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The Advent of Digital  
News in the GCC  
*Newspaper Publishers'  
Path to Winning*



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**Contact Information**

**Beirut**

**Gabriel Chahine**

Partner

+961-1-985-655

[gabriel.chahine@booz.com](mailto:gabriel.chahine@booz.com)

**Düsseldorf**

**Thomas Künstner**

Partner

+49-211-3890143

[thomas.kuenstner@booz.com](mailto:thomas.kuenstner@booz.com)

**Dubai**

**Karim Sabbagh**

Partner

+971-4-390-0260

[karim.sabbagh@booz.com](mailto:karim.sabbagh@booz.com)

**Milan**

**Luigi Pugliese**

Partner

+39-02-72-50-93-03

[luigi.pugliese@booz.com](mailto:luigi.pugliese@booz.com)

**Jayant Bhargava**

Principal

+971-4-390-0260

[jayant.bhargava@booz.com](mailto:jayant.bhargava@booz.com)

**Munich**

**Gregor Vogelsang**

Partner

+49-89-54525-590

[gregor.vogelsang@booz.com](mailto:gregor.vogelsang@booz.com)

**Amer Lahham**

Senior Associate

+971-4-390-0260

[amer.lahham@booz.com](mailto:amer.lahham@booz.com)

**New York**

**Christopher Vollmer**

Partner

+1-212-551-6794

[christopher.vollmer@booz.com](mailto:christopher.vollmer@booz.com)

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## EXECUTIVE SUMMARY

*In the near future, print newspapers in the Gulf Cooperation Council (GCC)<sup>1</sup> region will reach an inflection point at which they will begin to lose significant share to digital media. The regional migration to digital thus far has been limited by several factors—specifically, a lack of rich digital content from traditional media companies; relatively low penetration of digital devices; and infrastructure issues such as low broadband capacity and download speeds on fixed networks in certain countries. However, these limitations will begin to disappear in the next couple of years. A Booz & Company survey shows that three-quarters of respondents with broadband access have decreased or stopped their consumption of print news, or plan to do so in the next two years. As a result, maintaining the status quo is no longer an option for publishers.*

Before the peak migration of readers to digital, GCC publishers must rationalize the resources currently allocated to traditional print businesses. Immediate initiatives include optimizing editorial resources in traditional print functions, and outsourcing or consolidating capital-intensive functions such as printing and distribution. These initiatives will create leaner organizations that are better able to absorb the expected decline in print revenues. The resources saved in these efforts should be reallocated to building capabilities in digital content and ad sales.

As the migration to digital reaches an inflection point, print publishers must invest in infrastructure and brand awareness, and develop offerings such as applications, products, and services for readers. They will also need capabilities for distribution on mobile devices, along with search and social media, as those platforms become more prevalent in the region. However, publishers must first determine where and how to play in the digital media value chain. The ultimate goal is to differentiate editorial content, develop new business models, and diversify revenue streams beyond traditional print publications.

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## A SHIFT FROM PRINT TO DIGITAL IS INEVITABLE

Print newspaper publishers in the GCC region now stand on the edge of a major shift that will transform their businesses—the evolution from print media to digital. The market has already stagnated for traditional publishers, and the inflection point at which digital consumption of news exceeds that of print is likely to arrive in the next few years.

For a glimpse of the future, publishers in the region need only look at the experience of print-focused media companies in more developed Western markets such as the U.S. and Europe. In these environments, the global recession acted as a catalyst to structural shifts in consumption and spending already under way, by cutting deeply into advertising revenue as the Internet lowered the barriers to entry for media outlets and increased the competition for audience attention. Readers have migrated to digital news, and marketers have adopted digital strategies as well. Many have scaled back their advertising in traditional print formats to devote a larger portion of resources to in-house media such as corporate websites, in-store marketing, loyalty programs, social media, and word-of-mouth

campaigns, many of which are facilitated by digital technologies.

