Newspaper paywalls and corporate revenues: A comparative study

This chapter explores how charging for digital news may support news publishers' revenues and newsroom structures. Proliferation of digital subscriptions started after traditional, print based, business models of the Western newspaper publishers began to falter. After the 2007-2008 global financial crisis, newspapers' advertising revenues declined sharply, and their newsrooms shrank as a consequence. In this context, newspapers' search for new revenue streams intensified, and they started to monetise online news content. Since 2012, news publishers in multiple countries such as the United States, Britain, Brazil, Germany, Japan, and Australia, have introduced charges for their online readers. In 2014, 73 per cent of 45 largest global newspaper publishers had introduced a paywall (Marsh 2014).

A paywall can be defined as a subscription model which limits public's access to all, or to some digital news content, if no fee is paid. A hard paywall refers to a model which only allows readers to access content via subscription; a metered model allows public to read a certain number of articles without a charge before paying; and a freemium model allows free access to a selection of content, but charges for premium content. A metered model is the most common paywall employed by Western newspapers.

News revenue models have become a critical research area for the academia as the struggles of news publishers have continued, and as these models impact on newsroom structures and editorial jobs. Costa has noted that "To produce quality journalism and perpetuate their role as independent, critical moderators among increasingly diffuse centres of power, they [newspapers] must come to terms with a new business model" (Costa 2013: 92). The focus of the earlier academic studies, related to the paid online news content, has been in people's willingness to pay (Chyi 2005; 2012). More recently researchers have started to explore paywalls in the context of revenue, content, audience, and wider society (Myllylahti 2014;

Pickard & Williams, 2013; Chiou & Tucker 2013; Brandstetter & Schmalhofer 2014; Sjøvaag 2015). In 2014, Myllylahti noted that paywalls might impact on wider society by stating that "Charging for [online] news content has the potential to create a new digital divide between those who can afford to pay for news, and those who cannot" (Myllylahti 2014: 190-191). Similarly, Pickard & Williams observed that digital subscriptions "Further inscribe commercial values into newsgathering processes; and, by extension, they may further constrict the scope of voices and viewpoints in the press" (Pickard & Williams 2013: 14).

A 2014 study of eight countries found that paywalls, on their own, were not a viable business model for news publishers. The study found that digital-only subscriptions contributed approximately ten per cent towards news publishers' revenue (Myllylahti 2014). The findings were in line with the PwC's views. In 2014, the consultancy group estimated that digital subscriptions would make eight per cent of the total global circulation revenue by 2018 (PwC 2014). In 2015, news publishers believed that 20 per cent of their future earnings would come from metered paywalls (eight from hard paywalls). Additionally, a survey conducted by *The Guardian* and SurveyMonkey revealed, that news publishers expected 29 per cent of their future income to come from rom online advertising (Berliner 2015).

Research by Chiou & Tucker (2013) demonstrates that paywalls may impact on news readership. Their analyses of three American local newspapers discovered that the introduction of paywalls impacted negatively on readership, especially amongst young people. Financial newspapers, such as *The National Business Review* (*NBR*) in New Zealand, have argued that paywalls aid the quality of their journalism as their readers would not pay for clickbait journalism. The paper's journalist Chris Keall has noted that "People won't pay for churnalism, advertorial, or a story on Kate Middleton they can see on 10,000 other sites"

(Keall 2014). However, in their study, Brandstetter & Schmalhofer (2014) observed that the business and finance section of the German online news site *welt.de* offered very little unique content after the paper implemented a paywall. On the other hand, Sjøvaag's (2015) study of three Norwegian newspapers found that the papers had put commentary, analysis, and feature articles behind a paywall, but general news content was freely accessible. The publishers considered that as the production of features and analysis required more time to produce, this required a bigger investment. In this case, it could be argued that a paywall may protect the 'quality' of journalism - if publishers are willing to invest on it.

