MEETING NEW READERS IN THE TRANSITION TO DIGITAL NEWSPAPERS: LESSONS FROM THE ENTERTAINMENT INDUSTRY

Lecciones que la prensa digital puede aprender de la industria del entretenimiento

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Abstract

In this work, carried out at the University of California Los Angeles (UCLA) Center for Management of Enterprise Media, Entertainment, and Sports (Memes), we suggest that there is hope and reason for media companies to expect a recovery from the current crisis. As journalists and researchers in communication, we are concerned about newspapers’ sustainability, and we refuse to consider a future scenario without the press. According to this objective we focus on the entertainment industry with the goal of learning from it how to survive and even grow despite freely available content on the Web. We consider the unstoppable growth in users and revenue experienced by Netflix, Amazon and iTunes, and pull from it lessons learned that might help newspapers to navigate the digital landscape. Our hypothesis is that digital newspapers can find new readers in the segment of digital consumers who already “pay” for digital content including streaming movies and television shows. Sales, subscriptions, and online rentals experienced significant growth in 2013, bringing them closer to the sales figures of hardware such as DVDs and blu-ray discs. And, although piracy is an issue in the entertainment industry, there remains room for revenue growth.

Keywords

Digital movies; Streaming; iVOD; Video; Digital consumers; Users; Readers; Piracy; Newspapers; Press; Media; Digital newspapers; Cybermedia; Pricing models; Entertainment industry.
Resumen

En este trabajo realizado en el Center for Management of Enterprise Media, Entertainment, and Sports (Memes), University of California Los Ángeles (UCLA), sugerimos que hay esperanza y razones para que las empresas periodísticas se recuperen de la crisis actual. Como periodistas e investigadores en Comunicación, nos preocupa la sostenibilidad de los periódicos, y no queremos ni pensar en un futuro escenario sin prensa. De acuerdo con este objetivo nos hemos centrado en la industria del entretenimiento con la idea de aprender de ella cómo sobrevivir o incluso crecer a pesar de que muchos contenidos estén disponibles gratuitamente en la Web. Considerando el imparable crecimiento experimentado por Netflix, Amazon o iTunes, tanto en número usuarios como de ingresos durante este mismo período de tiempo, si los periódicos pueden imaginar el modo de navegar en el indiscutido panorama digital, hay razones para ser optimistas. La hipótesis es que es posible encontrar nuevos lectores en el segmento de consumidores digitales que “ pagan” por contenidos digitales, como es patente en el estudio realizado en el mercado de Estados Unidos, que presentamos aquí, en concreto ventas y streaming online de cine. Las ventas, suscripciones y alquileres online de pago han subido notablemente en 2013, tanto que se está acercando a las cifras de venta de soportes físicos: DVDs y discos blu-ray. Por otro lado, sostenemos en paralelo que la piratería no ha terminado con la industria cinematográfica, pese a que persiste un elevado número de descargas ilegales, y esto es así porque hay margen para crecer en el sector móvil digital.

Palabras clave

Cine digital; Copyright; Piratería; Periódicos; Prensa; Medios; IVOD; Video; Plataformas de cine; Streaming; Consumidores; Usuarios; Lectores; Diarios digitales; Cibermedios; Modelo de precios; Industria del ocio.


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1. Introduction

Unfortunately revenues for newspapers have been declining in the US since 1940. After a modest recent improvement, total circulation dropped again in 1994 in the US (figure 1) as well as in Europe (Aede, 2013). No doubt the drop had something to do with the commercial Internet explosion in the mid-90s and also with the 2.0. social web in 2002; social networks, blogs, and other innovations provide access to the news and have significantly affected the media business.

The rise of the Internet and the availability of information for free made everybody wonder: Has the press already reached its peak? Is this news market totally saturated, in decline, or can it grow again?

A number of headlines have forecasted a black future for print media. For example, a sarcastic website, News paper death watch, (figure 2) has announced the death of newspapers every year since 2007. Consultants like Ross Dawson have also forecasted the total death of “paper” in 30 years (Dawson, 2013). However, a more accurate analysis from Turow (2011, p. 116) suggested, “The real problem for newspapers and magazines, though, lies in adapting to the digital realm. The huge availability of content on the web and media’s buyers emphasis on picking up impressions at

### Table 1: Number of daily newspapers, Daily circulation and Sunday circulation

<table>
<thead>
<tr>
<th>Year</th>
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<th>Evening</th>
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Figure 1. World newspaper circulation (2012). Source: Editor and Publisher International Yearbook

http://www.editorandpublisher.com/databook

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the lowest possible cost-per-thousand (CPMs) impressions meant that advertising in a digital environment could not possible support their organizations the way it did in the print sphere”.

