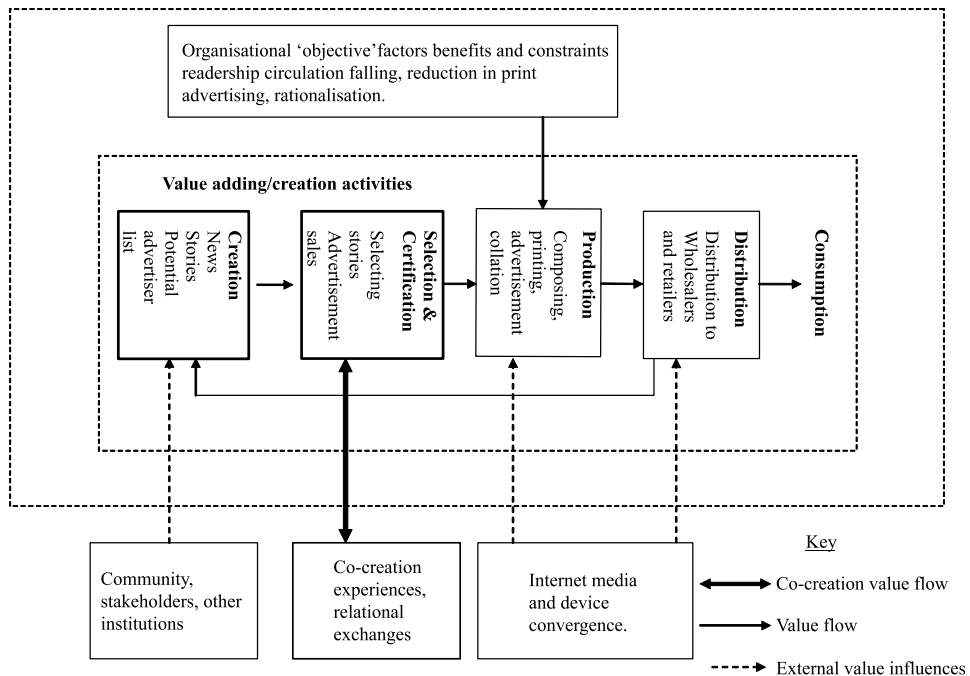


Figure 1. A conceptual model of the regional newspaper industry value chain.

interest groups and public relations professionals);⁷ regulatory agencies; investors; advertisers; print manufacturers; ink suppliers; paper suppliers; distributors; trade associations and retailers.

The thick double headed arrow highlights the potential for value co-creation activities between a firm, consumer and a blogging community. Our model proposes a dynamic participative relationship between journalists, consumers and bloggers.

The Internet is clearly driving many convergences in media and devices. Newspapers are increasingly being produced and distributed in multimedia formats (e.g. including television, online, mobile and printed forms) and this is leading to a relaxing of the rigid structuring of their missions, routines, practices and relationships.⁸

3. Description of the Interview Method

Field research was conducted in the Manchester area during July 2008. The second author had obtained his major professional experience in the regional newspaper industry and has kept a professional network in the sector, which facilitated the identification of potential key informants. The access to interviewees through social networks is a method favoured by Sierra⁹ 'as it guarantees *a priori* a discursive availability for the discipline of conversational interaction'.¹⁰ The interviewees come from the newspaper industry and are located in the Manchester area. A total of 15 in-depth interviews were accomplished, each averaging 60 minutes. Five women and 10 men composed the sample. An effort was made to include professionals from diverse functions including news, features, digital operations, advertising, editorial, marketing and sales. They reported an average of 17 years working experience (from five to 36 years) and six years with the current organisation (from three months to 13 years). The entire sample claimed to have management responsibilities, with six occupying the highest position in their units.

The interview process was guided by a questionnaire yet allowed for the further exploration of specific areas of interest and concern relating to specific examples of consumer practices that respond to the context of each newspaper studied.

The questionnaire was developed after considering the theoretical base of the research. The 14-item questionnaire included three main sections. The first section consisted of one question relating to the evolution of newspapers in the last decade. The second section was divided into two subsections in which participants were asked to describe the Internet and socioeconomic environments and then to explain the implications of these factors on their day-to-day practices. The third section contained seven demographic questions, such as gender, age, years of professional experience, sector of work and managerial responsibilities.

The answers and comments to each question were grouped by company according to the level of agreement/disagreement of identified response patterns. Excel spreadsheets were used as response matrices to better identify patterns of consensus and disagreement in each company and then to determine similar patterns among the different companies.¹¹ As the goal of this study is to detect cross-firm similarities, researchers focused on the main items of consensus in every company to compare them all together. Moreover, 'the research expert discusses the results in terms of general impressions and themes', following Poindexter and McCombs' analysis method.¹² Verbatim quotes are inserted within the text to support the summary of findings and illustrate particularities identified in the three firms.

4. Interview Results

The findings for the interview results are described under a common set of headings for each regional newspaper in order to make comparison of the results easier.