Growth in subscriptions, but not necessarily in advertising

In order to explore how newspapers digital subscription numbers have evolved, and how paywall revenues have developed, a document analysis was conducted. The data was mainly derived from news publishers' annual reports. None of the news corporations analysed here provided additional information when asked, demonstrating sensitivity around digital income numbers. When evaluating digital subscriptions, the data was gathered a year after each corporation implemented a paywall, and then again in 2014. As the disclosure about the digital subscription revenues was poor, available data was used and compared to data provided by earlier academic research. The data concerning digital advertising revenue was examined when, and as, relevant data was retrievable. In general it can be stated that the document analysis is an efficient research method. As Bowen (2009) observes, documents are a stable and an exact research source even when they may lack in detail and certain information. News publishers and newspapers analysed here included:

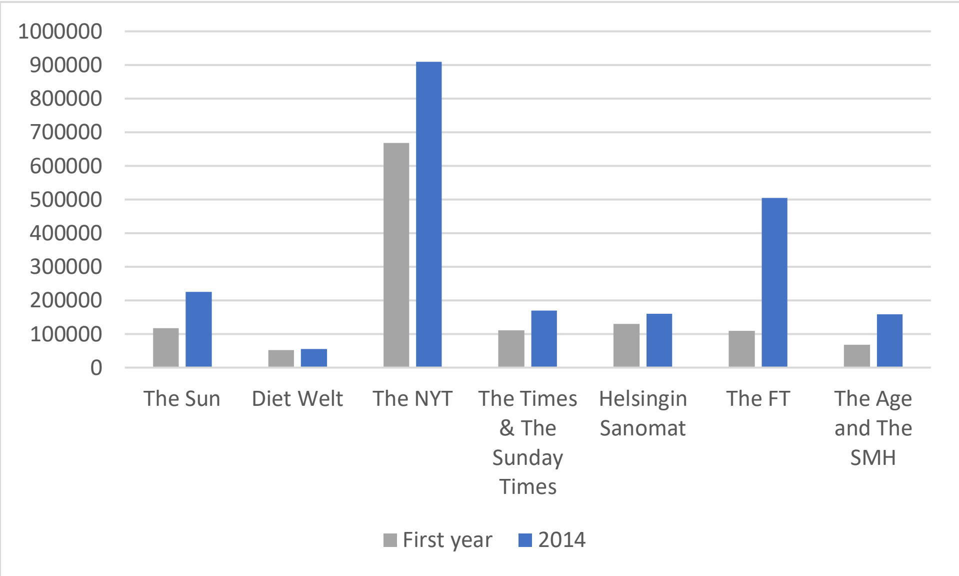
- The New York Times Corporation (US) – *The New York Times*
- News Corp (UK) – *The Times* & *The Sunday Times, The Sun*
- Pearson (UK) – *Financial Times*
- Schibsted (Norway) – *Aftenposten*
- Axel Springer (Germany) – *Die Welt*

- Sanoma (Finland) – *Helsingin Sanomat*
- Fairfax Media (Australia) – *The Age* & *The Sydney Morning Herald*

These corporations were chosen for analysis as they represent some of the largest newspaper publishers in the United States, Britain, Scandinavia, Europe, and Australasia. The newspapers explored include general newspapers, tabloid, and financial journals. Most of the newspapers examined have introduced a metered paywall, and these include: *The NYT* (2011), *Die Welt* (2013), *Helsingin Sanomat* (2012), the *Financial Times* (2007), *The Age* & *The Sydney Morning Herald* (2013), and *Aftenposten* (2013). *The Times*, *The Sunday Times* (2010), and *The Sun* (2013) have a hard paywall. It is worth noting here that many of these corporations also have other publications behind paywalls, and they haven't been taken into account here. For example, FT Group's *The Economist* and Axel Springer's *Bild* also charge for access, and News Corp also have paywalled newspapers in the United States and Australia.