With all of the doom and gloom we, the authors, have been wondering if the newspaper business has a chance to be a viable business again: Is the press always going to be primarily dependent on advertising, for better or worse? Is there any chance of new income streams from other sources and other business areas (e-commerce, online marketing, etc.) that would allow newspapers editors to keep quality standards high and maintain newsroom jobs? Or, on the contrary, are we at the very end of the cycle and newspapers have to shrink?

After having reviewed previous theoretical research (Casa-desus-Masanell, Goyanes, Peinado, Casero-Ripollés) we suggest that there may be hope for the newspaper business to rise again. As journalism and communication scholars we are concerned about the sustainability of newspapers themselves; we do not want to think of a future scenario without the press. Accordingly, we have focused on the entertainment industry as a basis for learning how to survive or even thrive when content is available for free online. Consider the increased number of users and growth in revenues by Netflix, Amazon, and iTunes. If newspapers can figure out a way to navigate the digital landscape, there are reasons to be optimistic about the future ahead.

2. The digital consumer segment

As The Wall Street journal reported recently (Fritz, 2014), online streaming and online sales (legal downloads) are growing, and quickly approaching sales of movies on physical DVDs and blu-ray discs (figure 3).

The bottom line is clear: the consumer is now in control. Kevin Spacey, American actor, addressed this issue in the U.K. last year when discussing the House of Cards success:

“Clearly the success of the Netflix model, releasing the entire season of House of Cards at once, proved one thing: the audience wants the control. They want the freedom. If they want to binge... we should let them binge... And through this new form of distribution, we have demonstrated that we have learned the lesson that the music industry didn’t learn: give people what they want, when they want it, in the form they want it in, at a reasonable price and they’ll more likely pay for it rather than steal it. Well, some will still steal it, but I think we can take a bite out of piracy.”

The growth of Netflix and other subscription services is certainly stunning (figure 4). At the end of 2014 Netflix numbered 50 million subscribers

4 of 10 Americans buy newspapers daily, and 4,6 on Sundays  
7 of 10 go to theatres twice a year  
4 of 10 watch daily movies or TV on legal streaming sites  
4 of 10 buy movies sometimes on sites such as Amazon Prime, iTunes

Register for free at https://www.sciencedia.com to download the version without the watermark

Figure 2. http://newspaperdeathwatch.com

Figure 3. Watching the trends, The Wall Street journal

Figure 4. Growth of video services. Source: eMarketer.com

Figure 5. Average of paid-content use (age >18) (Corredoira, Sood, 2015)
According to Corredoira and Sood (2015), paid video streamers, either in transactional or subscription models, number approximately 80 million subscribers. Although the piracy of movies and TV shows is still high, Dahane and Waldfogel (2012) stated: “we do not see evidence of elevated sales displacement in US box office revenue following the adoption of BitTorrent, and we suggest that delayed legal availability of the content abroad may drive the losses to piracy”. Clearly there is a large segment of the population willing to pay for content. Thus, there are avenues for growth even when content is available for free.

When comparing platforms one realizes that news still commands a large market; in the US there is one Netflix subscriber for every two newspaper buyers. Netflix has 44 million users who pay $7.99 a month for unlimited streaming; movies, TV shows, cartoons, and documentaries are included in its library. This is the same price of a weekly subscription to The financial times or The New York times. Since the price point is comparable, the challenge then becomes identifying the right set of consumers and targeting those who are willing to pay (figure 5).

At this point, we suggest there may be a distinct digital consumer segment for newspapers to target (García-De-Torres, Edo-Bolós, 2012). This digital consumer actively seeks out content online and is willing to pay for content. In fact, these consumers over index on consuming content online as shown below (figure 7 and 10). If you examine the correlation between the consumption of premium content by users and the use of various platforms and/or devices, our contention is that a digital subscriber is more likely to buy newspapers and vice versa (Picard, 2006).

Pay particular attention to the streamers activities and the frequency which US TV viewers watch digital video content (by age) (figure 8).

If this digital content consumer segment exists and they are willing to pay for newspaper content, then one way to find these consumers is to target those consuming other forms of entertainment. TV series (such as Downtown Abbey, Lost, or Homeland), blockbuster movies (The lord of the rings, The hunger games, or Harry Potter) or entertainment events...
If the newspaper industry had theme music in 2013, it might use “Been down so long it looks like up to me” the much-recycled line from a 1920s blues song (Edmonds et al., 2013). Stated.