News Chronicle Value Chain

News Chronicle¹³ is a 'multi-tasking' media business within the Megalopolitan Media Regional Group (MMRG). MMRG is a UK major media business with interests in national newspapers, magazines, radio and Internet businesses. News Chronicle itself publishes one daily metropolitan newspaper throughout the day and evening. It also operates the Chronicle Evening News website—and Chronicle Online. In addition they have a city TV station focusing on city and community news, a free daily Metro newspaper and 20 'free' and 'paid-for' local weekly newspapers. Regarding its readership, News Chronicle is one of the biggest regional newspapers in the UK and claims to be the first fully converged news desk. This is where a range of different media platforms come integrated together to address a community of readers and advertisers.

Early in its commercial life the Internet was ignored by MMRG. This has changed and News Chronicle now takes the view '... that the Internet is a major source of value creation'. Prior to the Internet there was a delay in reporting breaking news in scheduled newspapers, resulting in a significant amount of 'breaking news story' value being missed. With the Internet the Senior Media Sales Manager explained:

We are instantly putting the breaking news online and we are referring our readers to other available media for further details. An innovative plan was recently formulated in the editorial section for the gathering and distribution of news. Journalists from each part of the business, including the print newspapers, online websites and Channel Chronicle, work together (converged news desk) to ensure the content is distributed at an appropriate time and through the medium most suited to readers, users and viewers (either in print, through the Web, or on local television).

The Internet potentially offers low cost alternatives to printed advertising. In response to online advertising competition, MMRG participates in a shared Internet regional service. This generates it online advertising revenue, but this is only a fraction of the printed revenues generated. The company relies on a powerful market brand and focuses on developing its non-print activities alongside the core newspaper brand, with ongoing investment in its online businesses and TV station. Their aim is to shift the reputation of the brand from a newspaper company towards that of a multimedia business. The Deputy Senior Sales Manager emphasised:

To achieve such a target, a plan of media convergence is identifiable. Also, the Internet can create value by enabling the firm to deal with all of its advertisers online. Access to facilities such as Adfast can encourage advertisers to turn to online advertising. Adfast, launched in 2000, provides a managed system for the delivery of artwork to newspaper and magazine titles published in the UK and Republic of Ireland.

The Internet cuts out many stages of newspaper production; for example, there is no photography department in the company. Freelance photographers now

perform work using advanced digital techniques, and email their photographs to the company.

The emergence of the Internet has reduced the number of readers of printed newspapers. This led News Chronicle (in 2006) to launch the Chronicle 'hybrid distribution model' ('half paid-for'/'half free'). There were two main objectives in launching the model: firstly, to increase the total circulation of the News Chronicle, and secondly, to counter the steep decline in the number of younger readers. For instance, they are offering a free newspaper in the centre of City A where, during the midweek daytime period, there is a population of approximately 180,000 people.

This is the first fully integrated news operation in the regional sector—producing content in all formats from print to online, TV and radio from one central point. The hybrid distribution model has resulted in an increase of 19% in its overall circulation (since 2005). This has helped to reposition the News Chronicle as the UK's biggest circulation regional newspaper (MMRG Annual Report, 2007).

News Chronicle utilises the Internet as a means by which it can interact with consumers; it exchanges information, recognises its potential consumers' interests, and addresses these interests through a variety of media. They run several online surveys and it uses the information collected to customise its news content and advertisements. Through its online website discussion forums, News Chronicle actively encourages consumers to become involved with local news issues.

Excelsior News & Media (ENM) Value Chain

ENM publishes three daily newspapers (the *Excelsior Evening Post*, the *Metro*, and the *Excelsior Western Daily Post*), and a range of weekly papers. There are websites for each newspaper. However, the company faces significant difficulties because the circulation of its newspapers is in serious decline. In contrast to the problems being observed with the printed newspapers, the company is experiencing a growing number of visitors to its websites, which it claims is the second most viewed website in City B (after eBay). The company works closely with its local community and plans to move from a printed (Excelsior United Press) to a multimedia news business (ENM).

ENM plans to double its digital revenue. Through its newspaper website editors are able to embed video and sound into news features. The website is also used by ENM to improve their ability to report breaking news. As the news market is highly competitive, ENM needs to make quick decisions on whether news items should be put into an online and/or printed format.

Advertising is the main source of revenue for the firm. In response to the decline in printed advertising revenue ENM has sought to develop its own online advertising revenue. However the Deputy Managing Director at ENM explained that:

... in spite of a decline, the ratio share of printed advertising revenue to online is considerable (£39m printed advertising revenue/£2m online advertising revenue). By launching an online version of advertising, the costs of production are reduced. This is through cutting our staff budget (from £15m), cutting printing costs (paper cost per year from £3.5m), eliminating press, and removing the distribution. Since the cost of online newspapers in comparison to the printing of newspapers is inherently low (almost £700,000 per year), online versions of newspapers can potentially create us some value.

The company is also trying to encourage a growth in circulation through the customisation of its online news content.

Co-creation in the context of ENM's printed newspapers is tightly controlled. Even if the company obtains information from consumers, it is not normally utilised unless it has been carefully checked for quality, authenticity and it is legally sound. In contrast there is more freedom on the Internet, with both 'one-to-one' and 'one-to-many' communication being practical and possible. Recently, ENM ran a campaign with readers against the closure of a nearby hospital. The successful campaign was administered through the ENM converged media platform and specifically their newspaper website.