The *Financial Times* has gained substantially in paid digital subscriptions since it introduced charges for its online content. The paper's digital-only subscriptions grew from 109,609 in 2007 to 504,000 in 2014, an increase of 359 per cent. Other newspapers explored introduced their paywalls much later, and therefore data concerning them only covers a one or two year period, and their growth numbers are naturally lower. As the graph 1 demonstrates, *The New York Times* has gained 36 per cent in digital-only subscriptions since it started to charge for online access. The paying digital audience of *The Times* and *The Sunday Times* (combined) has grown 53 per cent, *The Sun* - 92 per cent, *Helsingin Sanomat* - 23 per cent, *Die Welt* - 6.3 per cent, and *The Sydney Herald* and *The Age* (combined) - 132 per cent. However, it should be noted that in the case of *Helsingin Sanomat* it not clear if its numbers include bundled, or digital-only subscriptions. Schibsted has introduced paywalls for its newspapers in Sweden and Norway, but it doesn't break down numbers for its digital subscribers. The company has not disclosed how many people are paying for the digital *Aftenposten*, but it has been suggested that the number is in the region of 90,000 (INMA n.d.).

Graph 1: Growth in paid digital subscriptions since paywall launch

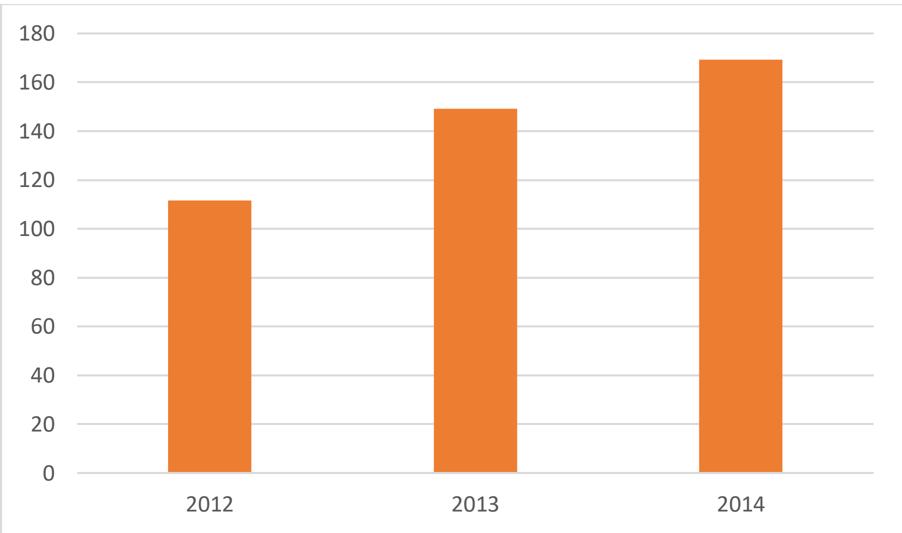


Sources: Axel Springer, The NYT Company, News Corp, Sanoma, Pearson, Fairfax Media

As seen here, in 2014 *The New York Times* was leading in terms of digital subscription with 910,000 readers, followed by the *Financial Times* with 504,000 digital-only subscriptions. The British tabloid newspaper *The Sun* had rapidly increased its paying digital reader base, which in 2014 was 225,000. These outlets have enjoyed strong growth, but how sustainable it is? In 2014, Bourgeault observed that *The New York Times* was "Starting to experience a slowdown in digital subscription growth" (Bourgeault 2014). Similarly, *The Financial Times's* decision in early 2015 to abolish its metered model (after eight years from its implementation) is somewhat telling. The company introduced one month's paid-for-trials for its digital news content offering its readers an access for a "nominal sum" (Jackson and Plunkett 2015). The *Financial Times's* chief executive officer John Ridding explained the change by stating that “The theory is that within that they can build a habit, and then become a subscriber” (Jackson and Plunkett 2015). Ridding believed that by offering trials it could “increases subscription rates by between 11 per cent and 29 per cent”, making the system more efficient than a metered paywall (Jackson and Plunkett 2015).

