

# PÚBLICO

FIGHTING  
FOR REVENUE  
IN THE

DIGITAL AGE.

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# Abstract

This teaching case study highlights the difficulties facing the press in the digital age, focusing on the case of a particular newspaper, the Portuguese daily Público, in 2011. Pressured by fierce competition, amid an unfavorable economic climate and mounting internal conflicts, Público is fighting for survival. With the traditional print business model upended, the case study identifies the monetization of the internet – of information online – as a key objective for Público, as for other newspapers. The objective entails huge dilemmas. Not everyone in the company defends charging for more online content, fearing an erosion of brand equity and a loss of influence. But the top management remains adamant that strengthening online subscriptions is the only way out of Público's deep financial trouble. More than whether to “close” content, the issue is how. Decisions have to be made about pricing two information goods (“HTML” and “E-paper”) across different consumer segments.

Público’s case fits well in the undergraduate and MBA marketing classes, and specifically in the modules of internet marketing and pricing. It lays particular emphasis on the marketing topic of bundling, assuming students are acquainted with it beforehand. As it also introduces issues of profound industry transformation and business model innovation, it could appeal to other courses related to strategy. It is ultimately hoped students will get a sense of the dangers and opportunities of an ever-changing context to an industry that has many peculiarities, but is vital in any democracy.

# Acknowledgements

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# Case Study

## Introduction – 1st March, 2011

Sitting by a window of the express train heading to Porto, Pedro Nunes Pedro saw Lisbon disappearing behind him and thought of the place he had left shortly before: the frenetic offices and newsroom of Público, the daily newspaper of which he was chief marketing officer. His mind kept playing a discussion he had had early in the month with Cláudia Azevedo, chief executive director of his company. She advocated a complete renewal of digital subscriptions and raised the idea of more content “closing”. Quality articles should not be given away free, especially when other sources of revenue were drying up.

Though Pedro agreed Público was going through a very difficult time, he wondered if consumers were ready to make the jump to paying for more news articles on the web. True, Público.pt had been a promising project. But in spite of its growth, the revenues it generated were still far from making up the losses in the print edition. Most likely, the future of newspapers would be digital, and Público actually had a front position in that area. But would it hold that position long enough to catch the future?

For the moment, the man ultimately responsible for those decisions was standing by the paper. Belmiro de Azevedo, millionaire owner and chairman of Sonae, which controlled Sonaecom, which controlled Público, let it be known the paper would continue for about three or four years more. After that, who could tell? With accumulated losses of 78,3M€ since its start in 1990 (see **Exhibit 1**), Público had the unenviable distinction of being almost the only money-losing property in a company with a reputation for managerial excellence, where profits usually soared. Aside from direct losses, the paper’s journalistic independence had apparently cost Sonae some major deals and investment opportunities. Paulo Azevedo, son of

Belmiro and his successor at the head of Sonae, was reported to favor selling or closing down Público.

The issue of survival was made all too real by the number of known and lesser-known papers, some of them much older than Público, which had closed in recent years. Comércio do Porto (2005), Independente (2006), Tal&Qual (2007), Semanário (2009), 24 Horas (2010)... The list went on. It was imperative to find the right business model, which those days meant dealing with the challenges posed by the internet.

Reclining in a seat a bit too small for his tall frame, Pedro went through some unavoidable questions:

- Should more news be charged? If yes, at what price?
- What would the ideal subscription model be?
- Would the answer to the previous question mean further changes in the organizational structure of the newspaper?

Behind these questions laid another, more fundamental one: to what extent has Público's value proposition been disrupted by other forms of media? That was a question every newspaper was asking itself, for reasons similarly urgent.

## Context – A Western Crisis

The world newspaper industry was estimated at 127B€ (consumer and advertising) in 2009<sup>1</sup>, and numbered 14.619 publications, local and national<sup>2</sup>. With

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<sup>1</sup> PriceWaterhouseCoopers. (2009). *Newspaper publishing*. Available at: [http://www.pwc.com/en\\_GX/gx/entertainment-media/pdf/NewsPaperOutlook2009.pdf](http://www.pwc.com/en_GX/gx/entertainment-media/pdf/NewsPaperOutlook2009.pdf)  
[Accessed 13 May 2012]

<sup>2</sup> World Association of Newspapers and News Publishers.(2012). *World Press Trends Report 2012*. Available at:

Continue to see the footnote on the next page.

45B€ in turnover, Europe was the largest market, followed closely by the USA. However, total ad sales for all American titles in 2011 would reach to only two-thirds of the expected sales of one digital company, Google<sup>3</sup>. This was largely due to poor results over the last years, especially in western countries.

An OECD report<sup>4</sup> scrutinized the “global growth slowdown of the press since 2004”. In the USA, from 2006 to 2010, this industry lost 41% of its advertisement revenue and sold 15% less newspapers, in an unprecedented crisis (see **Exhibit 2**). Readership has also fallen as consumers turn to other media to get their news (see **Exhibit 3**). In Europe the recession is milder, but still alarming. For the same period, paid circulation decreased about 10% and advertising 20%, according to the Worldwide Association of Newspapers<sup>5</sup>.

### *Portuguese Context*

Portuguese newspapers were controlled by a few conglomerates which typically own a variety of media, from magazines and other print to TV stations (see **Exhibit 4**). Sonaecom cannot be considered a media group, since it only owned a newspaper and no TV or radio stations.

As elsewhere in the world, the newspaper market divides into daily and weekly segments, and also into popular (the so-called yellow journalism, which is actually quite tame in Portugal) and quality/reference newspapers. Público is prominent in this last segment.

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[http://www.schweizermedien.ch/fileadmin/schweizerpresse/brancheninfos/WPT\\_2011\\_Zusammenfassung\\_Riess.pdf](http://www.schweizermedien.ch/fileadmin/schweizerpresse/brancheninfos/WPT_2011_Zusammenfassung_Riess.pdf) [Accessed 13 March 2012]

<sup>3</sup> Mutter, Alan. (2012) Newspaper sales slid to 1984 level in 2011. *Reflections of a Newsosaur*. 15 March 2012. Available at <http://newsosaur.blogspot.com>

<sup>4</sup> Organisation for Economic Co-operation and Development. (2010). *The Evolution of News and the Internet*. Available at <http://www.oecd.org/dataoecd/30/24/45559596.pdf> [Accessed 13 May 2012]

<sup>5</sup> World Association of Newspapers and News Publishers.(2012). *World Press Trends Report 2012*. Available at

[http://www.schweizermedien.ch/fileadmin/schweizerpresse/brancheninfos/WPT\\_2011\\_Zusammenfassung\\_Riess.pdf](http://www.schweizermedien.ch/fileadmin/schweizerpresse/brancheninfos/WPT_2011_Zusammenfassung_Riess.pdf) [Accessed 13 March 2012]

During the 90s, paid circulation increased on average 6,14% every year. From 1999 until 2005, however, growth was modest at an average 2,69% a year. Paid circulation of newspapers was over 300 million copies in 1999, but just 211 million in 2005<sup>6</sup>.

Newspapers came under pressure from free newspapers, beginning with the launch of *Destak* in 2002, and *Metro* in 2005. Together those newspapers had a monthly circulation over 300,000 copies in 2006<sup>7</sup>. To the Obercom analyst Rita Espanha<sup>8</sup>, these publications took readers away from reference newspapers, the most affected being *Jornal de Notícias*, *Diário de Notícias* and *Público*.

From 2005 to 2009, paid circulation of daily general newspapers shrank even further by 17%<sup>9</sup>. The financial crisis at the end of 2008 would especially impact print advertising in 2009, causing a 32% decline in Portugal. It would be a turning point in advertising investment for the media industry (see **Exhibit 5**).

As a consequence, the newspaper sector fell 12% that year (see **Exhibit 6**). Most severely hit were free newspapers, whose circulation plunged by near 40% in 2009<sup>10</sup>. Totally dependent on advertising, some of them actually closed<sup>11</sup>. Not all suffered equally. Cofina has managed to do well even during the crisis, IMPRESA less well. Still, a gloomy future beckons for the two (see **Exhibit 7**).

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<sup>6</sup> Obercom. (2007) *Estudo dos Media Completo*. pp48. Available at: <http://www.obercom.pt/client/?newsId=29&fileName=rr5.pdf> [Accessed in 13 May 2012]

<sup>7</sup> Obercom. (2007) *Estudo dos Media Completo*. pp.73. Available at: <http://www.obercom.pt/client/?newsId=29&fileName=rr5.pdf> [Accessed in 13 May 2012]

<sup>8</sup> DBA/Hemeroteca Municipal de Liboa.(2007). *O Futuro dos Jornais?*. pp3. Available at: <http://hemerotecadigital.cm-lisboa.pt/RecursosInformativos/ActasdeColoquiosConferencias/textos/FuturoJornais.pdf> [Accessed in 13 May 2012]

<sup>9</sup> Case writer estimates based on APCT data. Available at [www.apct.pt](http://www.apct.pt) [Accessed in 13 May 2012]

<sup>10</sup> Obercom.(2011). *Imprensa*.pp.16. Available at: [http://www.obercom.pt/client/?newsId=12&fileName=imprensa\\_09\\_10.pdf](http://www.obercom.pt/client/?newsId=12&fileName=imprensa_09_10.pdf) [Accessed in 13 May 2012]

<sup>11</sup>Sexta (2009, Joint-Venture Público S.A. & Sociedade Vicra Desportiva), Meia-Hora (2009, ControlInveste) and Global (2010, Global Notícias)

# History of Público

Público was created in 1990 by a group of former journalists of *Expresso*, Portugal's main weekly, and by the Portuguese conglomerate Sonae, known in the country for its 'hipermercados' (vast shopping areas). First editor-in-chief Vicente Jorge Silva and Sonae CEO Belmiro de Azevedo laid out the values that would form Público's editorial backbone over the following years:

“PÚBLICO is the meeting place between a group of journalists and Sonae, having in mind a shared purpose: the establishment in Portugal of a daily newspaper which, through an innovative commitment in the editorial and technology dimensions, gathers the energy necessary try to respond to the challenge of delivering modern, high-quality information in the European space.”

However, there were problems at the start. The original launch, planned for January 2<sup>nd</sup>, 1990, never happened. After a major advertising campaign suggesting it would be the most sophisticated newspaper in Portugal, the advanced printing equipment that was supposed to back that claim at the technological level failed ignominiously. Issue number one would have to wait until March. Not only did this shatter the image of top competence, but it seriously compromised the relationship with advertisers, who had planned major campaigns for the first month of the newspaper, and were left with little or no explanation.

Despite the botched start, Público immediately established itself with memorable headlines and sophisticated editorial content, dissecting the political scene, society and culture. In a column published when Público celebrated twenty years<sup>12</sup>, Belmiro de Azevedo remembered the initial, encouraging reactions from readers: “It seemed natural and right”. In the first 4 years, its paid circulation grew

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<sup>12</sup> Azevedo, B., 2010. No 20º Aniversário do Público. *Público*. 5 March. p.85.

at an average of 15%, reaching a peak in 1994 with over 60,000 copies sold (see **Exhibit 8**), very close to Jornal de Notícias, then leader among dailies.

Nuno Pacheco, the first editor of Público's Sunday magazine, remembered how in 1994 the magazine grew "beyond 128 pages, 55 of them filled with ads". By 2011, the entire magazine totaled around 48 pages.

### *Público.pt*

On May 11, 1995, Público registered its internet website as a scientific experiment by José Vítor Malheiros, who was then the editor of the Science & Technology section. In September, the first complete web version of the newspaper was launched. In a later interview<sup>13</sup>, Malheiros remembered how at the time "nobody knew what the internet was. Until 1999, it was a project of our section. We had the endorsement of the chief editors, but they didn't get involved."

In 1999, Público started a Breaking News service, where news were updated round the clock. "We had a budget surplus on our section and were able to hire 3 journalists to report news, dedicated exclusively to that service." After 2001, the user could also read the day's print edition in HTML<sup>14</sup> format (see **Exhibit 9**). Público.pt became the online newspaper most visited in the internet, with just above 250.000 unique users every day.

The popularity has spread to social networks: at the beginning of March 2011, its Facebook page had about 200.000 followers and Twitter 30.000, which extended to remaining sub-brands<sup>15</sup>.

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<sup>13</sup> Malheiros, J., 2010. *Entrevista: José Vítor Malheiros* interviewed by João Pereira [online] Público.pt, 21 September 2010, Available at: [http://www.publico.pt/Media/o-jornalismo-piorou-com-o-aparecimento-da-internet\\_1457083?all=1](http://www.publico.pt/Media/o-jornalismo-piorou-com-o-aparecimento-da-internet_1457083?all=1)

<sup>14</sup> HyperText Markup Language – is "the basic page layout system for describing a web page" in Hanson, W. and Kalyanam, K. (2007). *Internet Marketing & e-Commerce*. Ohio: South-Western

<sup>15</sup> Inimigo Público, Fugas, Ypsilon, Pública are subbrands and features of the print edition of Público.

## *E-readers, Smartphones and Tablets*

Público entered the world of e-readers in February 2010, with the launch of its paid edition for Amazon's Kindle 2 – a first in the Portuguese market.

Next came the launch of a free app for the iPhone, in March 2010. Público's IT manager Paulo Almeida created it on his initiative, with the help of a small team: "As a technology lover, I was very aware of the potential of the iPhone to newspapers and of course to Público". The website's free content (everything except print opinion articles and editorials) was automatically uploaded to this platform, as would also happen with the iPad version in December 2010. Paid content was not included in that version of the applications.

Shortly after its introduction, Público's app was already among the top most downloaded at Apple's app store in Portugal. In November, it had around 24.000 active users, and by March 2011 it was 32.668 and growing. Smartphones and tablets were set to be the next big thing, having already suppressed PC's, laptops and desktops, in units produced (see **Exhibit 10**).

Also since 2010, Público's reach in the mobile landscape was further extended in partnership with NewspaperDirect with its flagship "app" PressReader, a virtual newspaper kiosk and reader. Against a payment of a flat or per newspaper fee, users could read the print edition of any participating publisher.

## **Business Model**

### *Revenue*

Like a typical paid newspaper, Público earned revenue from 2 distinct sources: advertisers and end-consumers/readers. Advertisers, through media agencies, could buy ad space on the newspaper or on the website at a predetermined ad rate, updated every year. Classifieds (job, automobile, real-estate, etc) also made

part of advertising revenue, although not as representative as they were in the past. Público's revenue from consumers comes from paid newspapers (subscriptions and single copies sold) and associated products – merchandising that goes along with the printed newspaper, such as film or book collections, paid separately and with substantial margins. Print subscriptions, numbering 2,333 on March 2011 and priced at around 200€ annually, yielded close to 500,000€ per year.

Also, 80% of Público's total print revenue came from the weekend editions (Friday, Saturday and Sunday), which were more popular and carried extra editorial features.

According to Pedro, in digital, as in print, Público positioned itself “in the quality GRP (*Gross Rating Points*<sup>16</sup>) championship”. As such, Público dismissed advertising networks<sup>17</sup> for display ads and relied mostly on its digital sales teams to sell them directly through media agencies. Digital advertising comprised 5% of total ad revenues as of 2010, totaling about 608.000€. Of the 29,3M page views generated by around 250.000 global visitors every day, only 50% of ad inventory was sold.

At the moment, there were two types of digital subscriptions: “HTML” (5€ per month), where digital readers had exclusive access to opinion columns and editorials of the print newspaper in web format; and the “PDF+HTLM” (18€ per month), where users could download the PDF version (digital copy) of the print newspaper or access it in the “HTML” version. Other services to both packages included unlimited access to Público's archive and opinion articles in the form of

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<sup>16</sup> “Gross Rating Points (GRP) is a measure of audience size, in which *reach x average frequency = gross rating points (...)* Example: 20 commercials each with a 12 rating yield a total of 240 GRPs”, in Govoni, N. (2004). *Dictionary of Marketing Communications*. California: Sage Publications, Inc.