The Daily Beast and The Brute Value Chain

The third case focuses on the Havas Group, and in particular on *The Daily Beast* and *The Brute*, two regional papers published in the North West of the UK. The Havas Group publishes almost 60 brands with a variety of weekly titles across North Wales and the North West of England. They have also launched free newspapers and 'neutralising' media. By 'neutralising' Havas mean that different platforms of media are converged in order to attract more consumers. For instance, the Havas television channel broadcasts news content for *The Daily Beast* and *The Brute*. At the moment this channel broadcasts its news content through televisions situated at the back of 100 taxis in City C. In the near future it is planned to make the Havas television channel available through the Internet.

In the early days of the commercially available Internet *The Daily Beast* and *The Brute* were not interested in employing the Internet in their operations. However, the dramatic growth of the Internet forced them to explore the creative opportunities it could provide. The view of Havas is that the decline in printed newspaper circulation is likely to result in the closure of some of its publications. They also suggested that the decline in circulation is not only a consequence of the growth of the Internet. In the words of the Havas Group Regional Managing Director:

... not only the Internet but there are also some other elements influencing this decline. For example, because people are no longer reading habitually, fewer newspapers are being bought today. Other forms of media are replacing the reading habits of people, so the time they spend reading newspapers is reduced. The Internet is accelerating the circulation decline of our main titles.

However the same respondent also noted that the Internet: 'can create content and be used to shape emerging news agendas'. The Internet is seen by Havas as having a number of potential advantages. First, it provides opportunities for collecting behavioural data on consumers and building profiles of them (from a variety of sources such as, email, discussion forums and mobile text services). Second, it can be utilised to identify potential advertisers' criteria. Third, through its ability to match consumer profiles to advertisers' criteria, the Internet reduces waste.

The Internet has had an impact on the infrastructure of the company; the online versions of newspapers require new skills and resources. Therefore the Havas Group is changing the business model used for a printed newspaper in order to simultaneously meet the needs of its online version, television, mobile phones and other emerging innovation requirements. This new Internet infrastructure is making the work of some staff obsolete and requiring that digital specialists be

employed. Havas is carefully considering whether current employees can be retrained or whether it is necessary to replace them through external hiring. As a result of restructuring, there are now fewer employees working at the new *Daily Beast* and *Brute*. For instance, most of the purchasing, accountancy and financial activities of these newspapers are now performed by the central office and online. The future of the printed newspaper section is clearly of concern to them and this is shown by the comments of the Havas Group Regional Managing Director:

One of the biggest challenges for this company, which is being caused by the Internet is in terms of those employees working in the printed newspaper section. Although this section is our main revenue source, it is in decline and therefore it is currently bearing most of our cost cutting, including redundancies.

Havas is starting to experiment with its distribution methods to grow its reach and attract not only younger and more upmarket readers, but also those who are new to the title. It is considering tailoring or customising its news content, and even its advertising. In order to build up interaction with its consumers, *The Daily Beast* and *The Brute* have developed systems to enable feedback on editorials through email and discussion forums. Online newspaper production for Havas may permit products targeted at particular market segments or personalised products. It also offers the potential to change advertising copy at any point in the production run: this is a significant benefit. This means that a series of adverts can be used in the same page space, so they are able to allocate parts of their total circulation to specific target audiences (for example, their female readers).

5. Discussion and Concluding Remarks

The research question asked how the Internet is impacting on the different activities of the newspaper industry supply chain. The results of these interviews in the Manchester area have demonstrated that the Internet's influence on the newspaper industry supply chain model (presented in Figure 1) is considerable: newspapers are caught in a revenue trap composed of decreasing advertising revenue coupled with declining circulation revenue. The industry is therefore under severe pressure to create value in order to maintain their existing consumer base and to acquire new customers. News Chronicle, Excelsior and the Havas Group are responding to this pressure by developing a 'multi-tasking' strategy based on media convergence, with the Internet seemingly acting as the linking medium.

Our work confirms that of Geyskens *et al.*, who found that employing both printed and online editions can result in improvements in both.¹⁴ Online editions are attracting more revenue through greater advertising, increased sales and reader offers; however, at least for the near future, traditional printed newspapers will remain the core offering and revenue source for the three newspaper firms. Although the newspaper industry is moving towards co-creating value with its consumers through Internet mechanisms such as blogs and discussion forums, it is still very much at the customisation stage.

Meyer recently revised his original position on the demise of newspapers, by claiming that they probably could continue to survive the Internet, through providing an 'elite' service offered to an 'educated, opinion-leading, news junkie core audience'.¹⁵ The elite will pass on news to others by word of mouth and the Internet. This research indicates that local newspapers in the Manchester area are not a

dying breed but are evolving from newspaper suppliers into multimedia content providers in response to the challenges of the Internet, while retaining their community influence for being trusted sources of locally produced news, analysis and investigative reporting about public affairs.

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