Data released by the Newspaper Association of America (NAA) in February 2014 showed 2013 gains in Alliance for audited media (AAM) total circulation due to the success of digital subscriptions (figures 12 and 13):

“Average daily combined circulation increased 3 percent compared to the same period a year ago for the six-month period ending Sept. 30, 2013. The gain is based on an NAA analysis of the 541 daily newspapers reporting to AAM for comparable periods. The bottom-line increase was driven by substantial gains in digital circulation among the largest newspapers and more moderate losses in print circulation among the smaller circulation newspapers.”

“Average Sunday circulation for the 508 newspapers reporting for both periods increased 1.6 percent from last year. The gains were due to increased reporting of branded editions and digital non replica circulation by the largest newspapers. Among the 541 newspapers reporting for the period, 120 reported an increase in total daily circulation for the six-month period, while 112 newspapers were up in total Sunday circulation. In both cases print losses were offset by increases in digital copies and

(concerts or opera) are good examples of online opportunities where editors could target new consumers who may be newspaper readers, subscribers, or pay-per-view readers.

As shown (figure 9), music and sports are also two significant markets. Pandora and Spotify have 3.5 million subscribers; if we add iTunes users, the NFL, soccer leagues, MLB, and the NBA series there are millions more prospects.

As the Ho-lywood reporter said (Arnold, Thomas K., 2012):

“As of Sept. 30, 2012, consumers this year have spent an estimated $12,342,020,000 on home entertainment, up from $12,215,030,000 in the same period last year”.

2.1. Implications for the newspaper industry

According to the Newspaper Association of America, young adults (18-34) are still reading newspapers. The growth in the industry appears to be in digital, and this digital consumer is in the younger age bracket. According to the last data available (referred to 2012) 44 million newspapers are sold in the US daily and 48.5 million Sunday editions. The average readership increased in 2013, rising to 95 million daily and 108 million on Sundays.

For digital journalism there was also good news reported in May 2012 by Paynter.com:

“Audit Bureau of Circulations (ABC): Newspaper circulation rose in the previous six months by 5% on Sundays. On average, digital circulation now accounts for 14.2 percent of newspapers’ total circulation mix, up from 8.66 percent in March 2011. Digital circulation may be tablet or smartphone apps, PDF replicas, metered or restricted-access websites, or e-reader editions.” (Beaujon, 2012)
branded editions. Supporting this point, it appears that digital and bundled services are the fastest growing areas in the newspaper industry.8

In order to attract the younger demographic and grow subscriptions further, newspapers could mimic the behavior of the entertainment industry and move away from strictly paid services. On February 6th 2014 Times CEO Mark Thompson said9:

“There are now roughly 760,000 people paying to read the Times and its international edition on the web and mobile devices. But the subscriber momentum has slowed since the program was rolled out in March 2011, and the Times is developing new subscription options to achieve scale while also expanding overseas.”

Another business model may exist if newspapers focus on reach. According to the latest available data released by Alliance for Audited Media (AAM), the Wall Street Journal (WSJ) is the first US newspaper in paid circulation (2.27 million) although USA today is now number one in yearly circulation average thanks in-part to free mobile apps that supply access to the digital newspaper. As shown in figure 14, USA today does not separate the numbers for their digital and print publications, making comparisons between the top circulating newspapers difficult.

Many experts (Edmonds et al., 2013) see the newspaper market as stabilizing, but still threatened. Circulation initiatives are slowly rebalancing the industry’s reliance on advertising over circulation as a revenue source. It will be some years until the industry comes close to an international norm. The industry might consider what was implemented in 2012 by The New York times, a 50/50 circulation/advertising split (a small percentage of revenue also comes from other sources)10.

2.2. The mobile opportunity for content industries

One area where the newspaper industry could actually hold an advantage over entertainment is in the mobile phone segment.

According to SenseMaker11 and our research on audiovisual content:

“media consumption trends continue to change rapidly, particularly by the increase today in mobile technology use. Scarborough’s extensive population allows researchers to look at the audience of different media sources across platforms”.

Figure 14. Circulation of main US newspapers. Source: Companies reports, Alliance for Audited Media (AAM).
The vast majority of US adults, 164 million (69%), read newspaper media content in print or online in a typical week, or access it on mobile devices in a typical month.