Although the recession is a cyclical factor that has already begun to ease, the migration of both consumers and marketers from print to digital is not. Overall print circulation in the U.S. and Europe has fallen substantially over the past five years, and even the most optimistic executive can hope merely to slow the loss of readers, rather than to increase their numbers. The loss of readers has, naturally, resulted in loss of ad revenue: Worldwide, the global ad spend market on newspapers shrank by 3 percent in the first half of 2010 compared to the first half of 2009; during the same period, ad spend on digital grew by 8 percent.<sup>2</sup>

Examples abound highlighting the challenges for news-focused print publishers. In the U.K., two tabloid papers, the *Daily Express* and the *Daily Mirror*, have lost roughly two-thirds of their circulation in the last 25 years. One marketing study in the U.K. found that since 2009, more advertising money in the country has been spent on the Internet than on newspapers.<sup>3</sup> In the U.S., print newspapers lost 10.6 percent of their

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paying readers in just one year, from 2008 to 2009.<sup>4</sup> The New York Times Company took such measures as selling a stake in its new US\$600 million headquarters building in Manhattan in order to raise cash, and made significant changes to the newspaper format and size to reduce costs. Tribune Company, which owns the *Chicago Tribune* and the *Los Angeles Times*, filed for Chapter 11 bankruptcy protection in December 2008. By that point, the staff at the *Los Angeles Times* had been cut to half its 2001 level.<sup>5</sup>

Although these are unsettling precedents, they need not be repeated in other markets. In fact, they offer GCC publishers some lessons to exploit. Although the inflection point at which print begins giving way to digital has not yet arrived in the

GCC region, it is clearly coming, and maintaining the status quo is no longer a sustainable strategy. Even as the global economic situation begins to stabilize and improve, traditional media players cannot expect a return to prerecession growth rates. In short, they must prepare for the inevitable or risk losing share of their existing revenues.

There is a parallel in history. When television was first introduced, many people predicted the death of radio. Some 60 years later, radio is still a strong business, although one with a much smaller market share than it held before the advent of TV. For newspaper publishers, the message is clear: They will lose some share during the shift from print to digital, but they can recoup that share by moving to the digital platform along

with readers and marketers, and thus seek to maintain overall profitability at the enterprise level.

This Perspective outlines steps that GCC publishers can take both before and after digital media take sizable share from print. Our analysis uses three countries as benchmarks for the GCC as a whole: Saudi Arabia, the United Arab Emirates (UAE), and Qatar. Over the next couple of years, we recommend that publishers in the region undertake a series of preparatory measures to revamp their organizational structure, freeing up cash and other resources that can be reallocated to digital initiatives, and thus better aligning their capabilities with the needs of the market. As publishers get closer to the inflection point, they should adapt their content offerings and revenue models.

*Although the inflection point at which print begins giving way to digital has not yet arrived in the GCC region, it is clearly coming.*

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## BARRIERS TO DIGITAL NEWS CONSUMPTION ARE FALLING

Print publishers in the GCC may take some comfort in the fact that they have thus far been spared the fate of their peers in other markets. Since 2007, media analysts have been predicting that the inflection point between print and digital would come soon, as broadband penetration rates in the region continued to rise and catch up with those of more developed media markets.

However, in hindsight this argument has not held up. Broadband penetration is already high enough in the UAE, Qatar, and Saudi Arabia to make it comparable with Western countries'. The UAE and Qatar currently have fixed broadband penetration rates of more than 80 percent, which is comparable to the U.K.

and higher than the U.S.; the UAE's mobile broadband penetration is the same as South Korea's, and higher than that of the United Kingdom or the United States. In Saudi Arabia, mobile broadband penetration closely tracks that of the U.S., and although overall fixed broadband penetration is relatively low, at approximately 30 percent, anecdotal evidence points to much higher mobile and fixed broadband penetration rates in the three major cities of Jeddah, Dammam, and Riyadh—which account for 90 percent of the country's total ad market.