<sup>17</sup> Advertising network – “a service where ads are bought centrally through one company, and displayed on multiple Web sites that contract with that company for a share of revenue generated by ads served on their site.” Search Engine Watch. (2012). *SEM Glossary*. Available at: <http://searchenginewatch.com/page/glossary> [Accessed 14 May 2012]

newsletters. The around 1.000 subscribers yielded a residual 82.500€ per year in 2010.

## *Consumers*

The typical reader of Público's print edition lived in Lisbon, belonged to the middle-class and was 44 years old. The online audience was fairly younger – 31 on average. (see **Exhibit 11**). Público's print audience, in 2010, was around 365.000 readers every day<sup>18</sup>, while the website news were read by 250.000 (150.000 in Portugal area). Of total audience, 33% bought the newspaper, 28% shared somebody else's or got it free, and 39% looked online for news. Most online readers came via Facebook (20%) and Google (17%) and typically spent only five to ten minutes a day on the website, reading two articles on average. According to their behavior, they were labeled fly-by visitors, incidental loyalists or core loyalists – digital subscribers were part of the last group (see **Exhibit 12**).

## *Competition*

The competitive landscape had intensified over the years, especially with the internet and the low barriers to enter it offered. Readers could get access to new media blogs, news aggregators, and newspapers websites; and of course, traditional radio and television (see **Exhibit 13**).

Público's more direct competition were the generalist dailies: Jornal de Notícias, Diário de Notícias, I Informação, Correio da Manhã, Destak, Metro (see **Exhibit 14**). Weeklies such as Expresso, Sol and other news magazines like Visão also posed a threat.

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<sup>18</sup> See audience figures in Exhibit 18.

The above publications also competed in the digital space, together with some TV sites (RTP) and web portals (Sapo Notícias). All of them had experienced substantial traffic growth over the last years (see **Exhibit 15**). The online edition of *Correio da Manhã*, with 6,1M of visitors, was fast closing in on *Público*'s 7,7M in February 2011. *Expresso* and *Diário de Notícias* also launched their own editions for the iPad in previous month, along with refurbished digital subscriptions.

It was too soon to measure the impact of their initiatives, but competition was bound to increase. *Expresso*'s app had a monthly fee attached, while *Diário de Notícias*' was available for free (see **Exhibit 16**).

### *Value Chain and Costs*

The production of content, written and otherwise, is only one element in the sequence of activities that comprise the value chain of a newspaper. There is also printing and distribution, syndication and archiving, and other efforts to make sure the product reaches consumers (supporting activities include marketing, administrative, sales). In the transition to digital, two of the greatest expenses – printing and distribution – are eliminated. They may typically account for almost 50% of total costs, leaving about 30% for the newsroom and the rest for marketing and administration (see **Exhibit 17**).

## Monetizing the Internet: the Big Challenge

In March 2005, *Público* made a first attempt to monetize content, making the day's main stories available only to subscribers. Besides other factors, the online version of the print paper had eroded foreign print subscriptions, putting more pressure on its monetization. But *Público* ended up revoking its decision 19 months later, after it led to a plunge in traffic and only a residual number of new digital subscriptions. The "Day Paper" became available free again, just as before.

## *A turnaround plan*

When Pedro entered the organization in 2007, print still got all the attention, despite the fact that circulation had been decreasing since its more recent peak in 2002.

“Journalists regarded online edition as something minor, less important. Big stories were saved for the print edition next day only to later realize that they had been published by an online competitor, or a blog, in the day before. Something had to be done to refocus our attention on what was really important (...) We knew that Público.pt would play a crucial part in that process so we decided to make a change.”

In late 2008, the paper hired a consulting firm with experience in the publishing industry to study and design the “Newsroom of the Future”, an ambitious scheme aimed at obtaining all sorts of synergies between digital and print. Oblivious to Público’s plans, however, a financial crisis was bursting on the other side of the Atlantic.

“Advertising and associated products’ revenues suffered a major hit in 2009 and 2010, given the increasingly fragile Portuguese economy”, recalled Pedro. “We hoped digital revenue streams to be able to compensate for past decline in print circulation values, and suddenly we had a mountain to climb”.

With companies cutting their marketing budgets, unsold ad inventory became a hassle for the majority of media executives. TV, today still the benchmark for ad rates, began to grant big discounts to media agencies and advertisers, in the process dragging down advertising prices for everybody. As Pedro observed:

“Convincing an advertiser to spend 20.000 euros in a print and digital campaign when he could reach more than 10 times that audience with the same budget on TV is very difficult. It is not enough to remind him that print ads have distinct qualities worth paying for.”

In September 2009, Simone Duarte arrived as online executive editor. In her view, “being the leaders, we thought we were not growing as fast as we could.” Her mission was to develop the quality content of the online edition, which entailed expanding the core of journalists in charge of its operations. The team grew from

four to twelve and work schedules were also changed to meet the constant demand for news in the website. The traditional deadline for next day's edition, typically in the evening, became less imperative for the online editors, who could be feeding the website until late at night.

### *Problems in the Commercial Teams*

Since the beginning of 2010, the moral of print sales teams had been affected. According to their director, Sandra Morgado, they were not able to sell print ads as they used to. Advertisers were turning away to other media – they were hearing print was dead.

On the other hand, the online sales team was achieving its objectives. Which meant that, although digital still accounted for only a small portion of total advertising revenues, its people were getting bonuses, while their colleagues in print were not. Given how important this was as part of their remuneration structure, tensions were inevitable. Something would have to be done to redress that balance.

## A Revenue Problem

The growth of digital was much too slow to balance out print's fast decline. That would not be changing anytime soon. Pedro summarized the situation for the print edition:

“Our print edition is going to be faced with many challenges in the future as consumers move to other platforms to look for news. On the other hand, growing lifespan could partially mitigate this effect. We are expecting future “new seniors” – our current +55 and +65 readers who buy mostly print – are

able to sustain print for a while, and be an important segment to newspapers in the near future.”

But Alan Mutter, a respected media analyst, predicted potential print readership to be cut by 27% over 15 years just through demographic evolution<sup>19</sup>. Others, like Gregor Waller, CEO of Digital Age Consulting, were even more pessimistic, estimating circulation and reach to decline 50% by 2020<sup>20</sup>. Many analysts believed it was only a question of time before papers go full digital.

For Público, it was a simple but dreadful calculation: circulation revenues had been falling at a CAGR of 2,9% since 2005, and were projected to fall 400,00€ more for 2011. Raising prices in the short-term would also bring a loss of revenue, because of consumers’ sensitivity to price.

As for advertising, three factors were not helping: competition from TV, print circulation and the economic climate. With a recession anticipated for 2011 in Portugal, and top advertisers like banks and automobiles in trouble, the situation did not look good. Advertising was set to be severely hit by 1,7€M in 2011 (see **Exhibit 18**).

### *Digital not keeping up yet*

In 2010, digital advertising was 5% of total ad revenues, or 608.000€. Were it to increase at an annual CAGR of 13%, as some analysts predicted<sup>21</sup>, display

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<sup>19</sup> Mutter, A. (2010). How long can print newspapers last?. *Reflections of a Newsosaur*. 12 January 2010. Available at: <http://newsosaur.blogspot.pt/2009/01/how-long-can-print-newspapers-last.html> [Accessed 13 May 2012]

<sup>20</sup> INMA.(2011). Digital mega-trends continue to reshape newspaper advertising. Available at: <http://www.inma.org/modules/article/index.cfm?action=articleView&articleId=45787> [Accessed 13 May 2012]

<sup>21</sup> Forrester. (2011). Western European Online Display Advertising Forecast, 2011 To 2016. Available at: <http://www.forrester.com/Western+European+Online+Display+Advertising+Forecast+2011+To+2016/fulltext/-/E-RES61149?docid=61149>

advertising could contribute only an extra 79.040€ in 2011. Pedro blamed the slowing in digital ad euros on the inertia of advertisers: “They are afraid to navigate the unknown, their spending is not following the consumer” (see **Exhibit 19**). As a result of poor digital ad performance, much hope was devoted to future digital monetization efforts.

### *The dangers of cutting too much*

On the other side of the equation were costs. This was a highly sensitive matter. Editorial comprised almost one third of total costs, and the paper had already gone through several waves of firings and lay-offs, as well as salary reductions. Besides all the personal trauma and difficulties involved, this represented a massive loss of institutional memory, and of professional knowledge that young journalists – and the paper itself, as Pedro recognized – would no longer benefit from. As he noted, many of the laid off belonged to the older generation.

## **An Unavoidable Debate**

The debate about monetization got a boost in 2009, when Rupert Murdoch, billionaire media mogul, declared the era of a free-for-all in online news was over, and announced charges for access to his newspapers “Times”, “The Sun” and “News of the World”, starting in 2010. Soon after, the “New York Times” (NYT) also announced it would charge frequent readers for access to its Web site, in later March 2011 — news that drew plenty of reactions, enthusiastic, disdainful or otherwise, from media analysts and consumers. Under the “metered model”, the NYT choice, users who access more than a certain number of articles per month would be asked to pay a flat fee. The difficulty lied in choosing that number, so that only core loyalists hit the paywall.

## *The internal debate*

Inside Público everyone, from journalists to managers, had an opinion on the case. There were those who defended a complete absence of paid content in all digital platforms; those who thought a balance of free and paid content delivered the best results; and those who believed only ubiquitous devices carried the necessary “paying framework”.

Former online editorial director António Granado, who had left Público in 2010, thought the current quality of Público’s digital content was just not good enough to be charged for: “There will always be free quality content widely available on the internet”. He felt that the majority of online newsrooms were still working with a few badly paid journalists without any formal training.

On the other extreme, there were people like CEO Cláudia Azevedo, who seemed to want more and more content placed behind a paywall. However hard it was to protect information on the internet – any reader could copy and distribute it, any competitor could get the same facts, rewrite them and publish them – she kept pressing her position. Most probably, in her mind, was the fact that 15% of Público’s readers had ceased buying print to read its online edition, since 2005 (see **Exhibit 20**).

Not all readers were equal. Studies showed that mobile news consumers were more willing to pay for online content than the average reader<sup>22</sup>. Smartphones and especially tablets came closer to emulate the characteristics of a traditional paper,

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<sup>22</sup> “In what may be a positive sign to news organizations, adults who consume their news on mobile devices are more likely than other adults to say they would be willing to pay a fee.” in Pew Research Center’s Project For Excellence in Journalism.(2011). *Survey: Mobile News & Paying Online*. Available at <http://stateofthedia.org/2011/mobile-survey/#who-pays-for-local-news> [Accessed 14 May 2012]

and people were avidly searching content for their new devices, which had a unique degree of convenience.

Sérgio Gomes, Público's editor for multimedia, believed that "by closing even more content we are shutting our readers out, and that is the worst we can do". Only tablets should be paid: "For their comfort and portability."

## Enhancing Subscriptions

By March, 2011, Pedro remained convinced that keeping the present "Freemium" model was more sensible despite some of its flaws. As for other hybrid models already existent, they needed time to mature. Nonetheless, the discussion was open.

In the beginning of the year, a marketing research study was conducted in order to study the willingness to pay (WTP) across Público's digital audience – "new device" users included. These were mostly accessing the website's news for free, so the mobility opportunity was yet to be fully exploited. Moreover, there was the danger that some print readers would substitute the paid, dead-tree medium for the convenience and portability of a tablet, but especially for its free content.

Two different scenarios were presented to Público's digital users: 1. "Closed", where in addition to opinion columns and editorials, some daily, formerly free articles would also be charged<sup>23</sup>; and 2. "Open", where everything would be maintained as it was.

Willingness to pay was derived for both scenarios and for two different packages:

---

<sup>23</sup> Articles such as highlights of the day, investigative journalism pieces and supplements would be paid.

1. “HTML” – Unlimited access to the premium area of the website which differed in content, according to each scenario. This section would be available for PC users and was optimized for smartphones and tablets only through the internet browser. Público’s mobile apps, at present, were not capable of displaying premium content.
2. “E-paper” – Access via app or web to the newspaper edition, already provided by NewspaperDirect’s kiosk and reading software. For Pedro, it was a significant improvement over the PDF version currently available to subscribers. It was more interactive and had built-in tools such as search function, favorite articles and social media sharing functionalities.

Both services included the access to the news archive for daily editions since 1999. Regardless of scenario, 10% of Público’s total digital audience were said to be willing to pay for at least one of the above packages, depending on the fee. From this group, clusters were formed, according to respondent’s device ownership: Exclusive PC users (PC) – which were reported to be mostly students; smartphone and PC (S) users; tablet and PC (T) users and all-three users (S+T).

Pedro studied the WTP across segments and scenarios:

**Table 1** Marketing Research Report, Scenario “Closed”

Cluster	% of Users	Willingness To Pay per month (€)		
		HTML	E-Paper	Bundle
PC / Students	20	5	5	5
S	30	7	5	10
T	25	2	15	16
T + S	25	8	15	20

Source: Case writer.

**Table 2** Marketing Research Report, Scenario “Open”

Cluster	% of Users	Willingness To Pay per month (€)		
		HTML	E-Paper	Bundle
PC / Students	20	2,5	4	4
S	30	3	4,5	5
T	25	1	10	10
T + S	25	4	10	11

Source: Case writer.

In the back of the report, Pedro took some important notes:

- Almeida, the IT manager, was said to be defending the development of an “HTML5” website, which would be extremely adaptive to every device. It would be like an app to tablets and smartphones, and like a normal site to PC’s. It could also encompass functionalities similar to the E-paper. Were it to be implemented, it would be possible to perfectly discriminate website use across platforms<sup>24</sup>.
- Isabel Marques, digital ad sales director, had warned of the risk of Público losing its leading position online, which it held for some time. The leadership position (in terms of visitors) enabled sale reps to negotiate at least a premium of 20% over digital advertising fees every year. In 2010, the 608.000 € in digital ads included that premium. Pedro saw a 75% possibility, should more content “close”, of Correio da Manhã taking that position.

Público could: 1. Opt for bundling “HTML” and “E-paper” and charging a fixed subscription fee, 2. Charge different prices for each product, or 3. Pick a mixed approach. In addition, Pedro would have to decide what fees to charge. Naturally, one of the scenarios “Close” and “Open” would have also to be chosen.

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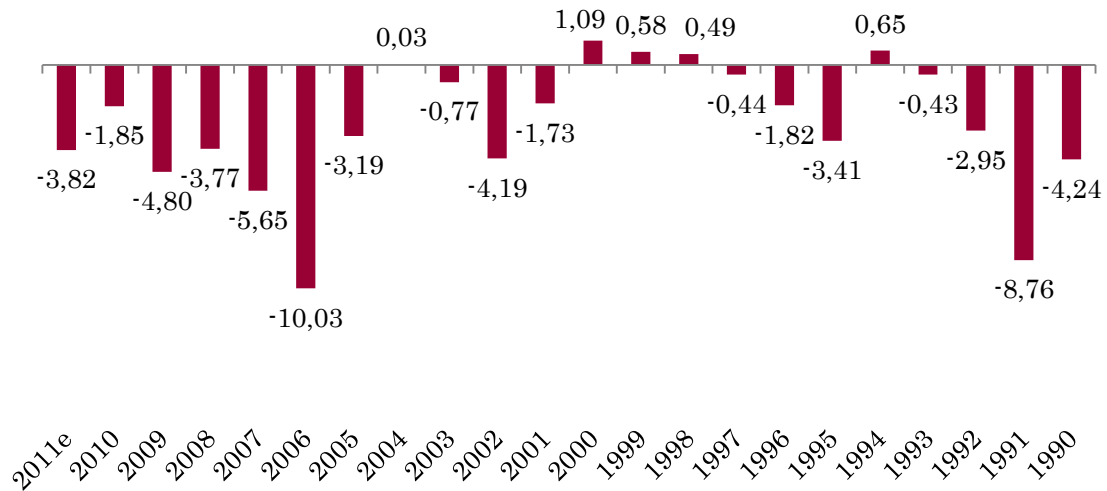
<sup>24</sup>Because a tablet and a smartphone can behave like PC when it comes to online access, with current technology, it would be impossible to sell an exclusive access to a PC for HTML paid content without cannibalizing more profitable devices. Also, we can see that the e-paper edition can also be accessed online.

