

2018 PUBLISHING YEAR IN REVIEW

AN FTI CONSULTING REPORT



EXPERTS WITH IMPACT™

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As we do for our valued newspaper and magazine clients at the end of each year, we recap 2018 to inform insights for 2019. So we looked back at our Year-in-Review thoughts from 2015, 2016 and 2017. What we found was interesting:

2015

In 2015 we talked about the ‘the genius of the AND’ and stories around innovation. We suggested that publishing may be in a permanent state of ‘re-invention.’

- LINKEDIN reinvents RECRUITING: LinkedIn disrupted the \$26 Billion corporate recruiting market by launching a subscription tool called Recruiter accounting for 62% of revenue.

Today LinkedIn is continually adding features such as Salary Insights and LinkedIn Scheduler to increase functionality and engage users.¹

- NETFLIX reinvents CONTENT STREAMING & CREATION: \$41 Billion market cap Netflix - then over \$6 Billion in revenue - transitioned from mailing DVD’s to streaming video over the internet and is now aiming to disrupt original content production with Netflix Originals.

Today Netflix’s over \$11 Billion in 2017 revenue nearly doubled in two years.

- THE WASHINGTON POST reinvents its REACH: 72 million digital unique visitors in November according to comScore. Time spend per visitor increased 21% up to nearly 15 minutes, with 93% higher mobile visits than last year and made up of 44% millennials.

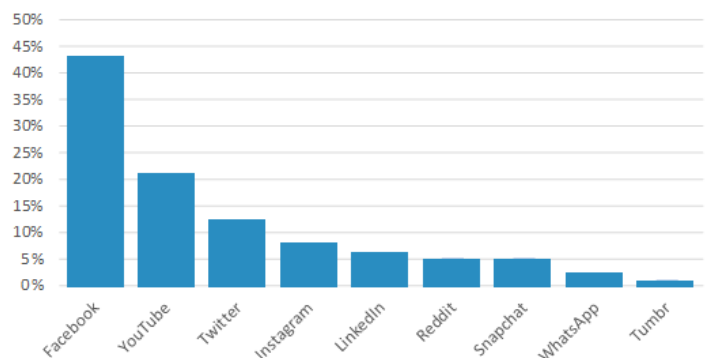
Today The Post’s affiliate program has been discontinued. Year to date it has 71 Million²

monthly unique visitors, retaining the audience built through its affiliate program and through distributing its content through a broad set of platform channels.

- FACEBOOK: just launched Instant Articles.
Today, publishers find themselves steering away from Instant Articles because of difficulties monetizing them and because of difficulties with monetization and data transparency. According to the Columbia Journalism Review, “Over half of Facebook’s launch partners for Instant Articles did not use the format in early 2018.”³
- Further, Facebook changed its algorithms to de-prioritize publisher content which reduced some publisher’s traffic by over 50%.

This is concerning because today, 2/3 of US Adults get news via social media⁴ and Facebook dominates all other social platforms.

Figure 1 – % Adults Getting News from Social Platform



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2016

In 2016, a presidential election year, we asked the question: is it all about content?

- In 2016 many publishers began asking whether social sites should be seen as their friends or foes. The answers have been mixed, but we suggest that you enter every social partnership “eyes wide open,” leveraging the short-term opportunity while developing your own alternative strategies. Combined, Facebook and Google accounted for over 60% of US digital advertising revenue.

Today the Duopoly account for nearly 57%, a slight drop but nearly 90% of its growth. Amazon garners ~5% of the digital ad growth. But according to eMarketer, that rate is expected to grow to 15%, which will translate into digital ad sales of \$28 Billion by 2024. These ad sales are mostly sourced from the “sponsored product” feature on the retail site.⁵

- We commented on the respected Guatemalan daily La Prensa’s success with the tablet app and Blendle’s micropayment platform.

Today, La Prensa’s success is not replicated anywhere, and this year became a not-for-profit, Blendle has very limited success.

- We noted early success stories with native content – New York Times, BuzzFeed, The San Francisco Chronicle and The Atlantic.