Evaluating paywall revenue proved challenging – only The New York Times Company and Fairfax Media disclosed transparent data about their digital-only subscription income. As seen in graph 2, the NYT Company’s revenue from digital-only subscription packages grew from 111.7 million in 2012 to 169 million in 2014, an increase of 51.6 per cent. In 2014, paywall made 10.6 per cent of the company’s total revenue, compared to 7.2 per cent in 2011 (Myllylahti 2014).

Graph 2: The NYT Company paywall revenue 2012-2014/US$ million



Sources: The New York Times Annual Reports 2012-2014

Fairfax Media launched digital subscriptions for its general newspapers *The Age* and *The Sydney Morning Herald* in 2013 after putting its financial newspaper the *AFR* behind a paywall in 2011. In 2014, Fairfax made AUD$24 million revenue out of these three paywalls, and this represented two per cent of the company’s total revenue (Fairfax Media 2014). Pearson doesn’t disclose how much revenue the *Financial Times* makes out of its digital subscriptions and neither do Schibsted, News Corporation, or Sanoma give details about their stables. In 2015, the standard digital subscription package for FT.com was US$310 a year. Based on this pricing, and the number of 207,000 digital-only subscribers, the paywall income of FT.com in 2010 can be estimated as US$64 million, representing 9.2 per cent of the FT Group’s total sales of US$698 million. Using the same pricing mechanism, and the digital-only subscription number of 504,000, FT.com’s paywall revenue in 2013 was US$156 million, representing 22 per cent of the FT Group’s total sales of US$707 million. This demonstrates a clear increase in its paywall income as the paywall revenue in 2012 was estimated as 13 per cent of the company’s total revenue (Myllylahti 2014). In 2013, digital subscriptions made almost two thirds of the *Financial Times’s* total paying audience (Pearson 2013).

In 2014, Schibsted reported that its online newspapers in Norway and Sweden made 1,956 million Norwegian kronor in revenue compared to the company’s total revenue of 14,975 million Norwegian kronor (Schibsted 2014). Based on these figures, it can be estimated that the company’s online newspapers contributed 13 per cent towards its total earnings. However, the figures don’t reveal anything about Schibsted’s digital-only subscription revenue. If we calculate number of digital subscriptions, and multiply them with the digital subscription package price, we can estimate that the paywall income of *Helsingin Sanomat* (Sanoma) is approximately 26 million euros, representing 1.4 per cent of its total revenue; *Die Welt’s* (Axel Springer) 8.7 million euros, 0.2 per cent of the company’s total revenue; and *The Times & The Sunday Times* (News Corp) 29.8 million euros, representing 0.39 per cent of News Corp’s total revenue. A 2014 study estimated that in 2012 the digital subscription revenue of the two News Corp papers was 8.9 per cent of the company’s publishing revenue (Myllylahti 2014). Substantial difference between these two estimates is most likely due to the changes in the News Corp organisational structure and revenue reporting. In 2013 News Corporation was split in to two separate companies: News Corp and Twenty-First Century Fox Inc. News Corp's tabloid *The Sun* launched a paywall in 2013. In 2014 the paper had 225,000 digital subscribers. Based on the pricing of its most common digital package of 11 euros, its paywall income was approximately 29.95 million euros – as much as the combined revenue of *The Times* and *The Sunday Times*.