## Conclusions

Pedro thought long and hard about the bundling issue. He asked himself if he was not forgetting print readers and subscribers. Maybe the future was digital, but the present was still very much print. Could there be a way to integrate print into all these digital subscription pricing issues? And if subscriptions were to be the core effort of the company, shouldn't someone be directly responsible for this activity, as is the case in distribution and production? He felt the solution implied a rethink of the digital sale teams.

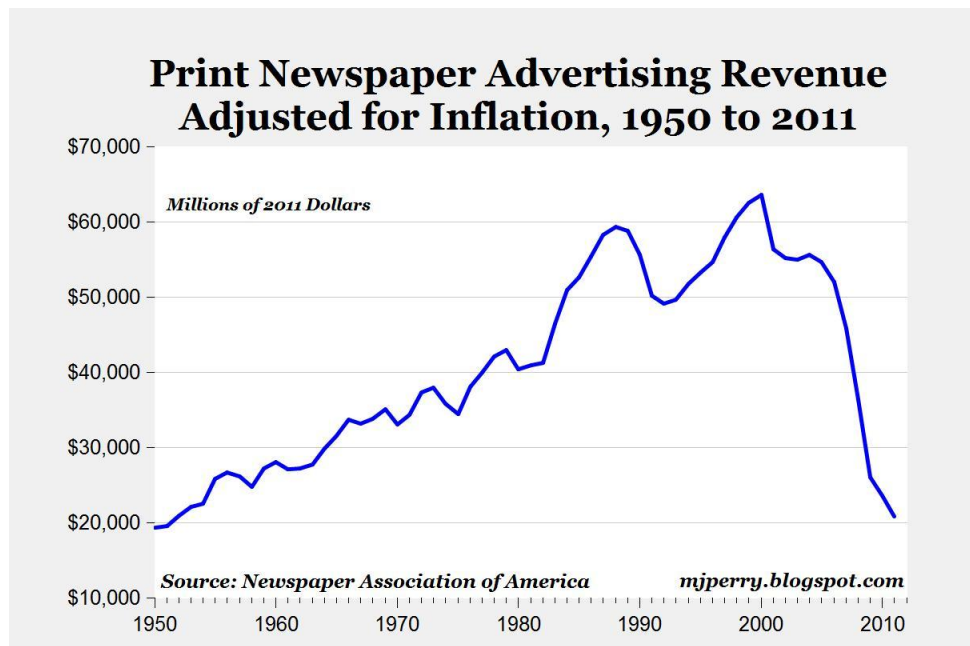
To close or not to close content, or rather, what and how to close it, was a dilemma that had been going on for some time, which had to be solved. Pedro was heading to the board, taking many of these thoughts with him. But also the pressure to succeed.

**Exhibit 1** Público's Gain and Losses, 1990-2010 (million €)



Source: Adapted from company data

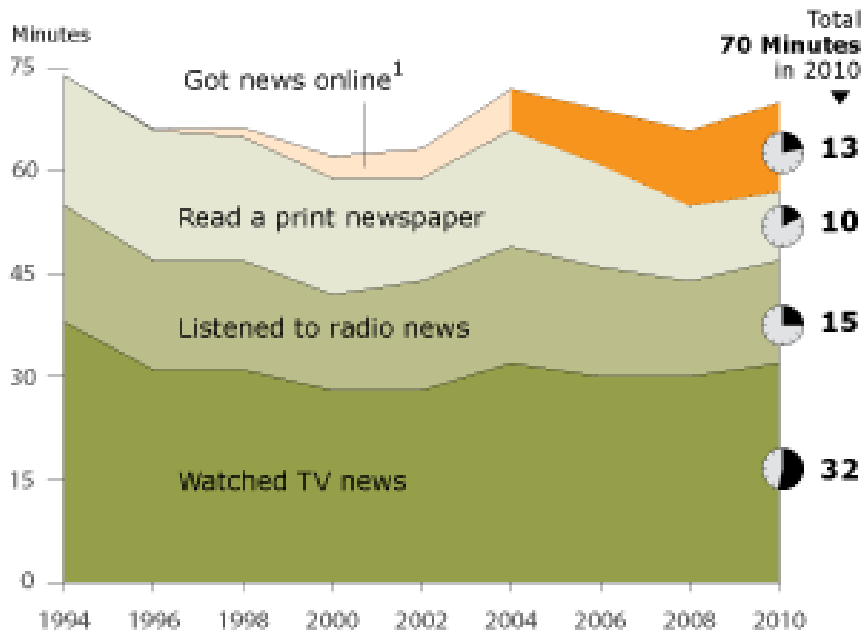
**Exhibit 2** Advertising Plummeting in the US, 1920-2011



Source: Perry, M. (2012). Newspaper Ad Revenues Fall to 60-Yr. Low in. *Carpe Diem*. 26 February 2012. Available at <http://mjerry.blogspot.com> [Accessed 13 May 2012]

### Exhibit 3 Media News Consumption in the US, 1994-2010

## Minutes Spent With News Yesterday



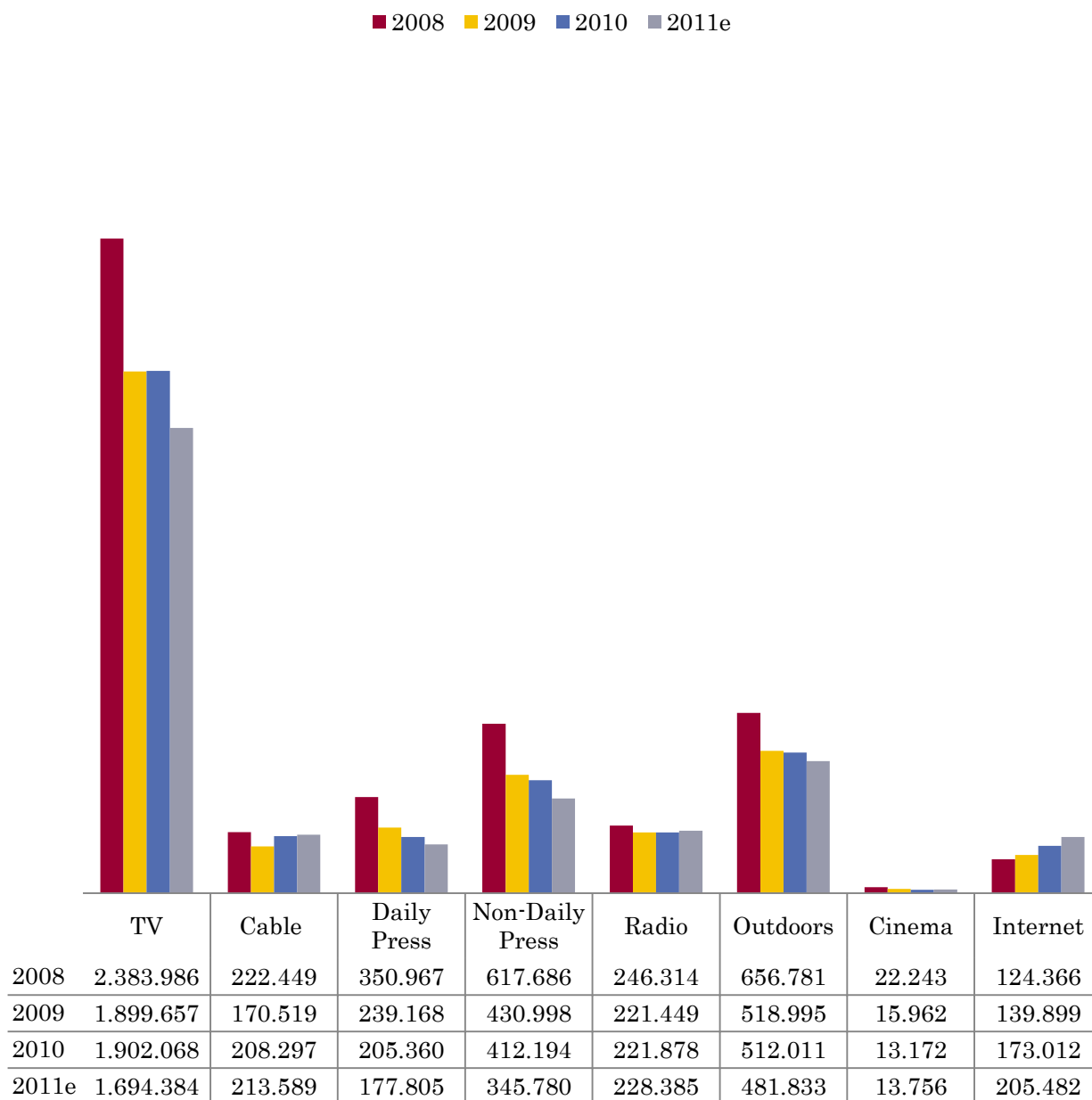
Source: Pew Research Center. (2010). *Americans Spending More Time Following News*. Available at: <http://pewresearch.org/pubs/1725/where-people-get-news-print-online-readership-cable-news-viewers> [Accessed 13 May 2012]

## Exhibit 4 The Portuguese Newspaper Market, 2011

Publication	Type	Peridicioty	Owner in 2011	Creation Year
Público	General	Daily	Sonae	1990
Diário de Notícias	General	Daily	Controlinveste	1864
Correio da Manhã	General	Daily	Cofina	1979
Jornal de Notícias	General	Daily	ControlInveste	1888
I Informação	General	Daily	Sojornal	2009
Diário Económico	Economy	Weekly	Ongoing	1989
Jornal de Negócios	Economy	Weekly	Cofina	1998
Semanário Económico	Economy	Weekly	Recoletos	1987
Vida Económica	Economy	Weekly	Vida Económica Grupo Editorial	1983
Oje	Economy, Free	Weekly	Megafin SA	2006
Expresso	General	Weekly	Impresa	1974
Sol	Weekly	Weekly	NewsHold	2006
Destak	General, Free	Daily	Metro News, Publicações SA	2001
Metro	General, Free	Daily	Metro International	2005
A Bola	Sport	Daily	Sociedade Vicra Desportiva	1945
Record	Sport	Daily	Cofina	1949
O Jogo	Sport	Daily	ControlInveste	1985

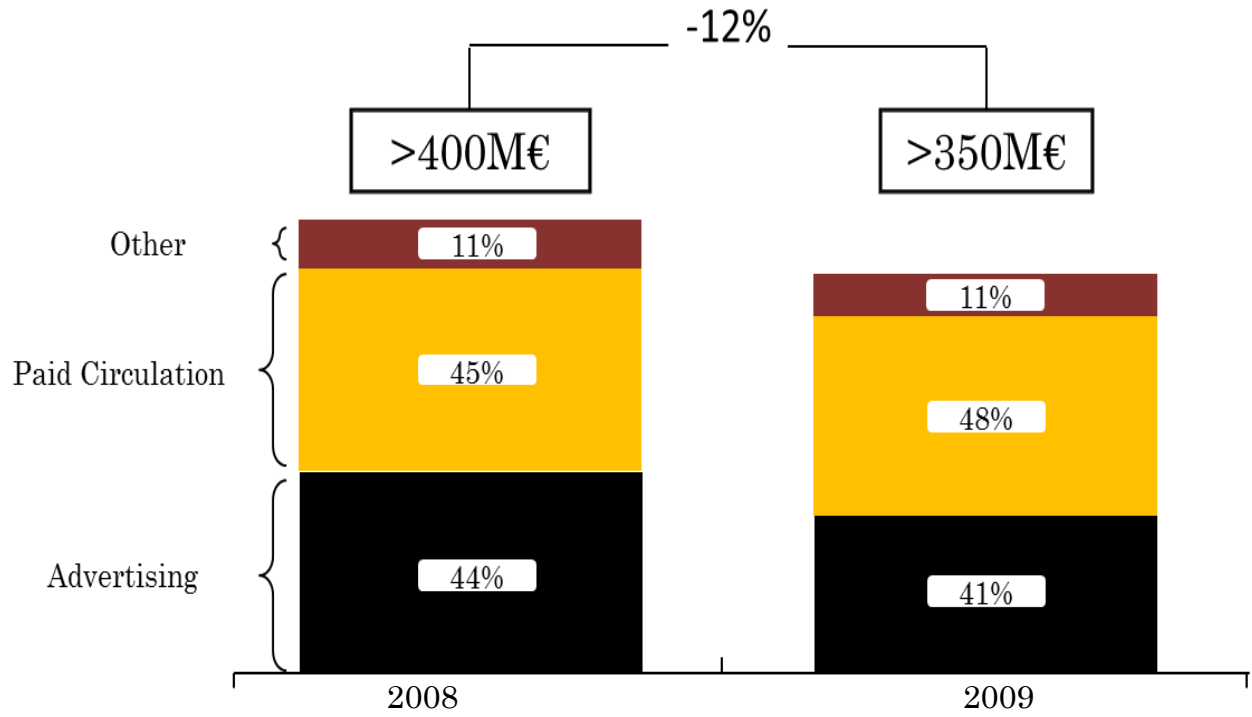
Source: Adapted from Obercom. (2007). *Imprensa sobre Pressão*. Available at: <http://www.obercom.pt/client/?newsId=29&fileName=rr5.pdf> [Accessed 13 May 2012]

**Exhibit 5** Evolution of the Advertising Investment in Portugal (thousands of euro), 2008-2011



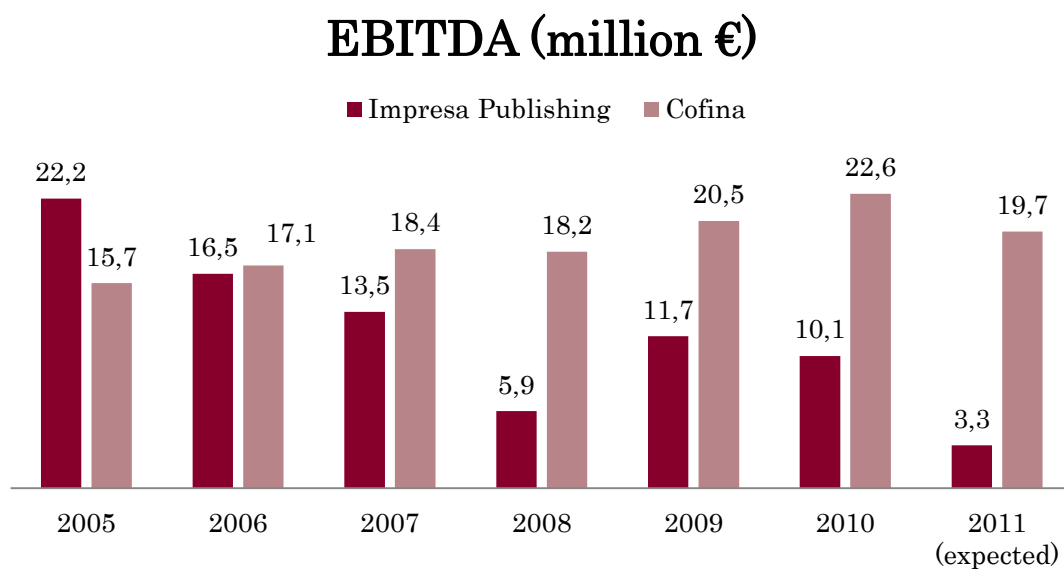
Source: Adapted from company data.