Today, native advertising spend is continuing rapid growth although lower each year - it is projected to be over \$32 Billion in 2018 in the U.S., which is an increase of 31% compared with growth of 50% in 2017, and 64% in 2016.⁶

- Video was identified as one of the fastest growing digital revenue opportunities for publishers.

Today it is expected to reach \$28 Billion in revenue and garner over 25% of digital ad spend.⁷ Revenues are up between 30-35%.

2017

Last year we noted several trends that are continuing today. We also focused on increasing print yield and on the challenges of rate base for magazines and the importance of digital consumer revenue for publishing.

- Initially used to monetize remnant inventory, programmatic advertising became one of the leading vehicles for digital advertising sales.

It is expected to grow to \$46 Billion by end of 2019 amassing an astounding 84% market share. In 2018, nearly \$48 Billion will be spent on programmatic advertising in the US and in Q1 2018, ¾ of brands e-marketer studied purchased a programmatic ad.⁸ Achieved the projected growth in one year vs. two.

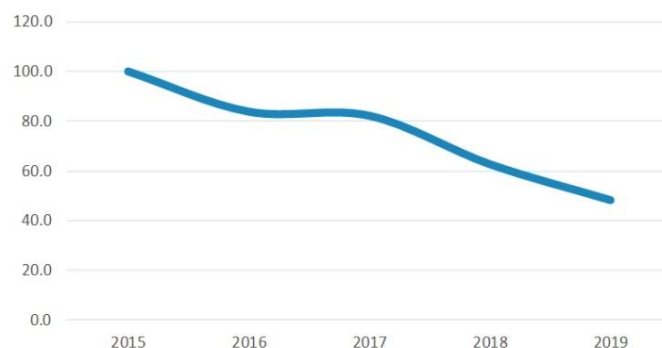
- E-commerce leader Amazon has emerged as a new player in the digital advertising world, with a 33% increase in 3Q17 revenue YoY and an expected 3% market share by 2019.

Today it is \$4.6 Billion in revenue and 4.5% market share.⁹

- We noted newspaper preprints historically more stable than ROP were starting to slip at a faster rate.

As shown in the chart below from a current FTI client, preprint revenues are declining significantly in 2018 and projected to continue.

Figure 2 – Preprint Advertising Revenue



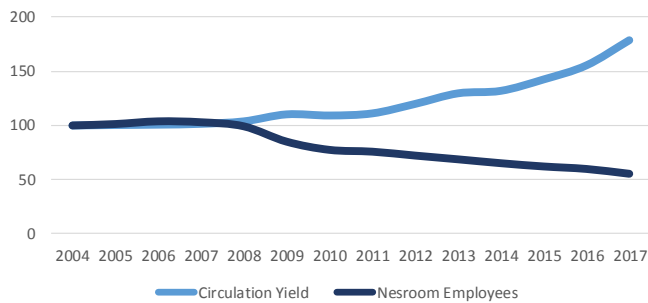
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2017 [continued]

- We also suggested the newspaper print subscriber yield increase would begin to flatten after years of market-based pricing.

While historic yield continued to climb through 2017, anecdotal information suggests yield improvement will moderate as coverage continues to decline in many markets as represented by the newsroom employee year over year decline.

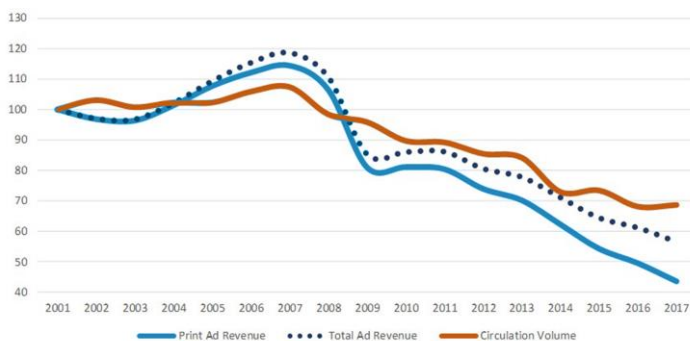
Figure 3 – US Newspaper Circulation Yield vs. Newsroom Employees



