The Case for Irish Newspapers Entering the Interactive Digital Market

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Introduction

For over 300 years the newspaper business has been inseparable from ink on a page. But the growing use of digital distribution technology such as the world wide web, wireless application protocol for mobile phones and the potential for interactive digital television makes readers simultaneously easier to reach but harder to retain. Newspaper readership is no longer confined to the technology of print. This opens new opportunities for publishers but aggressive players from the software, telecommunications and retailing sectors are also exploiting this new technology and encroaching on newspapers' traditional market. This paper draws largely on the American experience to examine the arguments of whether Irish newspapers should enter the digital distribution channel. It critically looks at the opportunities to develop digital services that are provided by the use of newspapers' brand names, expertise and local networks. It reviews recent efforts by Irish publishers to establish an online presence. It argues that digital delivery is becoming a fundamentally different business to newspaper production and in the long-term will be more suited to broadcasters once bandwidth and compression technologies improve. The cost of trying to establish digital distribution channels is assessed and it is concluded that an alliance between newspapers, radio stations and other traditional media foes may be required to meet the content, technology and financial requirements involved. It concludes that the arguments for and against newspapers entering the digital arena are finely balanced as digital distribution is not necessarily compatible with the business of a physical form newspaper. In the long-term, however, early entry by Irish newspapers is required as both a defence against new competition and as a prerequisite for developing expertise in the area.

It is often remarked how in the late nineteenth century certain entrepreneurs in the railroad business were doomed by their love of trains even those who were smart enough to recognise they were in the transportation business. Does this analogy hold true for the fifty-six newspaper titles in Ireland?[1] The internet, digital television and new broadband services will pose challenges for newspaper publishers. Ireland's unprecedented economic boom has seen record revenues for newspapers but the underlying long-term trend is of gradual downward newspaper sales despite an increasing population. Newspapers have generally managed to increase their revenues despite the long-term circulation fall by increasing their reliance on advertising. For Independent News & Media, Ireland's largest publishing group, advertising revenues represent fifty per cent of revenues compared to forty per cent in 1991 (Goodbody, 1997). The print media's share of the £391 million advertising spend in Ireland is about fifty five per cent, but the expansion of radio, television, online and outdoor advertising is making it difficult for it to retain this high percentage (IAPI, 1999). Competition in the newspaper market has largely come to mean attracting readers from other publications instead of creating new ones.

New technology has been used to reduce newspaper production costs, but delivery remains expensive. A calculation based on paying £1 for a Sunday newspaper and spending four hours reading it would give the average cost per hour to the consumer of Irish newspapers as twenty five pence or fifty two pence if advertisements did not subsidise the product. This represents one of the most expensive of media products in Ireland. It is two pence higher than magazines and eleven pence more expensive than books. Television is only two pence and radio one penny. While the costs of other

broadcast and electronic media will stabilise or even fall, newsprint, distribution and transport will maintain and even increase newspaper prices. Against this background, about sixty per cent of Irish newspaper have set up hybrid world wide web editions partly due to fear of losing market share, as well as keeping up with competition and experimenting with new technology. The remainder of this article examines the wisdom of such a move.

The case for entering the digital interactive space

One compelling motivation for Irish newspapers to enter into digital distribution is the need to recapture readership lost due to decades of high emigration. The Regional Media Bureau of Ireland, which represents the publishers of Ireland's regional titles, estimates that over ten per cent of Irish newspapers are exported to the expatriate population. With thirty-two million people in the US (US Population Office, 1996) and ten million in the UK (UK Office of National Statistics, 1991) claiming Irish descent, this diaspora provides a potential new market for Irish newspapers. Ireland has 5.8 million tourist visitors a year. Irish residents make 2.6 million trips outside the state annually and thirty five thousand young Irish people are away for a year at any one time (Bord Fáilte, 1999). This provides a geographically dispersed community of interest in Irish affairs. The web site of *The Irish Times*, (http://www.Ireland.com), for example, established in 1994, claimed 6.5 million page impressions per month in 1999, a large proportion of them from North America.[2] Independent News & Media and Liberty, a subsidiary of AT&T, launched Unison (http://www.unison.ie) in February 2000, a web site containing its own publications and those of over half Ireland's regional newspapers and aimed at the domestic market. It replaced a web site launched a year previously which was aimed at selling Irish regional media content to expatriates. Eircell and Esat Digifone, Ireland's two mobile phone companies, plan to offer extensive information and interactive services over their networks to their customer base which, according to these companies by the end of 2000, will exceed fifty per cent of the adult population or 1.5 million people.