**Exhibit 6** Falling revenues in 2009



Source: Deloitte.(2007). *Estudo das Receitas dos Media em Portugal*. Available at: <http://www.erc.pt/documentos/RelatorioDeloitteERC-vrs28Maio.pdf> [Accessed 12 May 2012]

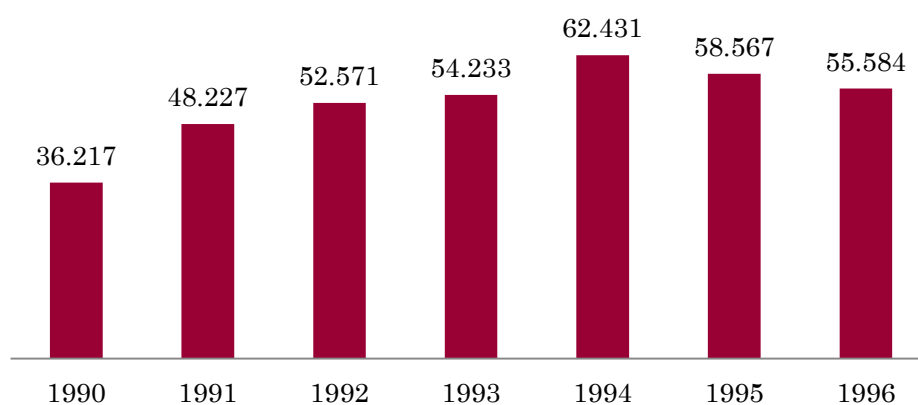
**Exhibit 7** EBITDA Evolution Cofina and Impresa (newspaper segments), 2005-2010




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Source: Adapted from Cofina and Impresa's Annual Reports (2005-2011)

**Exhibit 8** Público's Paid Circulation, 1990-1996




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Source: Adapted from APCT data. Available at: [www.apct.pt](http://www.apct.pt) [Accessed 13 May 2012]

Exhibit 9 Público.pt's Home Page, 1999

Oracle  
Compaq  
Internet GRÁTIS

NÓS  
FICHA TÉCNICA  
LIVRO DE ESTILO  
EU NAVEGO!  
DICA  
PUBLICIDADE  
COPYRIGHT

DESTACÁVEL  
1989 - O ano que fechou o século

DOCUMENTOS  
Sumário do D.R.  
Timor  
JAE  
Exames 99  
Outros

PUB  
Formação & distribuição

guia

Terça-feira, 27 de Abril de 1999

**Público** **pt**

NOVO  
MAX AIR  
pastilha elástica com acção vaporizante !!

▼ NA CAPA DO JORNAL DE HOJE ▼ TÍTULOS DO DIA ▼ OS SUPLEMENTOS ▼ ÚLTIMOS 7 DIAS

O Jornal de Hoje

1ªPágina  
Destaque Política  
Internacional  
Sociedade  
Educação Ciências  
Cultura Desporto  
Economia Media  
L.Lisboa L.Porto  
Última Página  
Opinião e Cartas

• COMPUTADORES	Segunda-Feira
• ECONOMIA	Terça-Feira
	Quarta-Feira
• ARTES&ÓCIOS	Quinta-Feira
• SONS	Sexta-Feira
	Sábado
• LEITURAS	Domingo
• PÚBLICA	

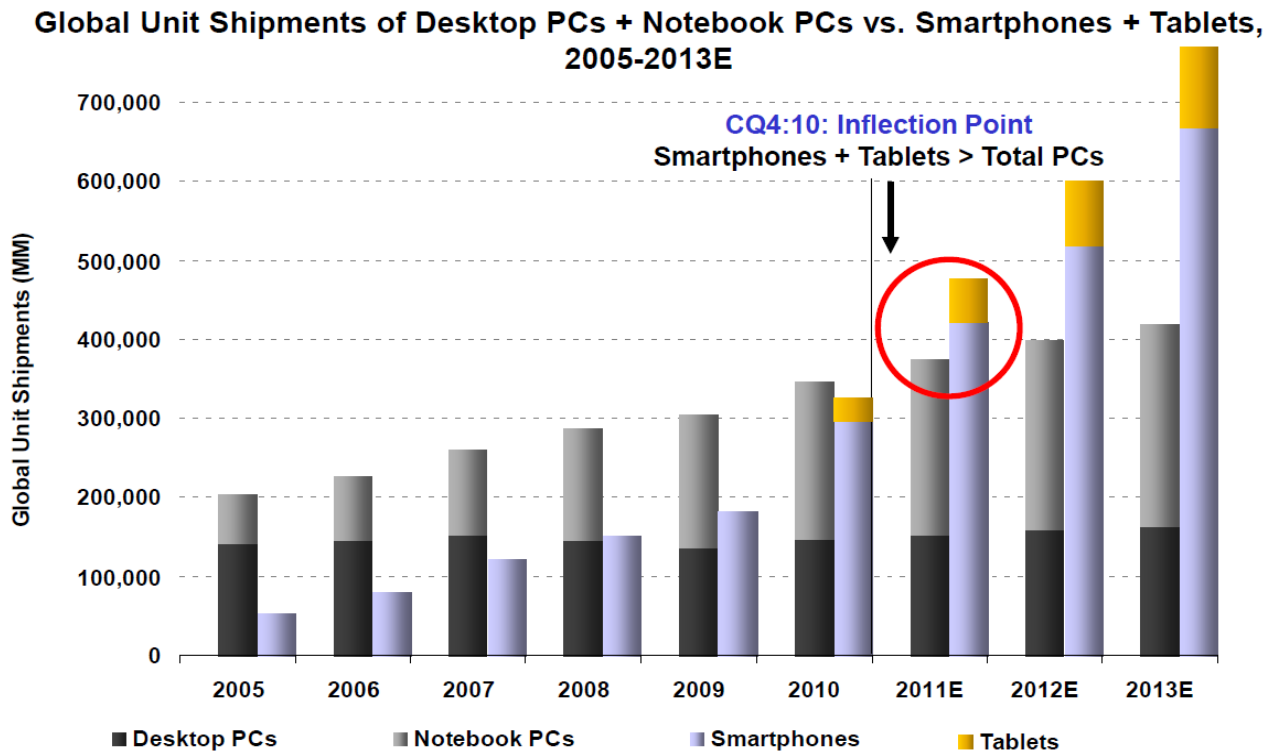
▼ A SUA OPINIÃO

INQUÉRITO  
Concorda com o ataque da NATO contra a Sérvia?

Sim  Não  
Votar Ver

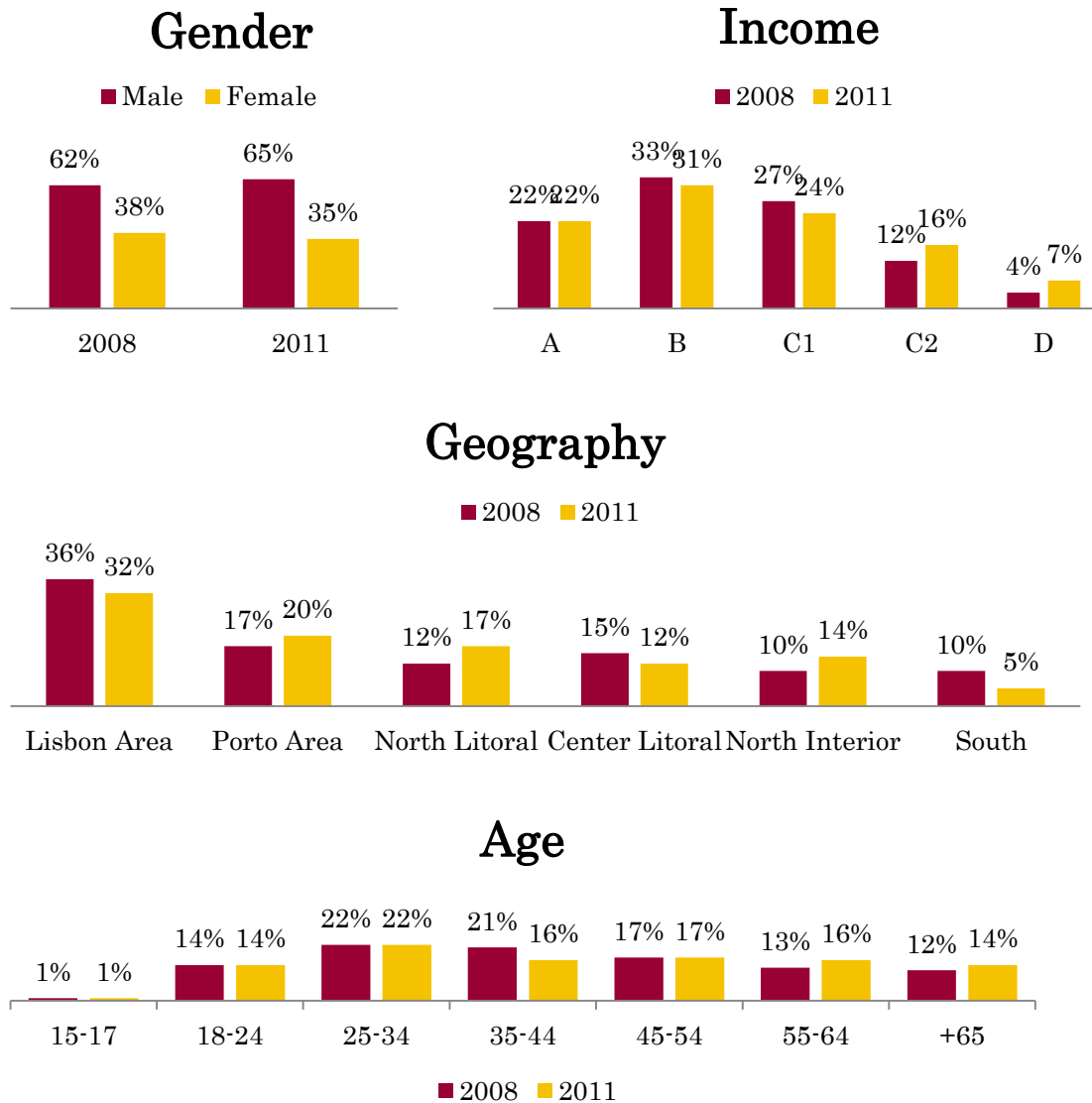
Source: Internet Archive WayBackMachine. Available at:  
<http://web.archive.org/web/19990427122703/http://www.publico.pt/> [Accessed 13 May 2012]

## Exhibit 10 Production of New Devices Soar



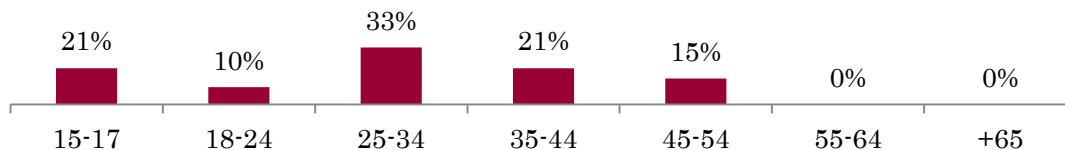
Source: KPCB. (2011). *Top Mobile Internet Trends*. Available at: <http://www.slideshare.net/kleinerperkins/kpcb-top-10-mobile-trends-feb-2011>

## Exhibit 11 Print Reader Demographics and Age of Digital Readers



Source: Adapted from company's real data.

### Age - Público.pt's Readers



Source: Adapted from Double Click Ad Planner's data. Available at: <https://www.google.com/adplanner/#siteSearch?uid=domain%253A%2520publico.pt&geo=001&lp=false>

## Exhibit 12 Types of Online Users, according to ITZ Publishing

**“Fly-by visitors:** Visitors visit a site only one time a month, with no previous regular use of the site. These visitors are typically driven by a specific story, often from search engines. The numbers of this type will fluctuate a lot every month at any site, but typically account for at least 25 percent to 35 percent of all monthly visitors. Although making up the relatively large proportion, they typically contribute less than 5 percent of all page views. Fly-bys will have less financial significance for a site than the loyalists, below.

- **Incidental loyalists:** Visitors who access a site at least one day per month, and have done so for more than one month. They visit from one to three times on a monthly basis, typically driven by interest in a specific story, an ad or some other content. Incidental loyalists account for between 3 percent and 10 percent of daily visitors, about five to six out of 10 loyalists, or 30 percent to 40 percent of all visitors monthly. In general, this group generated less than 5 percent of all page views in any given month.

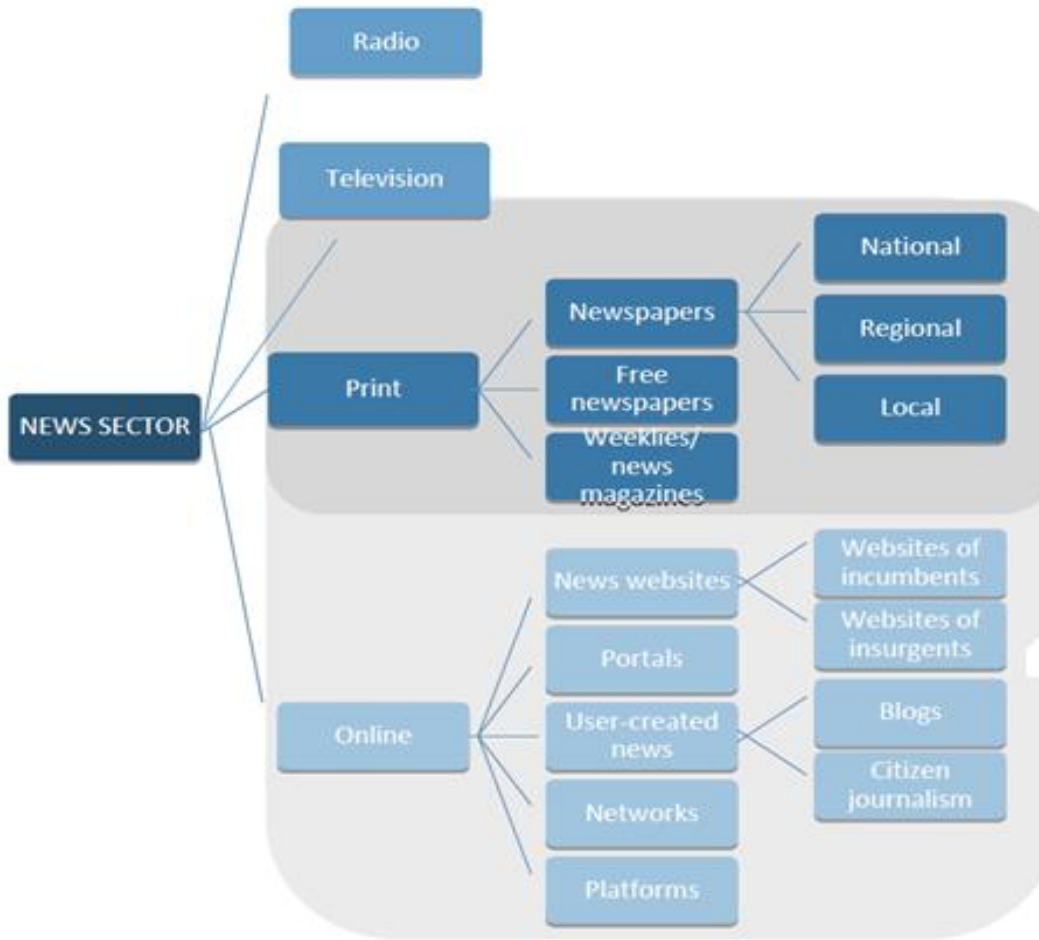
- **Core loyalists:** Visitors access a site at least one time, one day per week, and have done so for more than one month. A core loyalist visits a site an average of 20 times a month and two to three times per day. They make up four to five out of 10 loyalists and 25 percent of all visitors to a news site, but are responsible for 90 percent of page views. They are the primary market target for paid subscriptions and other online products.”