- We offered that magazines with a rate base have foregone some of the opportunity around consumer revenue; that the industry likely will need to rethink this approach and consumer revenue must become a bigger portion of the revenue mix. Print advertising was down 11%, 6% and 8% in 2017, 2016 and 2015, respectively.¹⁰

The chart comparing print ad revenue and total ad revenue vs. circulation volume clearly shows

Figure 4 – US Magazines Ad Revenue vs. Circulation Volumes



how publishers have attempted to maintain volume amid a much faster declining ad revenue business. Our experience suggests that many magazines have negative circulation margin [circulation revenue less PP&D]. Consequently, negative circulation margin takes an ever-increasing portion of positive advertising contribution.

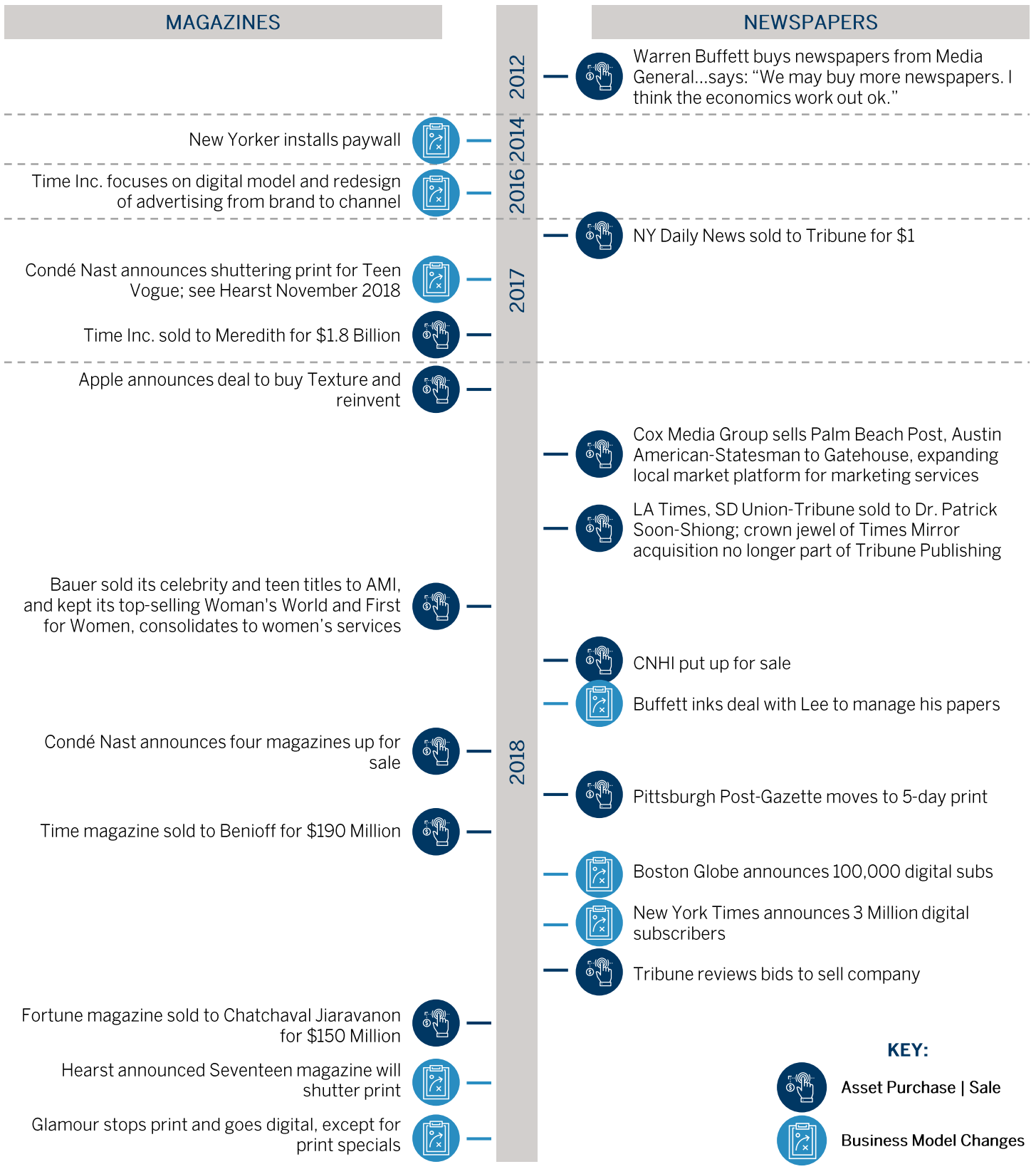
The lookback told us that we identified and reported on trends and issues that were and are important to publishing – maybe. It also suggests that for newspapers, a sustainable business model has been illusive and for magazines, an advertising-based business model will be challenging without consumer and other revenue streams.