The majority (59%) of US young adults, ages 18-24, read newspaper media content in print or online in a typical week, or access it on mobile devices in a typical month.

The mobile newspaper audience in the US is growing fast; up 58% in an average month in 2012 compared with 2011. That totals 34 million adults.

The US mobile audience skews young; the median age of an adult newspaper mobile user is 17 years younger than the print reader.

Those who are newspaper mobile-exclusive — that is, who access newspaper content on mobile devices only — are younger by four more years (with a median adult age of 33). That audience grew by 83% in the US in 2012 compared with 2011.

Overall, the total newspaper media audience in a typical week (excluding mobile) dipped 2% in 2012 from 2011, a change in line with television media and less than radio.

When the mobile audience is included, through data that are collected monthly, the decline in total newspaper audience is cut by more than half to less than 1%.

These data points do not reflect the spike in sales for mobile devices in the past six months. It is likely that when new Scarborough data become available later in the year, the mobile component of the newspaper media audience will show continued growth.

In fact, recent reports (DigitalSmiths, Accenture) revealed that news content is in the top preferences for consumption among smartphone users.

In addition, among the streamers the most viewed content for mobile devices is video, user-generated content (UGC), TV, and in fourth place is news.

As Mojiva’s CEO, David Gwozdzstated in 2012 and the Home Entertainment Tracker Report pointed out in 2013, the likelihood of users paying for news sources among those who own mobile devices is high (figure 18), especially among tablet owners (20% of them).

US viewers who use tablets and smartphones to watch digital video prefer the larger screen for movies and TV shows and the smaller one for shorter-form content such as user-generated clips, news, and music videos, according to a study (Rovi Corporation, 2013). This data underscores the importance viewers attach to screen size when it comes to premium content.

3. Lessons from the entertainment industry

As we have said before, a newspaper has to identify the right set of consumers and target those persons who are willing to pay. There are lessons we have learned from the entertainment industry in the US which can be used to “package” the news product.

3.1. Lessons about user’s care

Consumer and flexibility

What really matters is the consumer. In this regard, we note how some entertainment providers have improved user policies for subscribers (Amazon Prime, Hulu Plus), which includes the possibility of upgrading services. One good example from streaming media is Netflix’s four screens option for just $4 month more. This type of usage flexibility is convenient for clients who
have several devices in different locations and want the same subscription to simultaneously stream content. This flexibility allows the user to decide when and how to see, read, and listen to their favorite programs.

**Availability**

Availability is the keyword for online content. New agreements must be made with industry partners that allow innovative methods for availability (i.e. *House of Cards Season 2*) where pricing and usability allow the consumers to control when and where they consume the news.

**Usability**

Another important lesson we can learn from the success of audiovisual online distribution is the variety of platforms (*Netflix* and *iTunes* work on Windows, Apple, Google, etc.) and even though the competition among them is high, the interface among different platforms is compatible —users don’t need extra plugins or software.

**Pricing**

Price has been a competitive advantage in the success of platforms like *Amazon Instant Video*, not to mention *Netflix* subscription services. According to IT blogger and professor Enrique Dans (2014), pricing structure is important in the struggle against piracy. We not only agree (Corredoira, 2011), but we also believe price has been a competitive advantage in the success of platforms like *Amazon Instant Video* and *Netflix* subscription services. Consumers have many entertainment choices in the US, and the costs of each option are shown in Figure 20.

The current unit price and volume of newspapers sold barely covers the production cost of a single edition. However, new pricing could be developed. News online could be bundled with other services, enhanced for content, or extended for free trial periods. Portals like *Netflix* and *VUDU* (similar to *Youzze* or *Wuaki TV* in Spain) have attracted new customers this way and they have successfully reached their niche market.

3.2. Lessons about copyright flexibility and payment

**a) New copyright licensing**

Similar to the fluidity of distribution in the movie industry, a new licensing system is needed to release movies and TV shows faster.

The newspaper industry should not be afraid to lose some rights. The entertainment industry now manages producer and artist rights in a more flexible way without losing all their rights and royalties. All stakeholders are going to win if more movies, newspapers, and music are purchased or rented.