Source: World Associations of Newspapers and News Publishers. (2010). *New Revenue Models for Newspaper Companies* (WAN-IFRA Publication Vol.9, No.2, pp.41). Available at:

[http://www.knightdigitalmediacenter.org/images/uploads/SFN\\_9.2\\_final\\_.pdf](http://www.knightdigitalmediacenter.org/images/uploads/SFN_9.2_final_.pdf) [Accessed 13 May 2012]

## Exhibit 13 The News Sector

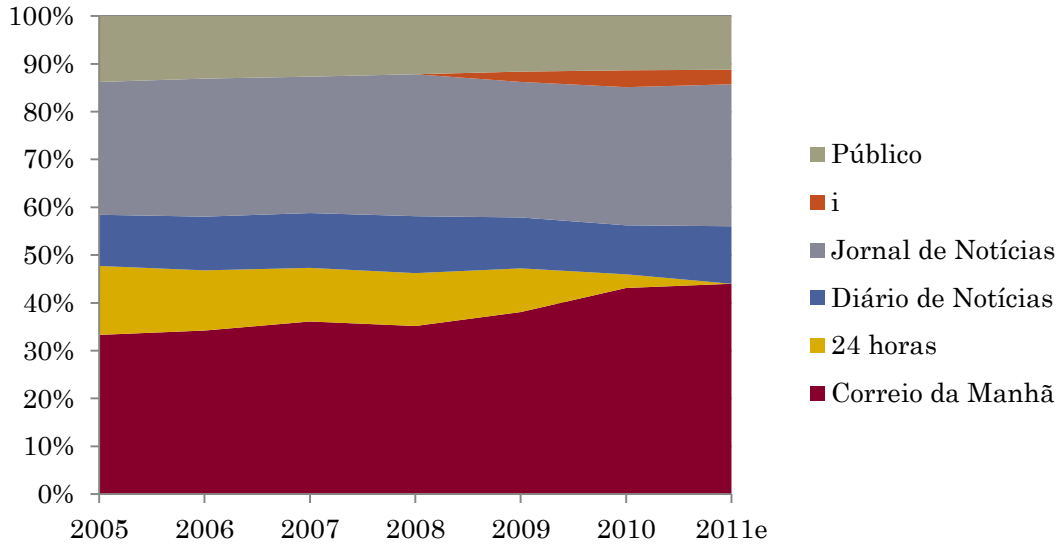
### The news sector



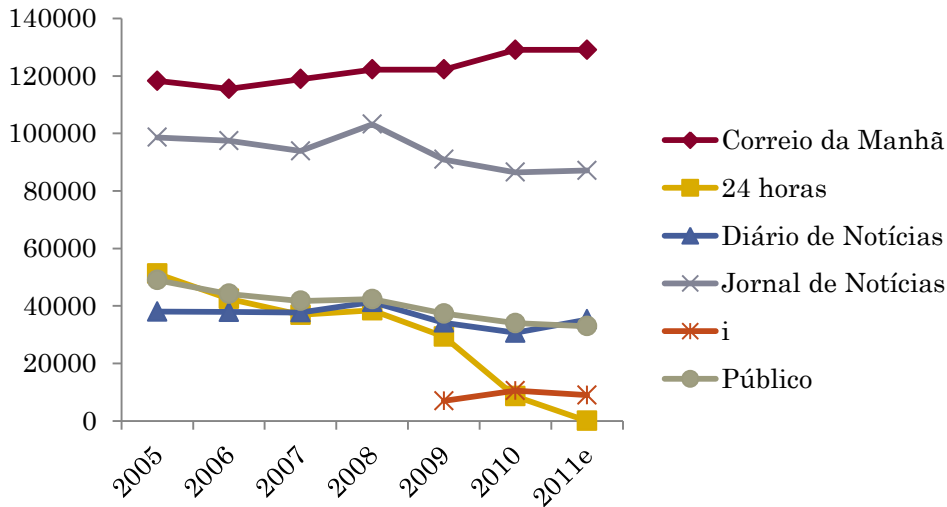
Source: TNO. (2011). *Media & Content Industry: Newspaper publishing case study*. Available at <http://is.jrc.ec.europa.eu/pages/ISG/MCI/documents/07.NEWSPresentaationIPTsnewsOctober2011.pdf> [Accessed 13 May 2012]

**Exhibit 14** Market Share and Print Circulation Evolution, 2005-2011

### Market Share

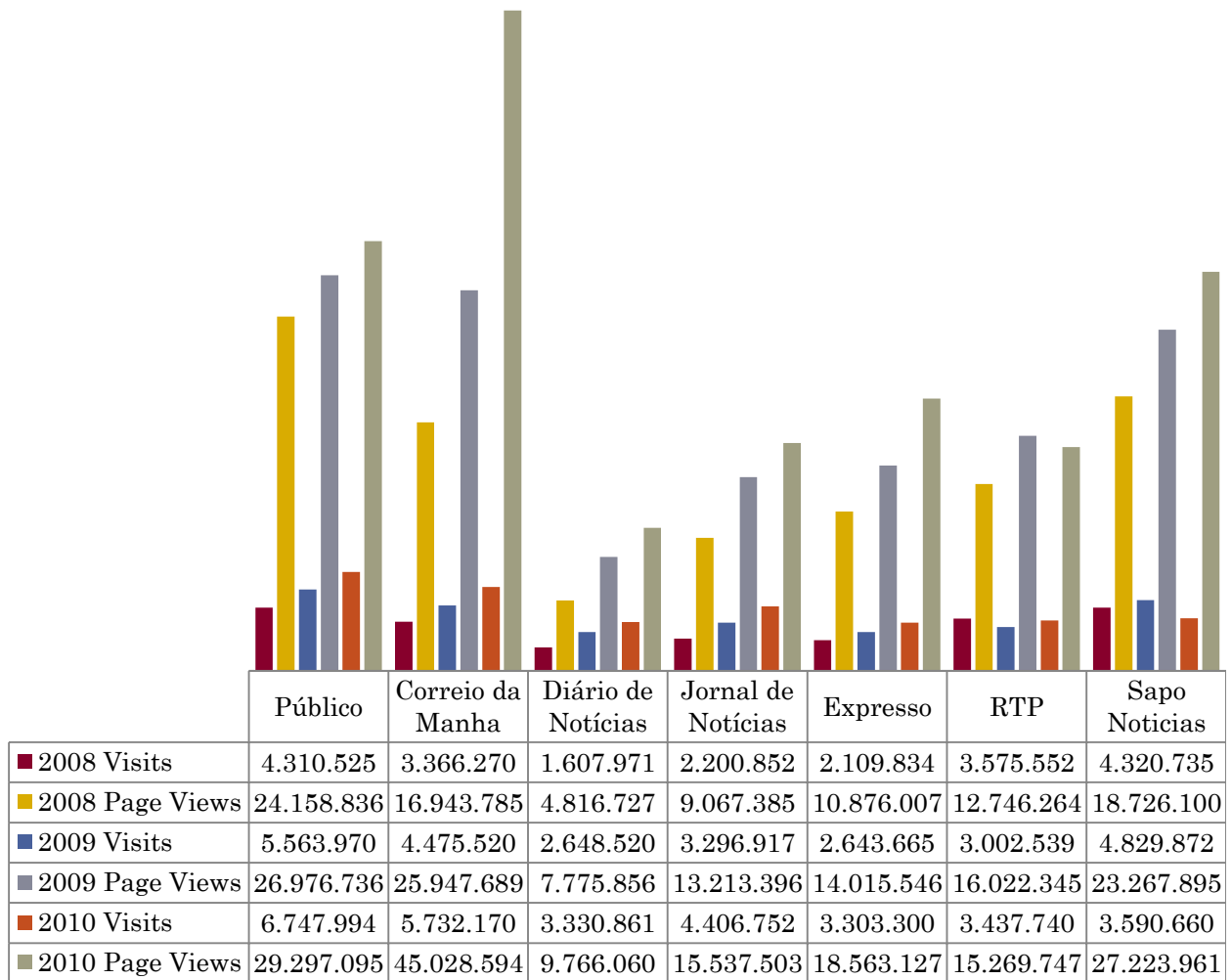


### Paid Circulation



Source: Adapted from APCT data. Available at: [www.apct.pt](http://www.apct.pt) [Accessed 13 May 2012]

**Exhibit 15** Traffic Evolution, 2008-2010 (monthly average)



■ 2008 Visits      ■ 2008 Page Views   ■ 2009 Visits  
■ 2009 Page Views   ■ 2010 Visits      ■ 2010 Page Views

Source: Adapted from Netscope data. Available at: <http://netscope.marktest.pt/> [Accessed 13 May 2012]

## Exhibit 16 Digital Offers among Competitors

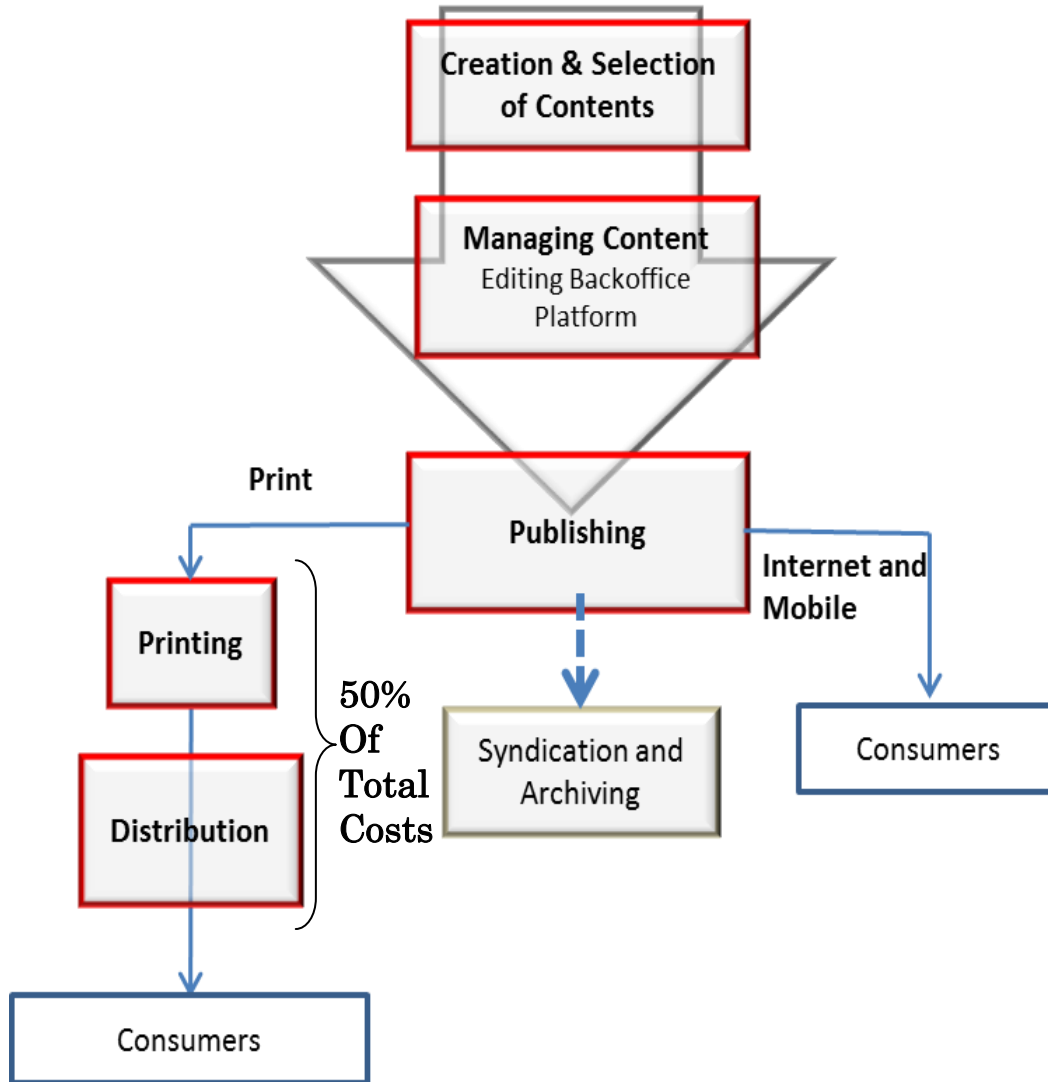
Newspaper	Website does not include ...	Tablets and Smartphones	Digital Subscribers have access to...	Subscribers have to pay...
<b>Expresso (Weekly)</b>	Editorial, opinion columns, print full stories and other supplements**.	Paid app for the iPad in the Apple Store with the content of the newspaper edition.	Daily E-paper version and the similar iPad's app	18,99€ per month  In a single Tablet, Smartphone, Pc bundle.
<b>Diário de Notícias (daily)</b>	Supplements.	Free app for the iPhone and iPad with the entire website's content.	E-paper version*	19€ per month  In a single Tablet, Smartphone, Pc bundle
<b>Jornal de Notícias (daily)</b>	Supplements.	Free app for the iPhone and iPad with the entire website's content.	E-paper version*	19€ per month  In a single Tablet, Smartphone, Pc bundle
<b>Correio da Manhã</b>	Supplements and some "exclusive print stories".	N.A.	N.A.	N.A.

\* E-paper version is a digital replica of the print newspaper, generally with interactive services like comments or social media compatibilities.

\*\* Supplements are extra magazines that usually come with the print version.

Source: Adapted from real data.

## Exhibit 17 The Value Chain of The Newspaper



Source: Adapted from PriceWaterhouseCoopers. (2009). *Newspaper publishing*. Available at: [http://www.pwc.com/en\\_GX/gx/entertainment-media/pdf/NewsPaperOutlook2009.pdf](http://www.pwc.com/en_GX/gx/entertainment-media/pdf/NewsPaperOutlook2009.pdf)

## Exhibit 18 Público's Key Performance Indicators, Collaborators and Costs, 2005-2011

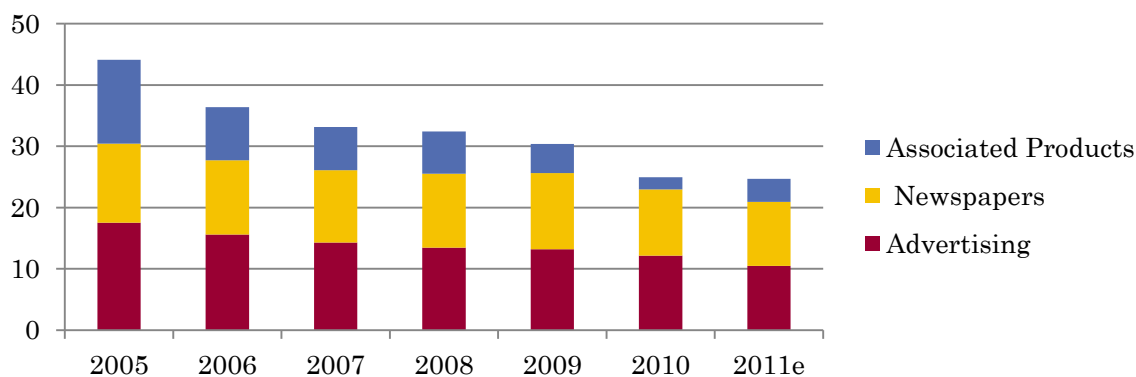
	2005	2006	2007	2008	2009	2010	2011*
<b>Collaborators</b>	358	266	257	256	245	252	252
<b>KPI's</b>							
Audience**	5,2%	4,7%	4,4%	4,5%	4,3%	4,4%	5,4%
Advertising Market Share	15,90%	15,50%	13,80%	12,50%	11,70%	10,5%	9,30%
Paid Circulation	48.984	44188	41765	42345	37335	34.020	32.973
<b>Revenue and Costs</b>							
Advertising (million€)	17,5	15,6	14,3	13,5	13,2	12,2	10,5
Newspapers (million€)	12,9	12,2	11,8	12,0	12,4	10,8	10,4
Associated Products (million€)	13,7	8,7	7,1	6,9	4,8	2,0	3,8
Turnover (million€)	44,1	36,4	33,2	32,4	30,4	24,9	24,7
<b>Operational Costs</b>	46,1	45,5	36,3	36,1	33,1	31,6	29,6
<b>EBITDA*** (million€)</b>	-1,7	-8,8	-3,3	-3,2	-2,7	-1,3	-3,1

\*expected

\*\* is the percentage of individuals, in a universe of 8.311.409 people, who read Público in a given year.