The publishing transformation timeline [Figure 5] starts with Warren Buffet's proclamation upon buying newspapers in 2012. However, in 2018 he entered into an agreement with Lee Enterprises to manage his newspapers, so maybe the economics were not working out ok after all.



Both newspapers and magazines continue to implement changes to business models as long-term solutions remain elusive and monetizing digital subscribers is a key focus for many Publishers. Numerous announced and actual sale events have occurred as consolidation and repositioning continues with some shuttering of titles.

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Figure 5: Publishing Transformation Timeline



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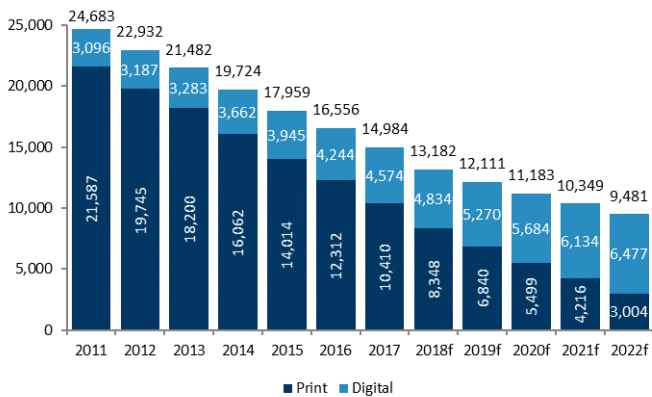
-  Asset Purchase | Sale
-  Business Model Changes

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2018

US newspapers advertising revenue the last five years fell each year as digital has not made up for print declines; projections through 2022 show only slight stabilization.

Figure 6 – Newspaper Advertising Revenue



US magazine advertising revenue has been declining at a more moderated trend than newspapers in the last five years; projections suggest that digital growth will be insufficient to offset print declines.

Figure 7 – Magazine Advertising Revenue



What do these suggest? Beyond the need for continued transformation both newspapers and magazines, they must receive more revenue from consumers. With newspapers, future yield increases are very likely to flatten. For magazines, the industry must come to grips with rate base before significant print yield increases are possible.

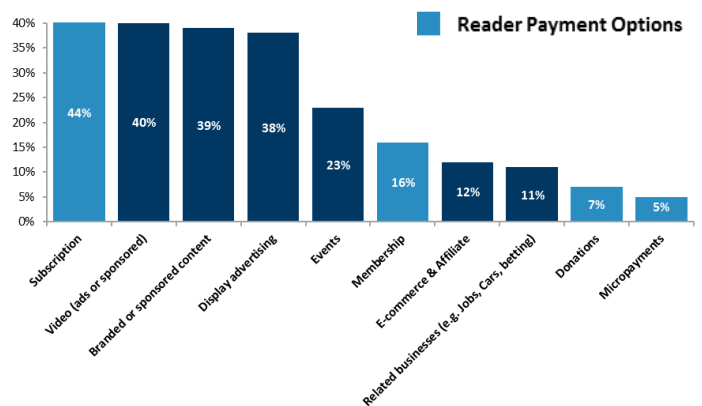
For both, finding ways to grow digital consumer revenue is essential. But sustained digital consumer revenue growth is unlikely for publishers that just charge online consumers for digital versions of their print editions.