**b) Payment models**

The entertainment industry allows users to buy or rent a video a la carte (*video on demand, IVOD*) or pay a monthly subscription for unlimited content (*Netflix* or *Amazon Prime Video*). Users may cancel their subscriptions easily. News-
papers should explore various models for online access and use the entertainment industry as a model. Online access to one product can generate consumer interest in another, for example, one-click by Amazon; Amazon Prime Instant Video ($79 per year); and Netflix trial period are good “hooks” to grab consumer attention and entice additional transactions.

c) Extend the life of the product

The life cycle of a movie or TV show is much longer than newspapers; printed newspapers are “ephemeral”, meaning they last just one day, but online their value doesn’t end after the last edition is printed and sold. On the contrary, thanks to the digital transition, when a reader turns on a tablet or connects to an app, no matter the time of the day, the newspaper is accessible. Digital journalism brings 24/7 availability—users can access the newspaper is accessible. Digital journalism brings 24/7 availability—users can access digital newspapers; so it is still a commodity delivered within a day, and can be part of a database later.

We suggest newspapers could be the new encyclopedias, the “silos” students could refer to for their homework, or source material for professionals to validate their assumptions and be more culturally literate. Everyone loves Wikipedia, but professors would prefer to see students quoting past issues of newspapers.

3.3. Lessons on multiproduct experience

To be in the new living room

In the “new living room”, users enjoy movies and TV shows on various devices like the television, tablet, or smartphone, and from various sources like cable or Netflix. Considering the aging population, there may be users who would prefer reading multimedia articles or renting video clips or audio from digital newspapers.

Bundling

We think outside the box, the options for bundling services are endless. Options might include packaging newspaper and TV series together or a newspaper subscription along with ten ebooks. Experiences such as Amazon’s Newsstand, iTunes TV catalogue, and the Orbyt (paid digital brand of El-Mundo.es) have merged a variety of media audiences that were traditionally different. This is just the beginning of the definitive digital transition.

Glamour, branding

*House of Cards* is a good example of an innovative television production garnering awards and attention. *Hulu* and Netflix are intentionally “packaging” movies and TV series to be attractive for moviogers.

Conclusions

We are under a new paradigm of media, production, and distribution of content. As *Tobaccola* says in Turow (2012):

“No now, we’ve got this explosion of content flying around: distribution is disaggregated from content, and everything is moving fast. So media firms are trying to re-aggregate their ability to reach audiences, but now with mass customization.”

Two examples of this new paradigm are *Yahoo! Politics* (Turow, 2011, p. 117) distributing a video created by the Washington post and Google pointing to a *The New York times* paper. Although separate production and distribution was in existence before the rise of digital, now it has become the norm. Today’s users don’t want to be just buyers of legacy periodicals; they want personalized and relevant content at their fingertips.

Following is our methodology which is based on three business models (figure 21) - a la carte models, subscription, models and pay TV with free access-. Our estimation is that this model could be adapted by the press.

<table>
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<th>Transactional</th>
<th>1. A la carte</th>
<th>2. Micropayments</th>
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<td>Per news</td>
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<tr>
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<td>Per day</td>
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<tr>
<td>Paper + music + video</td>
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Figure 21. News services types

We conclude that although the initial outlook for newspapers may be bleak the future looks more promising upon closer inspection. One lesson that can be learned from the entertainment industry is that there is life after content becomes free online. There may be an unexplored segment of digital content consumers which would allow future growth in digital newspapers. These consumers are easy to identify—they are subscribers to digital services such as Netflix and Spotify. The key assumption is these digital consumers have a voracious appetite for content in all its forms and they want to be in control of when and how they consume that content. As discussed, there is at least some preliminary data that supports this assertion.

Digital mobile devices are considered because many consumers already prefer to read news on a mobile device. If the industry can expand rapidly into the mobile market, there may be a way to grow as evidenced by the success of the USA Today app. Granted the future is uncertain, but hopefully there is a fruitful digital road ahead.

Acknowledgement

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Notes

1. Presented at 15th Intl symposium on online journalism, UT Austin, USA, 2014. We appreciate specially deep comments on it from prof. Pennelope Muse Abenarthy, Knight Chair in Journalism and digital media economics (Chapel Hill, NC) as well as interviews hold with Marty Baron, Washington Post Editor; Caroline Little, NAA Chair; and Juan Angulo, former Warner Bros Spain CEO, which have enlighten our conclusions.


Who killed the newspaper? The economist, 2006.
http://www.economist.com/node/7830218


4. PriceWaterhouseCooper. Outlook for the global sports market about incomes, media rights and sport internationalization. North America is the largest region with US$ 49.9 billion or 41% of global revenues in 2010. Projected to grow at 4.0% CAGR (compound annual growth rate) to 2015. Gate revenues are the largest sector at 31.4% in 2010. Sponsorship is the fastest growing sector to 2015 at 6.1%.

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