However, despite the deep broadband penetration in key markets, the print media business in these markets has been able to withstand the threat of digital migration. Newspaper publish-

*Three factors have thus far hindered the shift to digital: limited digital news content, a lack of digital devices, and inadequate fixed broadband infrastructure.*

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ers in Qatar, Saudi Arabia, and the UAE sold an aggregate 3.23 billion copies in 2010, an increase of roughly 2 percent per year over 2008.<sup>6</sup> In Saudi Arabia, print newspapers have penetration rates exceeding 70 percent of the reading population.<sup>7</sup> Print advertising has remained strong as well. Newspapers in Saudi Arabia had a 54 percent share of total net ad spend in 2010. In short, GCC consumers and marketers still use traditional print media, despite growing broadband accessibility.

Why was the conventional wisdom about the timing of the transition to digital incorrect? Three factors have thus far hindered the shift: limited digital news content, a lack of digital devices, and inadequate fixed broadband infrastructure. But the next few years will bring changes in each of these areas.

#### **1. Limited Digital News Content**

Because CNN, the BBC, Al Jazeera, and Al Arabiya are now offering free

international and regional news on their Arabic websites and tablet applications, the real value of newspapers remains in national and local news content. However, newspapers in the GCC region have not yet capitalized on their local advantage by creating a digital presence that is differentiated from the newspaper format through a rich user experience that incorporates multimedia and other innovative offerings.

Except for a few notable exceptions, news publishers in the region view digital as a mere extension of traditional print rather than as a stand-alone platform. The result is an overall shortage of compelling digital content.

Another reason for the shortage is a lack of competition: The region's traditional media publishers are not yet contending with high-quality independent digital properties that offer local and national news free. In mature markets, the entry of such players has driven down the value of basic, non-exclusive news, leaving print

newspapers unable to justify charging for such news. Print newspapers will be compelled to move to digital platforms to compete head-on with such properties once they have a presence in the region—thus creating a larger overall pool of digital content.

Another factor that has an impact on the supply of digital content is lack of accessible capital. Many publishers in the region favor cash preservation right now, and they may need hard-to-secure financing options to develop and launch digital assets. The recession has suppressed the advertising market, choking off revenue that might be used to finance new ventures. In addition, many newspapers are part of larger conglomerates, in which capital is being funneled to areas of higher priority—and potentially higher profit.

Finally, the lack of digital content stems from a lack of urgency to create it. Thus far, circulation and ad revenue have remained relatively steady

in the region, offering publishers little incentive to disturb the status quo.

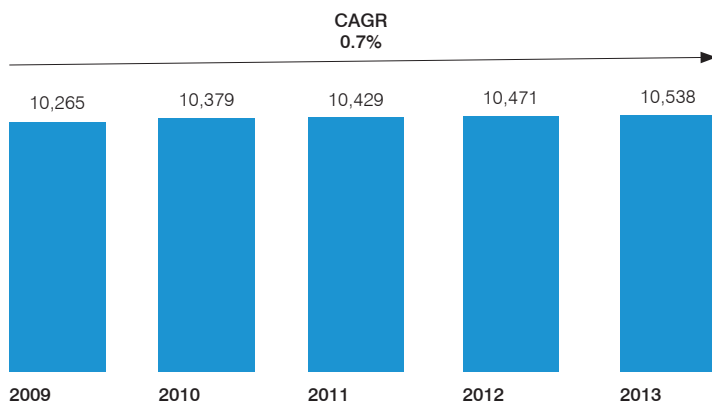
However, all these factors will be undermined by the trends of the next few years. Once international news outlets with a strong track record of digital innovation—such as CNN, the BBC, Bloomberg, Al Jazeera, Yahoo, and Al Arabiya—localize their content, possibly through syndication or even citizen reporting, traditional print publishers in the region will face real digital competition for the

local news audience. This is likely to cause newspaper readership to fall or, at best, stagnate. For example, in Saudi Arabia, we expect newspaper readership to stagnate between now and 2013, with no tangible growth in new readers (*see Exhibit 1*). Considering that a burgeoning youth population will come of newspaper-reading age during this time, this stagnation is particularly problematic. Newspaper publishers will be forced to respond with more and better digital content.