The National Business Review (in New Zealand) has argued that paywall advances its advertising income, as the paper is able to "Deliver qualified audiences to advertisers", and therefore it can "Charge more for ads" (Keall 2014). Also content sales manager Johanna Suhonen of *Kauppalehti* (the Finnish business daily) argues that paywall aids advertising as it can be modified according to advertiser's needs. "It is so easy to generate advertising revenue by loosening the paywall restrictions for content that is more in demand among advertisers" (Hantula 2015). The *Financial Times* has also claimed to benefit from digital charges, as they have enabled collection of reader specific data, adding value for its advertisers (Bilton 2014). However, some publishers have found that paywall is ineffective in building audience and advertising income. In 2015, Canadian newspaper the *Toronto Star* abolished its paywall. The papers chief operating officer Sandy Macleod stated, that after a good start, its digital subscription growth came to a sudden halt: "Within about 90 days we seem to have plateaued – we spent about probably six months trying pretty aggressively trying to move the number and found that was expensive and a relatively high churn rate" (Christensen 2015).

The digital advertising income of The New York Times Company has declined after its paywall implementation. The company's digital advertising income shrank 15.3 per cent after charges were introduced for the digital content. In 2012 the company made US$215 million dollar revenue from digital advertising, but in 2014 it had fallen to US$182 million (The New York Times Company 2014). Similarly, digital advertising income of Sanoma declined from EUR779.6 million in 2013 to EUR651 million in 2014, a decline of 16.4 per cent (Sanoma2014). The way FT Group reports its income makes evaluating its digital advertising income difficult. What the company has stated is that its digital income as whole is increasing, and its advertising income is shrinking compared to its subscription revenue. In 2010 the groups advertising income was 181 million British pounds, but in 2013 it was 166 million British pounds (Financial Times Group 2013). However, it is not possible to tell how much of this advertising income comes from digital and print sources.

In contrast, Axel Springer has gained in advertising dollars, and its digital advertising revenue rose 10.8 per cent after it launched paywall in Norway (Axel Springer 2014). Fairfax also gained 5.6 per cent in digital revenue after introducing digital charges for its general newspapers (Fairfax Media 2014). It should be noted that these figures do not prove that paywalls advance digital advertising, neither have they proved that digital subscriptions hinder build up in advertising revenue. It is not possible to know how digital charges affect advertising without consulting news publishers. The advances in Axel Springer's and Fairfax's digital advertising income are more likely to do with diversification of their advertising portfolios. Schibsted, News Corp, Axel Springer, and Fairfax have all invested in online classified advertising and listing services, and this has most likely given a boost to their revenues. For example, in the first quarter of 2015 Schibsted increased its revenue from classified advertising by 13 per cent from the same time in previous year (Schibsted 2015).

Additional revenue, but newsrooms keep shrinking

The National Business Review states that paywall aids journalism as it "Helps to fund professional newsroom" (Keall 2014). The paper argues that it would not have been able to "replace every departing journalist on ad revenue alone" (Keall 2014). However, it can be argued that in general income derived from paywalls would be only sufficient to fund substantially smaller newsrooms. To illustrate, in 2014 Fairfax's paywalls made AUD$24 million in revenue. In the same year, the company employed 7,043 people, and its staff costs were AUD$731 million (Fairfax Media 2014). The company's staff related expenses were over 30x its paywall revenue. Looking at this from a different angle: in 2014, an average journalists' salary in Australia was AUD$48,313 per year. A very simplified calculation shows that the company would have been able to support 496 journalists with its paywall-only income (if assumed that all the workers were paid the average salary). Based on this scenario, Fairfax would need to cut 93 per cent of its workforce if its operations were funded from digital subscriptions. In 2014 *The New York Times's* digital revenue was estimated at US$312 million. Bourgeault noted that this "Amount of revenue would only be able to support about 200 journalists, which is only about 20 per cent of the current total" (Bourgeault 2014).

What is clear is that paywalls provide additional revenue for newspaper publishers, although it is not substantial enough to sustain newsroom structures as print advertising and circulation incomes continue to shrink. To compensate for these declines, newspaper companies have continued redundancies: The New York Times Company, Fairfax Media, Sanoma, and Schibsted have all cut their workforces prior to and after paywalls were implemented. Cuts have also been felt in the FT Group: in 2013 35 editorial posts were lost in *The Financial Times* newsroom after "voluntary redundancies" (Turnvill 2013).