\*\*\*not exactly Turnover less Operating Costs because it includes revenue from other Público's non-core activities (customer publishing and paper manufacturing businesses).

### Sales Breakdown (millions of euro)



Source: Adapted from company's annual reports. Available at:

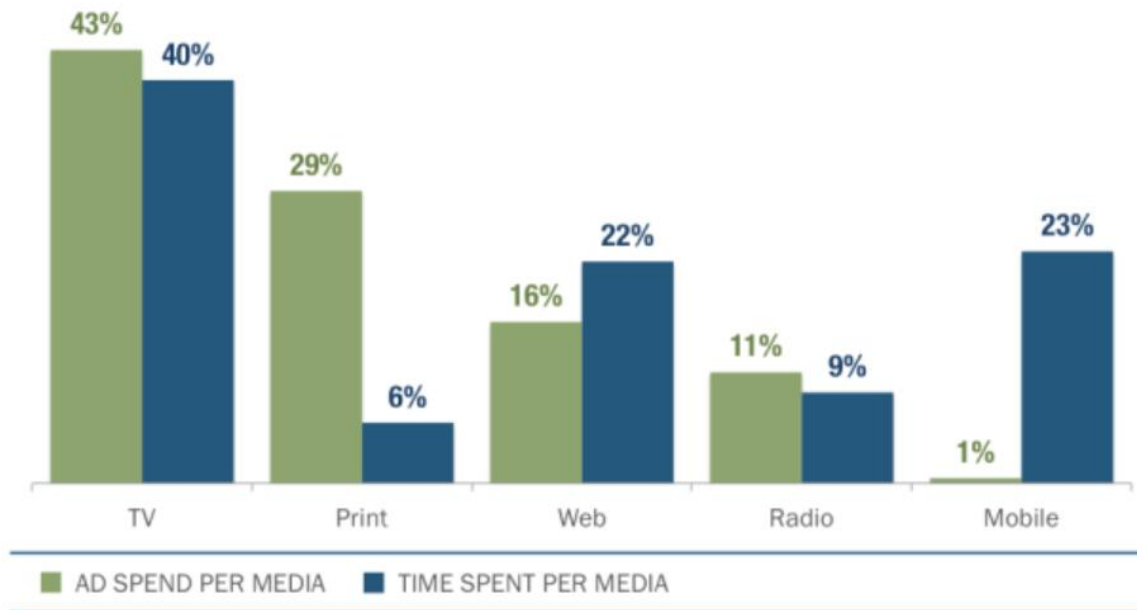
<http://www.sonae.com/investidores/informacao-financieira/relatorios/7> [Accessed 13 May 2012]

## Exhibit 19 The Great Mobile Ad Spending Gap

### The Great Mobile Ad Spending Gap

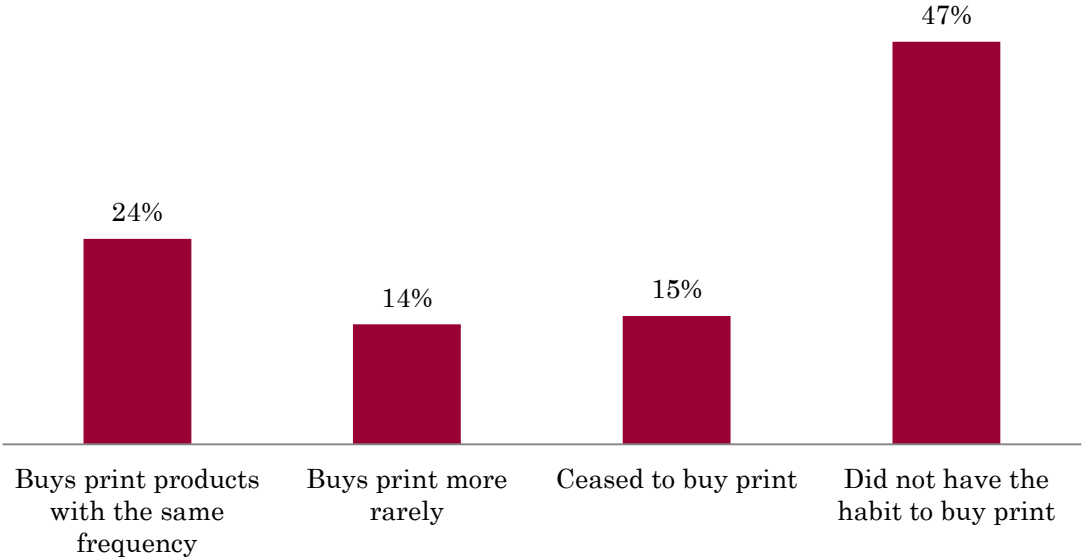
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#### 2011 U.S. Ad Spending vs. Consumer Time Spent by Media



Source: Flurry. (2012). Upper Middle Class, Females Key to Bridging Mobile Ad Spending Gap. *Flurry Blog*. 20 February 2012. Available at: <http://blog.flurry.com/bid/82171/Upper-Middle-Class-Females-Key-to-Bridging-Mobile-Ad-Spending-Gap>

**Exhibit 20** Digital Impact on Público's Print Since 2005 – Portuguese digital audience



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Source: Adapted from company data.

# Teaching Note

## Introduction

Público's case was prepared as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

## Synopsis

This teaching case study aims to highlight the problems facing the Portuguese newspaper Público in the digital age, especially regarding dilemmas around charging for online content. It gives general context: lots of content available free on the internet, press business model upended, many papers shutting down and identifies possible revenue models for online monetization of content. Finally, key decisions regarding pricing two digital goods (“HTML” and “E-paper”) have to be made by CMO Pedro, with the help of marketing research. It is ultimately hoped students will get a sense of the dangers and opportunities of an ever-changing context to an industry that has many peculiarities, but is vital in any democracy.

## Assignment Questions

1. Explain the current difficulties facing the newspaper industry and, specifically, the case of Público.
2. Discuss the “pros” and “cons” of the alternative ways of monetizing content on the internet, mentioned or alluded to in the case.
3. Growing online subscriptions is the next business objective for Público. Analyzing market research and competitors' data, find the best service and price structure for Público's (monthly) digital subscriptions. Is there a way to include print subscriptions in that structure? Also, in the hypothetical “HTML5” version of

Público.pt, should price decisions be different? And finally, should Público reorganize its human resources to better support that objective?

4. At the blog “Digitopoly”, Joshua Gans noted that “what is interesting with the newspapers — as compared with Blockbuster, Circuit City and Kodak — is not how disrupted they are but how slowly change is occurring.” What could be the “innovator’s dilemma” of newspapers?<sup>25</sup> If Público chose to focus on new media and partially or totally forego print at the present moment, what might be the consequences of such a decision?
5. What do you think the future holds for Público? Could revamping digital subscriptions be enough for Público to deliver operating profit by 2015? You are free to make all necessary assumptions. What further actions would you recommend to Público’s management?

## Learning Objectives

- To give a sense of the dynamics of the press industry in general, and in Portugal, the situation of the daily Público. In the process, students should understand the effects of profound industry transformation, in particular due to the internet, on the newspaper business model.
- To set out the specificities of information as a product and generate discussion about possible alternatives for monetization strategies for newspapers in the digital landscape, without neglecting variables related with brand equity erosion and sale cannibalization.
- To have students understand the benefits of effective pricing, in regard to segmentation and bundling, and its implications for profits. Make students

---

<sup>25</sup> This first part of this assignment question is intended to explore topics of technology strategy, and could be excluded if the instructor sees fit.

sensitive to technology innovations that could directly influence pricing decisions.

- To confirm how important it is to manage staff discontent within a company in crisis and to understand the dilemmas around cross cutting, especially in regard to loss of identity and institutional experience – with consequences on quality levels.

## Use of The Case

Amid a highly competitive, fast changing environment, this case tries to explore the marketing topic of pricing, using bundling as the main pricing strategy for Público's information goods. It also introduces issues related to radical industry transformation, business models changes and technology innovation.

Público's case will fit well in the undergraduate course of marketing management and, at the MBA level, in internet marketing modules. It can also be relevant to others related to strategy such as the technology strategy course.

## Relevant Literature

The overall theme of the teaching case study is centered on the difficulties of newspapers dealing with a radically transformed environment and their search for the right business model. The following article could be a good introduction to the subject:

- The Economist, 2011. Making news pay. *The Economist*, [online] 7 July. Available at: <http://www.economist.com/node/18904178> [Accessed 13 May 2012]

Also, notions of bundling and versioning could be of use, especially in the second part of the case regarding monetization decisions. Two academic papers on each topic are recommended:

- Tellis, S. and Stremersch, G. (2002) Strategic Bundling of Products and Prices: A New Synthesis for Marketing. *Journal of Marketing* Vol. 66, pp. 55-72
- Shapiro, C. and Varian, H. (1998). Versioning: The smart way to sell information. *Harvard Business Review*. November-December. pp. 106-114. Available at <http://faculty.haas.berkeley.edu/shapiro/version.pdf> [Accessed 13 May 2012]

The paper by Stremersch and Tellis (2002) provide us a synthetic view of the bundling phenomenon and propose a framework for its optimality. Shapiro and Varian (1998) offer important insights on versioning at the light of marketing. Main concepts follow:

**Bundling:** Tellis and Stremersch (2002), start by defining bundling “as the sale of two or more separate products in one package” (p. 56)<sup>26</sup>. Furthermore, authors explain the *bundling form*, which is of special usefulness in the case study. As such, they oppose *pure* and *mixed* bundling: “*Pure bundling* is a strategy in which a firm sells only the bundle and not (all) the products separately” (p. 57)<sup>27</sup>, and “*mixed bundling* is a strategy win which a firm sells both the bundle and all the separate products in the bundle separately” (p.57)<sup>28</sup>.

According to the authors, “a price bundling strategy (either pure or mixed) yields higher revenues than unbundling if conditional reservation prices are asymmetric” (p. 62)<sup>29</sup> and a “mixed price bundling yields higher revenues than pure price bundling only when reservation prices for the bundle vary across consumers”<sup>30</sup>

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<sup>26</sup> Tellis, S. and Stremersch, G. (2002) Strategic Bundling of Products and Prices: A New Synthesis for Marketing. *Journal of Marketing* Vol. 66, pp. 55-72

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> As it is explained by Tellis and Stremersch “an *asymmetric* distribution of conditional reservation prices for two products, X and Y, occurs when one consumer segment has a lower conditional

Continue to see the footnote on the next page.

(p. 62)<sup>31</sup>. Aside from consumers' conditional reservation prices, there are other factors which affect bundling optimization. In the same article, variables such as firms' objectives, competition, costs and consumers' behavior are found to influence bundling optimization.

**Versioning:** Varian <sup>32</sup> (1997) describes versioning as the situation where the producer “provides different qualities/versions of a good which sell at different prices”<sup>33</sup> (p. 1). The purpose of this strategy is to let users self-select into groups that have different willingness to pay as a form of quality discrimination. But it is with information goods that versioning “becomes more powerful and flexible” (Shapiro and Varian, 1998, pp. 110)<sup>34</sup>. Providing a free version which induces awareness, trial and network effects (which is only possible because of its low marginal costs) could be a good strategy to make consumers trade-up. The Freemium model, coined in Fred Wilson's blog<sup>35</sup> in 2006, is therefore a form of this latter versioning.

## Analysis and Discussion

Instructors could find useful the diagrams presented in **Exhibit TN-1** and **Exhibit TN-2**, to assist in class discussion.

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reservation price for Product X than another consumer segment and the former segment has a higher conditional reservation price for Product Y than the latter segment.” and “*variation* refers to the difference among consumers' reservation prices for the bundle of products.” Ibid., pp. 61-62

<sup>31</sup> Tellis, S. and Stremersch, G. (2002) Strategic Bundling of Products and Prices: A New Synthesis for Marketing. *Journal of Marketing* Vol. 66, pp. 55-72

<sup>32</sup> Varian, H. (1997). Versioning Information Goods, [online] Available at <http://people.ischool.berkeley.edu/~hal/Papers/version.pdf> [Accessed 13 May 2012]

<sup>33</sup> Ibid.

<sup>34</sup> Shapiro, C. and Varian, H. (1998). Versioning: The smart way to sell information. *Harvard Business Review*. November-December. pp. 106-114. Available at <http://faculty.haas.berkeley.edu/shapiro/version.pdf> [Accessed 13 May 2012]

<sup>35</sup> Jarid comment on “My Favorite Business Model”, AVC, entry March 23, 2006, commented posted on March 23, 2006, Available at [http://www.avc.com/a\\_vc/2006/03/my\\_favorite\\_bus.html#c15324948](http://www.avc.com/a_vc/2006/03/my_favorite_bus.html#c15324948)

## *Assignment Discussion 1 – Context Analysis and Crisis Causes (10 minutes)*

The instructor could briefly “poll” students on how many of them buy print newspapers, and how many read them online. Most likely, the second number will be greater. But how many pay to read a newspaper online – in particular, Público? Almost certainly, just a few or none. Students will probably make a number of comments: “why pay for something that is available for free?”; “newspapers are too expensive”; “my family members buy it and I read it”; “no interesting information”. This small exercise could highlight some of the pressures facing a newspaper like Público.

Using Porter’s Five Forces framework <sup>36</sup>, students should be able to understand some of the urging problems facing the Portuguese newspaper industry. The case allow us to infer: the high threat of substitutes (free blogs, user-created information and other media – **page 14** and **Exhibit 13**), the high threat of new entrants (digital newspapers’ setup costs are low – **page 14**), the bargaining power of advertisers, as well as consumers/readers, which have ever more alternatives respectively to read news and advertise. These 3 forces <sup>37</sup> lead to an intense competitive rivalry (6 competing dailies, paid and free – **page 14**).

Fundamentally, Público hasn’t been able to provide consumers the same value it did in the past. When traditional media were the gatekeepers of news content, they controlled the supply of information. Newspapers were able to differentiate themselves from TV and radio, providing usually more detailed news about events that happened the day before (in the case of daily newspapers). With the internet and other new media, three negative and related effects have emerged:

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<sup>36</sup> Porter, Michael. (2008). The Five Competitive Forces that Shape Strategy. *Harvard Business Review*. Boston. January, 2008. p.86-104. Available at: <http://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/ar/1>

<sup>37</sup> There is little information in the case related to suppliers.

consumer attention has fragmented (**page 8** and **Exhibit 3**), and information became available for free (**page 19**), and sometimes with the same quality and depth of newspapers (according to António Granado – **page 20**), as well as similar portability with tablets and smartphones (**page 21**). Other pressing factors have been: changes in demographics (**page 18**), intense competition (as we have seen above in Porter's 5 Forces) and the unfavorable economic climate (**page 18**).