Another motivating factor for Irish newspapers going digital is the relative strength of their brands. Most newspapers in Ireland trace their lineage to the late 1880s and early 1900s and are very closely associated with their local communities. Their skills in newsgathering, knowledge of local culture and linkages with local businesses are extremely valuable assets but more critical is the trust their readers have in the brand name. In a digital world of free information, qualities of credibility, relevance to a local audience and trust in a brand name, thereby encouraging users to conduct online transactions, become extremely important. Interactive digital advertising can improve efficiency by targeting audiences more cost effectively. Interactive advertisements allow a more direct response than any other media through online purchasing. The trust which people have in newspaper brand names coupled with their long established links with local businesses thus provide an opportunity for them to become gateways for electronic commerce. Instead of simply publishing advertising for companies, newspapers can now manage financial transactions online and open an extra revenue stream through the earning of commission.

Early entry into the digital arena has also proven to be critical for publishers. The opportunity cost in terms of experience, building up an online brand and keeping out competition outweigh the savings from delaying entry until there is a clearer picture of trends. The annual Joint National Readership Surveys, which measure the readership habits of Irish people, constantly show inertia by readers in switching publications. There is some evidence to suggest that this is even greater in moving from one internet service provider to another (Amárach Consulting, 1999) increasing the case for early entry. Aggressive players from computing, financial services and telecommunications are expanding into digital news and information publishing with substantial investment in this area by Eircom, Esat Telecom (owned by British Telecom) and shortly NTL

2. Page impressions are the number of times each individual page is called up and represents one of the most accurate methods of measuring online readership.

(formerly Cablelink). Increased competition in the Irish telecommunications market and falling computer, mobile phone and digital television equipment and usage prices is bringing access costs down making digital news and information a mass market service.

Digital newspaper services are also likely to be more attractive to young people. Ireland's young population is increasingly a more computer literate one and becoming accustomed to getting its news and event information free largely over the internet in colleges. Newspapers' survival is dependent on attracting such readers, introducing them to the habit of reading and later purchasing. Today's under twenty-five year olds are also the first generation to have grown up with video, colour television and high telephone and mobile telephone use and attracting them to static media like newspapers can be difficult. But in this more affluent, global orientated world, Irish newspapers can reduce the emotional impoverishment and disconnectedness widely felt particularly amongst the young population.

Forecasts for the expansion of web-based readership are upbeat. Forrester Research (1999), a US new media consultancy, predicts that in the US $1.5 billion (IR£1bn) in local advertising will shift to the world wide web in the next three to five years. The new market dynamics will cause a loss of $3.6 billion (IR£2.5bn) in local ad revenues – due to fierce pricing competition between the new arrivals and the newspapers. The US market is a more advanced one than Ireland with free local telephone access, triple the amount of home computer ownership and widespread credit card use. People in Ireland spend on average three hours daily watching television, one of the highest rates in Europe and may be close to saturation point. Television is taking a larger share, now at thirty two per cent, of Ireland's advertising pool. The proposed introduction of digital television in Ireland within the next few years will increase ten-fold the number of television channels available, many of which will also be seeking advertising. Digital television technology also makes regional television channels and local interactive teletext type services feasible. It was estimated by Amárach, an Irish technology consultancy, that 444,000 people in Ireland were using the internet regularly by October 1999. Amárach estimates two million adults in Ireland will be online by 2010. Entering such an interactive digital space opens a plethora of new opportunities for newspapers as it becomes easier for readers to suggest news stories, give automatic feedback and become involved in discussion forums hosted by the publication. The newspaper transforms from a traditional one way communications medium into an interactive medium with a reader part of the content creation process. Instead of filling in the crossword, readers can play it and other games over a network provided by the newspaper. Local community sports, social and political groups can be given their own space to publish their material and allowed their own chat lines. Banking, home shopping, ticket purchases, access to databases and classifieds can all be delivered over the new site. Space could also be given to readers to display the family photo album, publish their own work or give their views. Virtual opinion polls, address books, betting, yellow pages, local history channels and the newspaper archives are other possibilities.

The argument for remaining solely a physical form publisher

A temporary window of opportunity exists for newspapers to enter the online digital world while bandwidth for consumer use remains too narrow for quality audio and video to be transmitted between computers. Today's transfer rates of 20-100kBps are not even close to being sufficient for the user's unlimited visual enjoyment of advanced and visually elaborate world wide web pages and similar multimedia. However, text and still images, the raw material of newspapers, can be relatively cheaply 'shovelled' into digital delivery format. This system will in time be replaced and expanded upon by new types of content and services, as Andersen Consulting (1996) predicted:

> One type of content will be video-centric with limited or no interactivity. The other type of content will be more text, graphics and application centric and have dramatically wider variety. The two

kinds of content will sometimes be integrated by a single end user device, but remain chiefly independent. Eventually, a fully integrated set of media, communication and financial content and services will emerge – switched broadband and wireless broadband.