Fairfax Media has shed 633 jobs since it introduced digital subscriptions, a reduction of 27 per cent in its employee numbers. The company has cut editorial and photographic jobs in its Australian newsrooms. The number of the New York Times Group employees fell from 7,273 in 2011 to 3,529 in 2013, representing a 51 per cent drop. In 2008, *The New York Times* cut 100 editorial jobs, in 2009 additional 100, and over 30 newsroom jobs were reduced in 2013. At the end of 2013, the newsroom had 1,330 workers. In 2014 more journalists were laid-off as the paper introduced a further 100 redundancies (Somaiya 2014). Sanoma's workforce has shrank from 9,035 to 7,583 after it introduced digital subscriptions, a reduction of 16 per cent in its employee number. These cuts have been felt in its newspapers and magazines, most notably in its masthead, *Helsingin Sanomat's,* newsroom. The number of Schibsted's workforce has fallen 11.5 per cent from 7,800 to 6,900, and some of these cuts have been editorial jobs.

These layoffs are worrying as they impact on journalists' ability to do their jobs, as newsrooms are left with fewer journalists, who are required to produce content for print and online newspapers; shoot videos; take photos; moderate online comments; feed social media sites; and sub-edit their colleagues' stories. Nevertheless, some news publishers have argued that they have increased their newsroom spending as journalists need new skills. Fairfax Media, for example, has emphasised that it is 'upskilling' its journalists. The company's New Zealand executive editor Sinead Boucher commented in 2015 that "We're investing in our people and systems to reinvigorate our newsrooms" (Read 2015). The company said that it was training its journalists with new skills as well as employing new teams to produce video, social media, and reader-generated content (Read 2015).

Alternative, pay-per-article payment systems emerge

As discussed, paywalls have become a popular model for online news monetising, and they generate additional revenue for newspapers. They don't work for all publishers, as seen in the cases of *The Dallas Morning News*, *The Toronto Star* and the *San Francisco Chronicle,* which all have dropped their paywall, and they are exploring alternative funding models. New news payment systems are also emerging. Dutch company Blendle, for example, has developed a model which allows readers to pay-per-article. Both The New York Times Company and Axel Springer have invested in Blendle, which takes 30 per cent of money the publishers earn via its pay system. Publishers set the cost for their articles, and prices vary from 10-30 cents for a newspaper articles to 20-79 cents for a magazine article. *The New York Times*, *The Wall Street Journal,* and *The Washington Post* are amongst the newspapers which have signed global licences with Blendle. In April 2015, the Dutch company had over 250,000 users, and stated that "We're proving that people do want to pay for great journalism" (Klöpping 2015). Yet at the same time, the company noted that micropayments do not work for general news content, but they worked for analysis, opinion pieces, and long interviews. Alex Klöpping, co-founder of Blendle, observed that "We don't sell a lot of news in Blendle. People apparently don't want to spend money on something they can get everywhere for free now"(Klöpping 2015).

Other companies have also developed new pay systems to aid publishers' content monetisation. For example, a Finnish team Prejkfast has created a new standardised micropayment system for digital newspaper and magazine publishers. Also, Finnish companies Prime and Aatos have invented paywall systems, which offer either bundled content packages from international and domestic sources, or personalised content packages from multiple magazines (Finland Ministry of Transport and Communication 2015). Already in 2011, Slovakian Piano Media launched its national paywall system, which offers readers digital news content from multiple publishers with one single subscription. In 2014 the company was one of the leading providers for paywall solutions in the world after it acquired American digital media service company Press+.