This has affected Público's three revenue sources:

1. Paid circulation – roughly less 16% in value since 2005 to 2010 (**Exhibit 18**);
2. Associated products or merchandise – following the previous point, fewer paid copies mean less investment and sales in associated products – down 86% from 2005 (**Exhibit 18**);
3. Advertising – with smaller circulations, advertising also turned to other media. Classified ads (**page 12**), for example, are very prone to migrate to cheaper digital platforms and can further affect newspaper consumption<sup>38</sup> (people used to buy newspapers also to read job, real estate, and automobile ads). Advertising for Público has fallen 30% since 2005 (**Exhibit 18**).

Público's digital revenue streams (advertising and subscriptions) are still very small compared to those yielded by the print version. Together, they made 608.000€ and 82.500€ respectively in 2010 (**page 13**). Print, in turn, has accumulated losses of 19,1M (**Exhibit 18**) since 2005. This is a stark demonstration of how digital remains unable to compensate print losses. Additionally, from 358 collaborators in 2005, Público has come down to 252 or -30% (**Exhibit 18**), which raises questions about possible impacts on newspaper quality, and could threaten its credibility as a newspaper of reference.

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<sup>38</sup> This relationship is not referred in the case, although it is hoped students mention it spontaneously.

## *Assignment Discussion 2 – Newspapers and its Digital Monetization (15 minutes)*

The instructor could ask the class what are the revenue models that Público.pt could choose from: “Freemium”, the current model of Público.pt; metered, like the NYT; hard paywall – where everything is paid for; and free. Next, it could write some of the student’s inputs on the whiteboard, regarding advantages and disadvantages of each model.

The “**Freemium**” model could be suitable if content is differentiated enough to command a premium, which implies a certain degree of product uniqueness. Clearly, there are problems when placing information behind a paywall, as it can be easily copied and distributed by users and competitors (**page 20**). The **hard paywall** model also shares this disadvantage.

In the **metered** model, monetization is all about user frequency. If users see more than a certain number of articles, they are considered to have a degree of loyalty to the online paper, and are asked to pay. This threshold number of articles should make only the core loyalists aware of such limitation, so the experience remains intact for the rest (**page 19**). Moreover, contrary to the Freemium model, all content can be leveraged in social media (e.g. Facebook users can disseminate more stories) and produce more income traffic. This is perhaps the flaw Sérgio Gomes was pointing out when he said: “By closing even more content we are shutting our readers out” (**page 21**).

By adopting the **free** model, newspapers’ digital subscriptions revenues are lost and the newspaper is totally dependent of online advertising. As we have seen in the previous question, digital ad revenue alone has not been able to compensate losses in print, factor that has pushed many newspapers to directly charge for digital content (**page 19**). Also, it is the fear of cannibalizing print. On the positive side, the **free** model makes the newspaper reach a larger audience, which could have benefits for the newspaper’s brand equity.

Contrary to the **free** model, “**Freemium**” allows Público to charge for content that users are willing to pay, while keeping the majority of “fly-by” traffic and advertising revenue, although maybe not so effectively as in the **metered** model – where any content can be accessed for no charge, as long as it stays within the quantity allowed; in “**Freemium**”, by contrast, difficult decisions must be made at the outset about the kind of content that will never be free.

If Público opted for **hard paywall** model and make all content paid, it would risk the majority of its traffic and digital advertising revenue – 608.000€ at the last account. Most likely, that would not increase print revenues. Although 15% of Público’s online readers ceased buying the print version to read the website instead (**page 20**), that does not mean they will buy it again, after the site is closed. For the same reason, it is not clear if digital subscriptions would increase, only by that fact alone.

### *Assignment Discussion 3 – Pricing Público’s Digital Items (35 minutes)*

The instructor could ask the class what are the traditional steps for pricing. According to Kotler and Keller<sup>39</sup>, they are: 1. setting the pricing objective; 2. determining demand; 3. estimating costs; 4. analyzing competitors; 5. choosing a pricing method and 6. select the price.

Typically, students forget setting the price objective as an important first step. It could be an opportunity to ask students if there is enough information available for the other steps. If the answer is affirmative, the instructor could ask about costs. Information goods such as the “E-paper” and “HTML” have negligible variable costs, and the majority of fixed ones (eg. newsroom costs) are already sunk in the print version.

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<sup>39</sup> Kotler, P. , & Keller, K. (2006) *Marketing Management* (12<sup>th</sup> ed.). Pearson Prentice Hall.

Regarding price decisions, Público should then:

- a) Set a price objective;
- b) Analyze marketing research/demand;
- c) Access the competitive landscape regarding prices and choose a pricing method;
- d) Choose between “Closed” and “Open” and
- e) Integrate print subscriptions together with digital

Público should also decide the best support team for digital subscriptions and think of the pricing benefits the “HTML5” version could bring.

a) **Setting the objective:** Kotler and Keller<sup>40</sup> define 5 major pricing objectives which may be combined: survival, maximum market share, maximum current profit, maximum market skimming, or product-quality leadership. Although surviving is the immediate objective, it will need to maximize current profits in the digital business, given the high fixed and variable costs of print (**page 15**). The instructor could discuss two of the previous objectives. What would make more sense to Público, market penetration or maximizing current profits?

Also according to Kotler and Keller<sup>41</sup>, market penetration pricing to maximize market share is used to stimulate market growth, reach economies of scale, and discourage actual and potential competition. In Público’s case, such objective does not make sense, for three reasons: digital products have negligible variable costs and therefore does not benefit of economies of scale, a price much too low could stir print cannibalization, and the broad newspaper market is already mature<sup>42</sup>. However, low prices could help deterring potential new entrants. The

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<sup>40</sup> Kotler, P., & Keller, K. (2006) *Marketing Management* (12<sup>th</sup> ed.). Pearson Prentice Hall.

<sup>41</sup> Ibid.

<sup>42</sup> We can argue that the digital newspaper market is not mature and should be stimulated – the only reason to price it low. That could be a valid strategy, at least in the short-term. But it could also pose some dangers such as growing at the cost of print.

instructor could argue here that this is not an immediate threat to Público, even more if we consider the high competitive rivalry in the industry.

Market skimming could work if there was a segment with high current demand willing to pay, and if the high price communicates superior value, which could be the case. This works better for high-ticket items and one time purchases, such as a technology-based product whose market value fades with time. However, there is a repeated buying process underlying a subscription. If Público lowers its price, it will also affect the first (high-value) consumers.

Product-quality leadership could be a possibility. Público is in the reference segment (**page 8**) and has been the digital innovator (**page 12**), but it is not clear if its brand could support that premium. For the moment, the only clear price objective is maximizing current profits.

**b) Analysing market research/demand:** The marketing research (**Table 1** and **Table 2, pages 22** and **23**) provides us with information on the demand of consumers for the two scenarios. Also, we know that only 10% of Público's digital audience is willing to pay (**page 22**). Perhaps it could be useful to write on the board **Table 1**. We start by analyzing WTP for the “**Closed**” scenario, deriving the expected revenue per consumer segment following three schemes: single price, pure bundling and mixed bundling. Contrary to usual bundling exercises which students might be familiar with, this carries an atypical detail which will come into evidence when deriving revenues for the individual price scheme, which could be asked of the class.

Individual Price Scheme: For all groups, it is impossible to compute exact revenue in a single price scheme. Take the “S” cluster. If we charge 7€ for “HTML”, we cannot charge 5€ for the E-paper next, because the consumer values both at only 10€. Students might have the answer why this happens – because the two goods are partly substitutes of each other. The only thing we are sure of is, if price is 7€ for “HTML” and 5€ for the E-paper, “S” can only buy one of them – some will choose “HTML” and others the E-paper, but never both. Therefore, revenue per “S” user

will be a number between 7 and 5. By bundling we would earn 10€, making it a better pricing strategy. Applying the same logic for any other segment, we conclude Público is better off by bundling rather than charging for separate products.

Pure Bundling Scheme: Bundle at 5€ results in 5€ per reader [ $1 \cdot 5\text{€}$ ]; bundle at 10€ – 8€ per reader [ $0,8 \cdot 10$ ]; bundle at 16€ yields 8€ per reader [ $0,5 \cdot 16$ ] and at 20€, it is 5€ [ $0,25 \cdot 20$ ]. We can see that best bundles are at 10€ and at 16€, yielding 8€.

Mixed Bundling: With bundling at 10€ we cannot make extra revenue by charging single prices (except if we are able to discriminate students). Revenue is still 8€ [ $0,8 \cdot 10\text{€}$ ] per reader or 9€ [ $0,8 \cdot 10\text{€} + 0,2 \cdot 5$ ] if we could discriminate, for example, in favor of readers with a student card, for the complete bundle “HTML and E-paper” at 5€. <sup>43</sup>

With bundling at 16€:

- At this rate, “PC” and “S” do not buy the bundle. We can see if we can charge for the individual products – price “HTML” at 7€ and “S” and “T+S” will be willing to pay for that. Is it going to cannibalize the bundle T+S would be buying for 16€? We can assume it does not – if he picks the bundle, he will maintain a higher consumer surplus (4€) than by exercising the single price option at 7€ for the “HTML” (1€). We will therefore make 8€ with “T” and “T+S”, plus 2,1€ [ $0,3 \cdot 7\text{€}$ ]. It results in 10,1€ per reader per month. But if we could discriminate readers with a student card, we would earn 1€ more [ $0,2 \cdot 5\text{€}$ ], yielding 11,1€ in total.

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<sup>43</sup> Hereafter, when discussing students’ price discrimination, we assume the bundle is sold, and not the (possibly) equivalent, in terms of WTP, individual product HTML or E-paper. However students, in their discussion, could argue for both sides: the bundle has the advantage of being able to make students learn and get used to both HTML and E-paper, so that when they graduate they choose the same (more expensive) bundle, or they can defend that selling the individual product could help other segments to be more “comfortable” in paying more for the complete bundle, as they perceive more fairness.

- We can also (individual) price “HTML” at 5€. All except for “T” would be willing to buy it. But “T+S” would want to buy the bundle more – it would still have more consumer surplus, 3€ is the amount he “saves” if he buys only “HTML”, where 4€ is how much he is still saving when buying the bundle by 16€. We would gain 8€  $[0,5*16€]$  plus 2,5€  $[0,5*5]$ , yielding 10,5€ in total. Here, we are not able to gain extra revenue by discriminating in favor of students.
- We cannot (individual) price the “E-paper” at 5€ because it would cannibalize bundles bought by the clusters “T” and “T+S”.

As a result, for the “**Closed**” scenario, we have that Público is better off by choosing the mixed bundling approach – 16€ for the bundle and 7€ for the “HTML”.

Following the same reasoning for scenario “**Open**”, the pure bundling strategy strongly dominates the single price one. At 4€, we gain 4€ per consumer  $[1*4]$ ; at 5€ also  $[0,8*5]$ ; at 10€ Público earns 5€  $[0,5*10]$  and at 11€, only 2,75€. Hence, pricing 10€ for a pure bundle is the better strategy so far.

Mixed Bundling: Having the bundle set at 10€, “PC” and “S” do not buy it, similarly to the previous analysis. Whereas before we managed to set a single price for “HTML” without cannibalizing the pure bundle of “T+S”, now we cannot. By pricing “HTML” at 3€, “T+S” should be as willing to buy the “HTML” as to consume the bundle at 10€. In both cases he gets a consumer surplus of 1€. Likewise, if we price the E-paper at 4€ or 4,5€, we lose the bundles bought by “T” and “T+S”. As a result, the optimal pricing is a pure bundle at 10€, yielding 5€. If we can discriminate in favor of students we would earn 5,8€  $[5€+0,2*4€]$ .

Concluding, in the “Close” scenario we can earn 11,1€ per consumer by charging a “HTML and Epaper” bundle at 16€ (yielding 8€), selling “HTML” separately at 7€ (giving 2,1€) and conducting a special promotion to students for a bundle at 5€ (profiting 1€). In the “Open” scenario we can only sell the pure price bundle at 10€ and discriminate students, earning 5,8€.

c) **Analyzing direct competition and deciding a pricing method:** Público should consider competitors' prices as well. At the time of the marketing research survey, "in the beginning of the year" (**page 22**), the newspapers Diário de Notícias (DN), Jornal de Notícias (JN) and Expresso had not yet launched their subscriptions initiatives. As such, respondents to the marketing research survey were not aware of the alternatives proposed by the main market players and their prices.

The pricing method will be based on the WTP found by the market research report, together with considerations about competition. Students should notice that competitor prices are higher than Público's optimal bundles at a monthly fee. The price that DN and JN practice is 19€ per month for the E-paper (**Exhibit 16**). Would there be a problem if Público charged less than the competitors? If price is taken as a sign of quality, probably yes. But the risk to overprice is real.

d) **Choosing a scenario:** The difference between both scenarios is 5,3€ [11,1€-5,8€] or 1,590M€ per year [10% willing to pay (**page 22**) \*250.000 website's unique visitors (**page 13**) \* 5,3€ \*12 months] Público would gain by closing its website's content, according to market research. It is important to note that it will take a while for Público to be able to reach the desired conversion rate of 10%. But even if Público only manages to convert 1%, it would still largely compensate losing the prime position to Correio da Manhã (**page 23**), which would cost Público only 91,200€ (75% Possibility\* 20% Lost Premium\* 608.000 digital ad revenue). Ultimately, it could even help stop print-digital cannibalization, which represented 15% of the Portuguese digital readers, which are 150.000 (**page 14**), since 2005. But then again, closing information could have an impact on the brand – the newspaper could lose its level of influence and further jeopardize the future growth of the website in terms of unique visitors. Students should note that this situation is complex and requires judgment beyond the cold analysis of market research data.

e) **Integrating print:** At the moment, print and digital subscriptions are in different packages (**page 13**), meaning that if consumers want to subscribe both, they have to buy each on its own. Público should benefit by integrating print into

digital. The consumer who subscribes to the print edition, at around 200€ per year (**page 13**), could be offered digital access as well, with no extra cost to Público. In this new “print plus digital bundle”, current print subscribers would get more services, and some digital users, for whom 200€ might be just too expensive now, could be willing to pay. Other possibilities could be explored by students: the bundle could be priced higher than current print subscription prices, in order to reflect the new value added. Market research addressing this issue could be conducted.

The final pricing scheme would be 16€ all-access bundle and 7€ for “HTML” only. Público could make a promotion for students at 5€ the bundle. All this would yield 3,3M [ $10\% * 250.000 \text{ website's unique visitors} * 11,1€ * 12 \text{ months}$ ] per year as soon as Público reaches the 10% conversion rate. Mind that we have to take 91.200€ out to Correio da Manhã, yielding therefore 3,2M€.

### **The supporting team**

In order to achieve a 10% conversion rate – part of the core loyalists – Público would need to support this objective with a dedicated team. Because it runs on a shoe string budget, reallocation of resources would be preferable to new hiring. As a possible solution, Público could convert its digital ad sales team lead by Isabel Marques (**page 23**) to subscription-related activities. This team would likely embrace this challenge, giving their experience with digital. Digital ads activities would be allocated to the current print reps, which are experiencing difficulties in selling print advertising (**page 17**) – this new task could be a source of motivation to the team. To facilitate this integration, training should be considered.

### **HTML5**

In this technology, Público could perfectly discriminate segments across devices (**page 26**). If that were to happen, Público could charge 20€ to “S+T”, 16€ to “T”, 10€ to “S” and 5€ to “PC users”. Accordingly, revenues would be 13€ [ $20 * 0,25 + 16 * 0,25 + 10 * 0,3 + 0,2 * 5$ ] per consumer, higher than before. The benefits however, should be balanced against the costs of implementing such technology.