By 2003 switched broadband networks should become available in many of the one million Irish homes. This will give broadcasters access to multimedia interactive services and their richer content is likely to dominate over any provided digitally by newspapers.

This scenario seriously questions the cost benefit to newspaper publishers in Ireland the majority of whom are small enterprises with net profit margins under fifteen per cent, investing heavily in entering the digital space. Investing their profits in shares of television and software companies could give them a better long-term return financially. Estimates vary from a £450,000 to £977,000 investment over three years as the cost of a regional newspaper establishing a basic interactive digital service before it reaches break even. Only a few of the estimated two thousand newspaper web sites internationally are breaking even and this is largely on archive sales.

Seventy per cent of newspapers sold in Ireland are owned by Independent News & Media. It along with Examiner Publications, The Irish Times Ltd, Post Publications, *The Farmers' Journal* and perhaps one or two highly profitable regional newspapers would appear to have the internal resources to seriously invest in entering the interactive digital space in a meaningful way. Realising this, the smaller publishers have combined to contribute to Unison which, as already mentioned, is a web site owned by Independent News & Media and Liberty, a subsidiary of AT&T, the largest US telecom company. But they may also need alliances with other types of media such as radio to provide twenty four hour coverage.

The initial synergies between newspapers and their web editions will also be diluted as the medium develops. For example, The Irish Times Ltd had by early 1999 recruited thirty five people in its electronic division which produces its web edition. Digital media users are likely to demand up-to-date information and once compression technology improves they will also likely seek real-time audio and video. They may insist on more value added services and interactivity but be unwilling to pay for it. Newspaper newsrooms are not equipped for this type of operation and soon the cost will spiral with little prospect of short-term return. Even transferring the text and graphics produced for the linear newspaper product into a non-linear one for a basic web site is expensive as it is labour intensive. The Irish market is also small. Microsoft, one of the world's most profitable companies, withdrew its Irish online service, MSN, after three years of losses seeing the market as too small. Forrester Research (1999), one of the world's most expert internet forecasting agencies, did not foresee that the market would be big enough for domestic web sites to be profitable in Ireland for the next few years. The potential new audience of Irish Americans and the 853,000 Irish passport holders in the UK equally may not be as easy to attract. *Ireland of the Welcomes*, a bi-monthly reasonably priced glossy, sells only one hundred thousand copies in the US despite the thirty two million inhabitants who claim Irish descent. The age profile of emigrants is not conducive to large scale computer use and research has shown that emigrants do not retain a long-term interest for Irish media products.[3]

Internet and digital technology is also changing daily with equipment and skills quickly becoming obsolete. No satisfactory business model has yet been established for how newspapers can benefit from the internet. A more prudent 'wait and see policy' would save money which could then be used to launch a state of the art service if and when the technological and financial platforms have become clearer and the potential market has grown to a viable size. In addition, opinion is divided on whether people want interactivity. A survey in *Business Week* (Cortese, 1997) showed that users are split between preference for inactive and active services and many cited anonymity as the attraction for being online. Advertisers remain reluctant to commit themselves to digital media while statistics for readership are not independently audited and remain

3. Research into the media habits of foreigners settled in Bradford, England, showed that the second generation had little interest in ethnic press. Details of this study by the University of Bradford, were presented at the International Association of Media and Communications Research, Political Economy section, Glasgow, Scotland, July 1998.

low. John Katz, a journalist turned author writing in US technology magazine *Wired* in 1997, advised publishers: 'Shut down most of those web sites. Nobody needs the more than 3,000 paper sites out there cluttering up the ether with all this deadly, mostly useless stuff. You need to take what money you have and make your papers better, not throw the money away in another medium that undercuts you' (Katz, 1997). Katz argued: 'Newspapers aren't in the breaking news business anymore. That they have not got this 50 years after the fact is almost beyond comprehension. They can't compete with cable, radio or the Net when it comes to announcing news.' He advised newspapers to take a more coherent strategy to address their new role and foresaw a bright future for them if they did (Katz, 1997).