The continuing emergence of social media will also spur demand for online content and push publishers to respond. The GCC had more than 5 million Facebook users as of May 2010.<sup>8</sup> These users may begin using social media for a variety of reasons: to connect with friends, to stay abreast of events, or—as in the recent wave of protests across the Middle East and North Africa—to become politically active. But once users are on social media sites, they frequently find links to articles and

**Exhibit 1**  
*Newspaper Readership in Saudi Arabia Will Stagnate in the Coming Years*

**SAUDI ARABIA NEWSPAPER READERSHIP LEVELS  
(IN THOUSANDS OF READERS)**



Source: World Association of Newspapers; World Broadband Information Service; *Arab Media Outlook, 2009–2013*; Booz & Company analysis

other resources, and thus begin using the sites as content aggregators. In fact, social media sites have now become leading traffic referers, rivaling search and other major sites; Facebook is currently the top driver of global traffic for major news and entertainment portals.<sup>9</sup>

Finally, the growth of digital advertising will also spur the creation of more

digital content, leading to a virtuous circle in which advertising chases audiences and vice versa, giving cash-strapped publishers the ability to finance new digital ventures. This will help replace the significant advertising revenue that will be lost from print in the next several years; for instance, in Saudi Arabia, the region's largest ad market, newspapers' share of total ad spending, which was 55 percent in

2009, could drop below 50 percent by 2013 (see Exhibit 2).

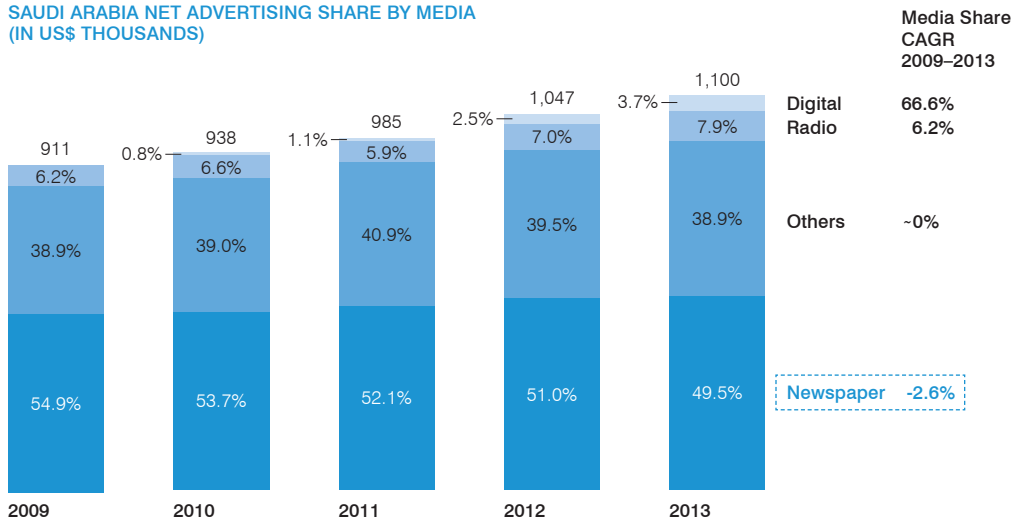
## 2. Few Digital Devices

A second reason for the slow migration to digital content is the relatively low penetration of digital end-user devices in some key GCC markets. Mobile devices, in particular, drive news consumption by offering access anywhere, anytime, thereby enticing

### Exhibit 2

The Overall Ad Market in Saudi Arabia Is Growing, But Newspapers' Share of It Is Falling

SAUDI ARABIA NET ADVERTISING SHARE BY MEDIA  
(IN US\$ THOUSANDS)



Notes: Net ad spend analysis is based on industry interviews and Booz & Company analysis.  
 "Others" includes outdoor, TV, and magazines. Newspaper assumed gross to net discount rate is 36.3%.  
 Source: Market interviews, Zenith Media, World Broadband Information Service, Booz & Company analysis

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users who might not have accessed news in print or even via the stationary options of desktop or laptop computers. On the behavioral front, advances in technology are making smart devices more appealing by bringing them closer to newspapers in their physical form. Apple's iPad is a case in point—almost all critics and consumers agree that the device successfully replicates the print experience, and in some cases actually begins to improve upon it with a mix of text, photos, videos, and other interactive elements.