## *Assignment Discussion 4 – The “innovator’s dilemma” and the consequences of going full digital (20 minutes)*

The “innovator’s dilemma”, a term coined by Clayton Christensen, is a situation where the incumbent companies “get blindsided by disruptive innovation because they focus too closely on their most profitable customers and businesses”<sup>44</sup>.

Relating this concept with the case of newspapers, we can argue that the internet has thrown them into a similar situation. For some, digital is more than a new medium, is an enabler – like the electricity, which newspapers are overlooking.<sup>45</sup> Is it possible that the present “hybrid” business model of Público – in the way it focus on digital and print as interdependent platforms – could undermine or slow innovation processes? If Público knows the future is digital (**page 6**), why not embrace it completely? As we show below, print is still the life and blood of the newspaper, which Público is unwilling to risk. In that way, Público’s dilemma is similar to other disrupted companies.

But what if Público indeed focuses solely in digital? What would be its greatest advantage? – This could be a possible question to spark up the debate with students. What are the great disadvantages? Brand equity erosion and the low yield appear as possible answers. The instructor could dig into the numbers:

A fully digital operation would be a lot leaner and Público would immediately save printing and distribution expenses, which comprise 50% of total costs (**page 15**). The cost bill would then decrease to 15,8M€ per year (if we take 2010 operational costs, featured in **Exhibit 18**).

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<sup>44</sup> Christensen, C. (1997). *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail*. Harvard Business School Press.

<sup>45</sup> Spanfeller, J. (2012). Content 3.0: The innovator’s dilemma of print media. *INMA*. [online] 13 February. Available at : <http://www.inma.org/modules/article/index.cfm?action=articleView&articleId=4988> [Accessed 13 May 2012]

On the revenue side, Público counts 250.000 unique visitors providing on average 29,3M page views per month (**page 13**). Público presently sells 50% of its annual pages by 608.000€ (**page 13**). Having all companies' resources devoted to the online version could mean a highly attainable surge in traffic. Let's assume page views increase by one third, summing to 38,09M viewed per month. Hence, it is plausible to assume revenue will also increase by one third, yielding 182.400€ more, totaling 790.400€.

Until now, Público's revenue in subscriptions has been negligible (**page 13**). But that is about to change. If Público manages to convert 10% of its digital audience into paid subscribers, as suggested by marketing research, that would yield 3,2M€ per year (with lost premium taken), according to the answer of question 3.

However, by closing print, Público loses 95% of advertising and virtually all newspaper's and associated product revenue. In 2010 they were 12,2M€, 10,8M€ and 2€M respectively (**Exhibit 18**) – Público would forego a total of 25M€. This would not be a problem if it managed to return a positive operating profit, but it does not. Revenues yielded by digital advertising and subscriptions (0,79M€+3,2M€) are evidently insufficient to support a cost of 15,8M€ for the newspaper.

Here, it should be clear that a full digital Público is far on the horizon. Would be there other solution? Do we have information to help us reason in a less drastic digital change?

A less drastic solution would be for Público to limit publication to its strongest days – Friday, Saturday and Sunday, which together are responsible for 80% of print revenue (**page 13**). Assuming these three days represent half of print and distribution costs, Público would save 7,9€M – cost would then amount to

23,7M€ [31,6M€ - 7,9M€] – while keeping a great portion of its revenue: 19,5M€<sup>46</sup>. Digital revenue would be more substantial this time if we assume the same effort to grow digital ad and subscription revenues explained above. With that, total turnover would amount to 22,9M€ (19,5+3,2 + 0,2) and would not top costs for a thin margin.

This almost positive result hinges on many assumptions that are still far from the present reality or even the near future, especially the 10% of conversion rate for subscriptions, which will definitely take time, money and effort to achieve. The traffic increase by one third, almost four times the growth registered in 2010 of 9% (**Exhibit 15**), could be a too optimistic scenario, more so if we consider the respective revenue increase – we assume advertising demand is maintained, but possibly it could decrease.

Moreover, we are forgetting that Público, by opting for a three-only-day model, could greatly damage its brand. The paper would no longer be a daily or a weekly, but a strange and crippled version positioned somewhere in the middle. This action could be interpreted by consumers and advertisers as a sign of instability, financial and otherwise, possibly hurting the paper's reputation for quality and throwing it into a death spiral.

### *Assignment Discussion 5– Projections and Future Recommendations (10 minutes)*

This could work as an open question for students. The instructor could “poll” again students – “How many think Público is able to deliver profits in the next 3 years? Some students could then expose their ideas on how to better Publico's strategy.

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<sup>46</sup> 80% of total print revenue:  $(0,8*(12,2*0,95+10,8+2))$

We have reasons to believe that the forces pressuring seen in question 1 are here to stay: specially the fragmentation of media consumption and the demographic evolution of consumers. As a result, in 10 years, Público will not be the same newspaper it is now. Pushed by the disruptive forces of the internet, print will most likely become a niche product or disappear completely, and the business will live entirely by its digital operations. Most of its content and marketing efforts would center on ubiquitous devices, which are set to grow exponentially (**Exhibit 10**). Of course, this is if the paper survives, which seems far from guaranteed. There are some worrying signs – other newspapers have been closing (**page 7**) and collaborators are much fewer than in 2005. Is the organization leaner, or has quality suffered?

The most pressing issue is that digital can't keep up with losses in print (**page 19**) which could make the end of the paper inevitable. It remains to be seen whether minimizing print losses is feasible. We have seen that digital subscriptions are still far from reaching their pinnacle, when 10% of conversion rate is achieved. If we project that to happen in 2015<sup>47</sup>, digital subscriptions could be worth 4,7M€ in that year – assuming average revenue per user of 13,3€ and a digital audience growth at 9%, among other suppositions (see **Table TN-1** on the next page).

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<sup>47</sup> We take a uniform distribution of 5.000 new subscribers per year, starting at 1% in 2011 until 2015, the year we assume the 10% conversion rate is reached.

**Table TN-1** Assumptions for Financial Projections

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Digital Audience Growth, as of 2010 ( <b>Exhibit 15</b> )	9%
Digital Ad Growth ( <b>page 21</b> )	13%
Print Ad Revenue CAGR, as of 2005-2011 ( <b>Exhibit 18</b> )	-7%
Circulation CAGR, as of 2005-2011 ( <b>Exhibit 18</b> )	-3%
Constant Associated Products Revenue, as of 2011 ( <b>Exhibit 18</b> )	3,8M€
Operational Cost Yearly Savings <sup>48</sup>	3%
Subscription Average Revenue per User (3,33M€/250.000 unique visitors)	13,3€
Lost Ad Premium (0,75*20% every year, <b>page 26</b> )	-15%
Unique Visitors ( <b>page 13</b> )	250.000
Conversion Rate in 2015	10%

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Source: Case writer

Let's do a quick projection of expected revenues for the future. We notice that the positive EBITDA greatly depends on the success of digital subscriptions, with that revenue helping Público to reach break-even in the year 2015. A sensitivity analysis should be conducted in order to understand the importance of each Key Performance Indicator, although this is beyond the objectives of the teaching case study. For example, if Público only manages to get a subscription average revenue per user at 10€ per year, instead of the simulated 13,3€, it would reach break-even in 2018. If Público's marketing muscle is only able to convert Portuguese digital readers, 150.000 instead of the total 250.000, it would only have positive EBITDA in 2020. In favor of Público is the fact that, in the future, conversion rate could rise to more than 10%, ultimately to the 25% core loyalists represent (**Exhibit 12**).

For the future, Público could implement the following recommendations in order to improve the bottom line:

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<sup>48</sup> We assume total costs savings are the same of falling circulation revenue at CAGR -3% (from 2005 to 2011). The reasoning behind is that less newspaper copies sold should result in proportional less operational cost.

- Increase digital ad sold inventory by partnering up with global advertising networks.
- Charge higher advertising fees for ads targeted to subscribers, arguing more brand involvement.
- Study the impact of print going weekend only: brand effects and expected sales
- Invest in digital content and exclusive material to the premium area and mobile devices: eg: launching Ypsilon, Inimigo Público magazines specifically for the iPad
- Develop apps for the Android system in order to increase the profitable base of tablet users.
- Consider the possibility of changing the revenue model for the metered version, making it similar to that of NYT.com. This could have a positive impact, as discussed before.
- Invest in human resources to revamp and create more digital content.
- Last but not least, consider editorial changes that might give the paper more readers without compromising its journalistic quality – in fact, probably increasing it.

**Exhibit TN-1** Diagram for Assignment Questions 1 to 3.

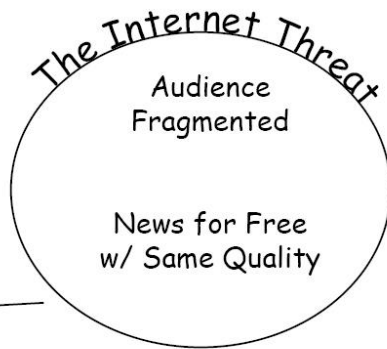
**1.**

Is the Industry Attractive?

Threat of Substitutes? High  
 Threat of New Entrants? High  
 Competitive Rivalry? High  
 Bargaining Power of Buyers? High  
 (Bargaining Power of Suppliers? Low)

3 Revenue Sources:

Associated Products -16%  
 Paid Circulation -86%  
 Advertising -40% *Since 2005*



**2. Pros**

Higher reach -> Higher Influence  
  
 Can keep the majority of traffic and ad advertising revenue, while charging for subscriptions. The metered model makes all content accessible.  
  
 Loyals might quickly subscribe. You might contain online cannibalization of print.

Free  
  
 Freemium or Metered?  
  
 Hard PayWall

**Cons**

Totally dependent on advertising revenue, which might not be enough.  
  
 In the freemium model it is hard to decide what is paid content and what is not. In the metered model, it might be hard to control for articles read per user (it is possible to delete cookies and the browser history).  
  
 It loses all advertising revenue. (608,000€)  
 Difficult to protect content. Newspaper influence and thus brand equity might decrease.

Source: Case writer.

**3.**

Pricing Steps: 1. Set an objective, 2. Analyze Demand, 3. Competitors and Price Method, (4. Set the Price.)

Additional implications for Público: a) Close or Open, b) Integrate print, c) Supporting Team, d) HTML5

1. Market Penetration/Maximizing Market Share or Maximizing Current Profits/Survival  
 2.

Scenario - "Closed"	Willingness To Pay per month (€)			
Cluster	% of Users	HTML	E-Paper	Bundle
PC / Students	20	5	5	5
S	30	7	5	10
T	25	2	15	16
T + S	25	8	15	20

Mixed Bundling: HTML at 7€, Bundle at 16€, HTML 5€ discriminating students w/ card. It yields 11,1€ per consumer.

3. Method is based on the above Willingness to Pay. Competitors prices are priced higher at 19€ per month. Is there a problem to price it lower?

a) Possibility of losing the prime position costs 91,200€(0,75\*20%\*608,000) if Público closes.

c) Who to support digital subscriptions?  
 Digital Sales Reps =   
 Print Sales Reps =

But by closing Público gains 5,35€ more per consumer or 1,605M€, and the possibility to stop print-digital cannibalization.

d) HTML5  
 What are the Benefits?

b) Print + Digital Bundle at the current Current Subscription Price of 200€? Or maybe price it higher?

Exhibit TN-2 Diagram for Assignment Questions 1 to 3.

4. What if Público went full-digital?

Pros	Cons
<ul style="list-style-type: none"> <li>• Maybe better digital products</li> <li>• More focused digital marketing</li> <li>• Maybe more subscription revenue</li> <li>• <b>More Traffic</b></li> </ul> <p>Let's assume 30% traffic increase with corresponding digital ad revenue or 182,400€ (30% of 608,000€)</p> <ul style="list-style-type: none"> <li>• <b>Leaner Cost Structure.</b></li> </ul> <p>Less 50% of total costs or 15,8M€ yearly.</p> <hr/> <p>Gains: 15,8M€ + 182,400€ W</p>	<ul style="list-style-type: none"> <li>• Possibility of damaging Público's brand.</li> <li>• <b>Loss of all print-related revenue</b></li> </ul> <p>Less 95% of total revenue.</p> <p>Losses: (print ad, circulation, associated products) or 24,4M€</p>

What if Público could reduce print to Friday, Saturday and Sunday?

**More Gains:** 80% of Total revenues or 19,5€M

**Leaner Cost Structure Correction:** 7,9M (instead of 15,8M€ saved, if we assume that these 3 days correspond half of the costs)

Total Gains: 27,4M€, it compensates losses in print

**But would be sufficient to break-even?**

**Total Costs=** 31,6-7,9= 23,7M€

**Total Revenue=** 19,5+3,2 + 0,2 =22,9M€

5. What the future holds for Público?

Recommendations:

- Increase digital ad sold inventory by partnering up with global advertising networks.
- Charge higher advertising fees for ads targeted to subscribers, arguing more brand involvement.
- Study the impact of print going weekend only: brand effects and expected sales
- Invest in digital content and exclusive material to the premium area and mobile devices: eg: launching Ypsilon, Inimigo Público magazines specifically for the iPad
- Develop apps for the Android system in order to increase the profitable base of tablet users.
- Consider the possibility of changing the revenue model for the metered version, making it similar to that of NYT.com. This could have a positive impact, as discussed before.
- Invest in human resources to revamp and create more digital content.
- ...

Source: Case writer.

### Exhibit TN-3 Financial Projections

<b>Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Print Ad Revenue</b>	10,5	9,7	9,0	8,4	7,8
<b>Circulation Revenue</b>	10,4	10,1	9,8	9,5	9,2
<b>Associated Products</b>	3,8	3,8	3,8	3,8	3,8
<b>Digital Ad revenue</b>	0,6	0,7	0,8	0,9	1,0
<b>Lost Ad Premium</b>	-0,1	-0,1	-0,1	-0,1	-0,1
<b>Subscription Revenue</b>	0,3	1,1	2,0	3,0	4,7
<b>Conversion Rate</b>	1%	3%	5%	7%	10%
<b>Websites' Unique Visitors</b>	250.000	272.500	297.025	323.757	352.895
<b>Total Cost</b>	29,6	28,8	27,9	27,1	26,2
<b>EBITDA</b>	-4,1	-3,4	-2,6	-1,6	0,13

Source: Case writer.

## What Happened?

On March 21, 2011, Público launched<sup>49</sup> a single integrated subscription package and closed more content on the website. From then on, subscribers got access to both the “E-paper” (in partnership with Newspaperdirect) and the now fully paid “HTML” version of the printed edition. The change extended to subscriptions prices as well. Público opted for the following price structure: 2,3€ per week, 10€ per month, 29,8€ per trimester and 119€ for an annual subscription. The printed edition was eventually included, with the bundle digital plus print) at 297,5€ per year<sup>50</sup>.

Later in the year, the paper launched a campaign aimed at students with a 50% discount on monthly digital subscriptions. At the same time, the cultural supplement Ypsilon was made available exclusively for the iPad, in a downloadable app.

Print sale representatives accumulated digital advertising responsibilities, whereas the previous digital sales team shifted its focus to making digital subscriptions grow.

As of 5<sup>th</sup> March 2012, Público counted 2.000 digital subscriptions.

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<sup>49</sup> Público, 2011. Público lança e-paper e mais conteúdos exclusivos para o assinante digital. *Público*, [online] 19 March. Available at [http://www.publico.pt/Media/publico-lanca-epaper-e-mais-conteudos-exclusivos-para-o-assinante-digital\\_1485717](http://www.publico.pt/Media/publico-lanca-epaper-e-mais-conteudos-exclusivos-para-o-assinante-digital_1485717) [Accessed 13 May 2012]

<sup>50</sup> Público offers other prices for the print subscription, depending on geographic location and number of editions per week: weekend only or full-week one.