Immersive, personalized, mobile-centric experiences will likely become the standard for newspaper and magazine publishers that successfully pivot to a subscriber-centric model, and we expect publishers to evolve their organizational capabilities around marketing and product development that are required to fuel this consumer revenue growth.

Newspaper Digital Subscriber Growth

According to INMA's News Media Outlook 2018: The New Economics of Content, digital subscriptions for newspapers represent the "tantalizing possibility that [digital subscriptions] could be the silver bullet that replaces existing print advertising." 44% of global media executives said digital subscriptions are an important digital revenue stream for 2018 [the top answer chosen] according to the Reuter's 2018 Digital News Project:

Figure 8 – Important Revenue Streams for 2018



Digital subscriptions are clearly a top focus for many U.S. publishers, from international brands like The New York Times and The Wall Street Journal, to regional brands like The Los Angeles Times and The Boston Globe. Notable digital-only subscriber volume

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Newspaper Digital Subscriber Growth [continued]

benchmarks that were achieved by the end of 2017 or in 2018, include:

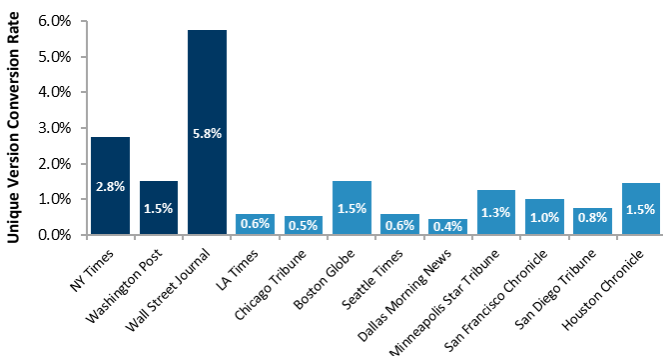
- New York Times – 3M Q3 2018 ¹¹
- Wall Street Journal – 1M YE 2017 ¹²
- Washington Post – 1M YE 2017 ^[13]
- Los Angeles Times – 105K YE 2017 ^[13]
- The Boston Globe – 100K Q4 2018 ¹³

However, digital subscriber performance for the industry at large is somewhat mixed. The following chart shows the percentage of average monthly unique visitors these publishers have converted into digital subscribers [WSJ is nearly 6%].

Top performers are typically greater than 1% and, in some cases, have converted almost 3% [New York Times] and almost 6% [Wall St. Journal], while lower performers average around 0.5% of unique visitor conversions.

- Many publishers are below these levels. An the FTI scan suggests of the major public companies focused on metro and community newspapers, digital subscriber conversion ranges from 0.5% to 0.7%. There clearly is market opportunity for publishers to grow their digital subscriber volume levels.

Figure 9 – Digital Subscriber Conversion as of Q4 2018



What does it take for most newspaper publishers to get a 1% or 2% conversion rate? For starters, a better understanding of the economics of content coupled with the ability to effectively leverage their digital subscription pay model as an audience segmentation tool.

- Beyond that, publishers need to be thinking much broader about how their organizations are aligned around the objective of driving digital subscriptions spanning across the newsroom, consumer marketing, audience development, product and engineering groups.
- Getting the right resources in the right place and focused on the right goals is critical to success.

Publishers face clear head winds with declining print revenues, a hyper-competitive digital advertising market, and an operating model somewhere between legacy and a new revenue stable business.

But there are a few trends that we see emerging that provide confidence that newspaper and magazine publishers will be able to successfully transform:

- Abandoning a one-size-fits all model
- Developing truly personalized experiences based on consumer insights
- Leveraging artificial intelligence to improve both the efficiency and effectiveness of content distribution

The biggest challenge of all for publishers is time. It is a question of whether they will be able to move quickly enough to cross the digital chasm, or be left behind.

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FIGURES

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Ken Harding
Senior Managing Director
Global Publishing Lead
303-689-8875
Ken.Harding@fticonsulting.com

Tim Thompson
Managing Director
Publishing Team
303-907-0027
Tim.Thompson@fticonsulting.com

Pete Doucette
Managing Director
Publishing Team
617-747-1709
Pete.Doucette@fticonsulting.com



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