It is hard to envision that per-pay-article systems would replace monthly subscriptions. The increases in digital subscriptions demonstrate that people are willing to subscribe to certain papers perhaps because of the brand loyalty, or content provided. Some have doubted sustainability of micropayment systems. Filloux, for example, has pointed out that, in the case of *The New York Times,* revenue from Blendle would only provide the paper with a "Fraction of a percentage point to the $200 million a year cost of operating the Grey Lady's 1,300-staff newsroom" (Filloux 2014). He argues that micropayments may damage news publishers advertising revenue as pay-per-article systems do not provide similar in depth data about their readers as monthly subscription do. He draws parallels to the music industry, which started to lose income after people were able to buy individual songs (Filloux 2014). Filloux makes a valid point by stating that "Paid-for music was not competing against free content in the way that today's paid content has to face a profusion of free editorial" (Filloux 2014).

Conclusions and discussion

Analysing news publishers' paywall revenue is an unnerving task: only two out of the seven news publishers analysed here provided transparent information about their digital subscription and advertising revenue. What is clear is that paywall income is not substantial enough to support news publishers' current newsrooms structures. As demonstrated, newspaper publishers including The New York Times Company, FT Group (Pearson), Sanoma, Schibsted, and Fairfax Media have continued to lay-off their editorial workforce. It is safe to conclude that, if newspapers were funded by paywall revenue alone, they could only sustain substantially smaller newsrooms. In the case of Fairfax, for example, it would need to cut 93 per cent of its newsroom if its operations could only depend on paywall income.

Some conclusions can be drawn based on the analysis here. The newspapers examined, regardless of their target audience and type of the newspaper, have gained in digital subscriptions since they were introduced. *The Financial Times* gained 359 per cent increase in its digital subscriptions in seven years, *The New York Times* 36 per cent in three years, and *The Tim*es & *The Sunday Times* 53 per cent (combined) in four years. Interestingly, British tabloid *The Sun* gained 92 per cent in digital subscriptions in the first year of paywall, and by 2014 its subscriptions had overtaken combined subscriptions of *The Times* & *The Sunday Times*.

The data suggests that *The New York Times* and the *Financial Times* have gained substantially in paywall revenue. The findings propose that in 2014 *The New York Times* paywall contributed 10.6 per cent towards the company's total revenue (7.2% in 2011); and *The Financial Times's* 22 per cent towards FT Group's total income (13% in 2012). Interestingly, only one year after paywall implementation *The Sun* produced as much as revenue as *The Times* and *The Sunday* times together.

The analysis doesn't support the view that paywalls automatically advance publishers advertising revenue. It should be noted that the information in this regard was lacking. The digital advertising income of The New York Times Company and Sanoma declined since they started to charge for digital access, but it is not possible to know if this relates to their paywall. Most likely their advertising revenues were affected by general economic trends. Digital advertising income of Axel Springer and Fairfax Media increased after paywall launch, but these advances are most likely due to increase in their classified advertising and listing services. The statement made by the *Financial Times* proposes that as a paywall helps publishers to gather more specific data about their readers, this data is more valuable for advertisers, implying it can charge for its advertisements. Without relevant data and management consultation, it is impossible establish if this is the case.

Paywalls have also come down. As the *Toronto Star* demonstrates, it abolished charges for its digital content after subscriptions stalled, and as it readers turned to free, alternative news sources. Canada's largest daily newspaper noted that retaining its digital readers was challenging as it had "a relatively high churn rate" (Christensen 2015). The 'paywall tide' may have already turned, as a 2015 INMA survey suggests. In 2013, 48 per cent of media executives regarded paywall as "absolutely crucial development, whereas in 2015 only 27 per cent said so (Lichterman 2015).

Competition between free and paid media outlets is also increasing, so creating revenue from digital subscriptions may prove more challenging in the future. Australia offers an example: recently news outlets, such as *The Guardian*, *The Mail Online*, *The Huffington Post* and *BuzzFeed*, have entered the Australian media market by launching Australian sites offering specific local content. These outlets compete directly with News Corp's subscription based mastheads *The Aus*tralian, and Fairfax's *The Age* and *The Sydney Morning Herald*.

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