The skills required by newspapers for a viable interactive digital media presence are investment-intensive. Server platform management, payment processing systems (e-money/cash), new high quality customer care departments, creation and editing of interactive/hyperlinked content and individualised customer services shift away from newspaper's core competencies. They will also have to introduce this without upsetting their traditional business channels. For instance, how will banks react if interactive newspapers offer direct payment systems for products cutting out credit cards? They will probably withdraw their millions of pounds worth of advertising from the printed version of the newspaper. There could be loss of goodwill of older readers, forced to pay more for their print editions to subsidise free loss-making online editions. It remains unclear where the funding is going to come from to enable experimentation with a range of interactive digital media on a commercial scale. The two largest Irish newspaper publishers, Independent News & Media and The Irish Times Ltd, have to invest in new printing equipment and in rationalisation programmes for production staff who are being replaced by more efficient digital production equipment. Entering interactive digital services is also a legal quagmire. Discussion groups would have to be monitored around the clock to prevent libel and pornography for which the newspaper as a host would be legally liable. Once content is put into digital media format it is relatively easy to breach its copyright and re-use it, perhaps even to promote rivals.

It may be argued in favour of the newspaper industry remaining a physical publisher that newspapers are portable, cheap, require no technical knowledge, they are easy to navigate and can be shared amongst several people at the same time. Much of their appeal derives from the fact that they are a different medium, often described as active, to television and radio which are normally passive. Computer and television screens are not user friendly for reading large amounts of text. To attract readers into a digital edition, the newspaper must give added value to the print edition which so far most have failed to do. Despite a downward price trend, computer hardware and telecom connections are expensive and growing internet congestion and lack of cross-platform standards add to the drawbacks. There will also always be a premium price for quality communication and ink on paper continues to set the agenda in Ireland for radio and television news. Despite forecasts of their demise, the decline in British regional newspapers has stabilised at fifty nine million readers a week (Greenslade, 1998) and their new more focused management have made them more profitable than ever.[4]

4. Thompson group and Reed International, two of the world's most experienced publishers sold their UK newspaper interests in the early 1990s predicting the demise of the medium. These publishers have had little financial success to date transforming themselves into digital publishers.

Conclusion

Irish newspapers' gate-keeping role in a world of exponentially increasing information remains a vital but modified one (Singer, 1997). The rapid growth in digital media delivery will continue for the foreseeable future and has to be embraced as an opportunity as well as a challenge. The benefits today are finely balanced with the drawbacks of entering the parallel interactive space. But the opportunity cost of staying out is arguably more expensive than following a new hybrid business model of trying to run both services. Alliances with traditional foes in other newspapers, radio, television, database and guide provision media organisations will be necessary to prevent newspapers becoming castaways in the tide of change. The pace of development of digital media has been faster than the growth of other media. The cultural, economic

and political consequences of allowing overseas media, whose main commitment is to profit, to become dominant in digital media in this country could have far reaching consequences for Ireland's development. Unlike the altruistic, community based foundations of most of Ireland' s media, these new market entrants may be more concerned with commercial return and with representing the philosophies of their proprietors rather than serving the community. The technology means they no longer need to employ anyone in the country of broadcast let alone the community they serve.

This presents a Hobson's choice for Irish newspapers. The potential return on investment for Irish newspapers entering the parallel digital space will be several years down the road, if ever. Staying outside it and investing their money in new printing equipment, increasing pagination, staffing, quality and marketing, could prove a more short-term beneficial investment. A low-level investment in basic internet services, such as just 'shovelling' the print content onto the web, could be more than a waste of resources. It could diminish their brand online, sour the organisation's attitude towards digital technology and waste valuable money. Instead, a heavy financial commitment has to be made to the new medium and partnerships formed to bring in expertise where it is missing. To meet this challenge and exploit the opportunity for both readers and publishers, Irish newspapers could combine with other local partners to provide leading edge digital services, thus providing a possible new long-term growth area, safeguarding existing revenues and helping fend off new competition.

Such an approach failed in the US in 1998 with the collapse of New Century Network, a consortium of one hundred and fifty newspapers formed several years previously with a web site to fend off internet competition. Arguments over who would provide content and how to share advertising revenue led to individual titles doing their own deals with other digital media companies. In the meantime, new entrants such as Digital City and Citysearch, and later portal sites such as Yahoo and Excite took the market initiative in attracting new readership as well as some of the traditional market for newspapers.

The lessons from this debacle should be learnt by Irish newspapers – the threat is no longer from each other and they must co-operate. They must also recruit the skills of people who understand the new media and not try to replicate what they do in print in a digital format. From the Irish community's viewpoint, this will ensure that a local newspaper's traditional social, cultural and business role survive in this millennium. New business models such as Boston.com, totalny.com, accessarizona.com, and 365.co.uk, provide examples of the new types of interactive services that newspapers can offer. A substantial change of mindset by Irish newspaper publishers will be required to contend with these emerging business models which will enable them to successfully interact with – and deliver product to – distributed global markets. For more than 300 years, their business has been inseparable from print technology. But like the railroad owners of the last century, they must first understand the business they are in and secondly not be blinded by their affection for ink on a page.

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