However, smartphones are not yet prevalent in the region; penetration rates are roughly 15 percent in the UAE and 11 percent in Saudi Arabia, compared with more than 50 percent for the U.S. and western Europe.<sup>10</sup>

But this is another barrier to digital news consumption that is likely to fall. Smartphone penetration is expected to grow by a healthy 11 percent over the next three years in both Saudi Arabia and the UAE. This growth will be

partially driven by a burgeoning young demographic entering the workforce and earning enough money to buy these devices: Roughly 16 percent of the Saudi population is between the ages of 20 and 24; in the UAE, 13 percent of the population falls into this category.<sup>11</sup>

As the price of smartphones and tablets continues to fall and mobile 3G networks offer widespread access, the potential consumer base for digital devices will grow, and it will create a larger audience for digital content.

### 3. Inadequate Fixed

#### Broadband Infrastructure

Fixed broadband in the region remains relatively slow, with limited capacity. This has created a barrier to the adoption of digital news content because fixed broadband is still the predominant channel through which readers consume digital news in the GCC: An average of 52 percent of respondents access the Internet via fixed broadband, according to a Booz & Company survey of newspaper

readers conducted in February 2011 (see "Snapshot of an Evolving Industry," page 10). A recent study quantified download speeds for countries around the world and found that South Korea had the most robust broadband network, followed by Japan. The UAE, Saudi Arabia, and Qatar were fairly far down the list, with download speeds that are just one-fifth as fast as in those in Korea (see Exhibit 3).<sup>12</sup> Such speeds are below the industry standard of 10 megabytes per second (Mbps) that is required to enjoy multimedia offerings including photos and slideshows, streaming high-definition videos, a DVD download, or even a music album.

But this final barrier to the adoption of digital content is also under siege. Regulators and telecom operators have plans in place to increase both the speed and capacity of broadband in major GCC countries. In Saudi Arabia, the government plans to offer broadband service with a minimum

speed of 1 Mbps to 95 percent of the population by 2015. Saudi Telecom Company is rolling out fiber across the country, and has already installed fiber-to-the-home (FTTH) service with speeds of up to 100 Mbps in parts of Riyadh, Jeddah, Dammam, and Al Madina. The UAE is farther along in deploying FTTH technology, spearheaded by Etisalat—all houses in the country will be connected by the end of 2011. And Qatar’s

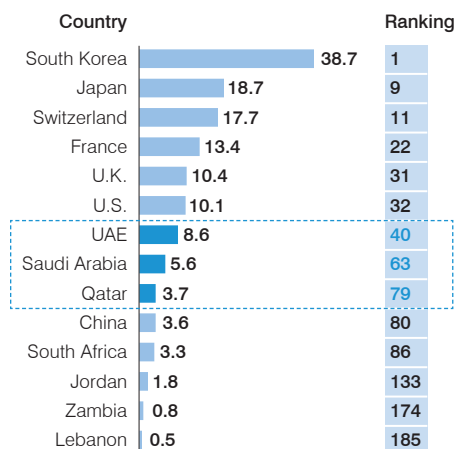
government is currently working with ictQatar, Qtel, and Vodafone Qatar on the deployment of a national broadband network.

Telecom operators are investing in mobile as well as fixed broadband, which will have important implications for publishers. In the UAE, for instance, wireless providers Etisalat and du are performing trials of 4G mobile broadband. The Booz & Company

survey of newspaper readers offers an indication of what is to come for publishers as mobile access becomes more prevalent: Of the respondents who had access to mobile broadband, 89 percent said they consumed news on their mobile devices. The possibility that the majority of news readers will eventually access content on mobile devices changes the game for the entire industry.

**Exhibit 3**  
*Download Speeds in the Region Are Significantly Slower Than in Other Markets*

**AVERAGE FIXED BROADBAND DOWNLOAD SPEED, 2011  
(IN MBPS)**



Source: Speedtest.net; Booz & Company analysis

## Snapshot of an Evolving Industry

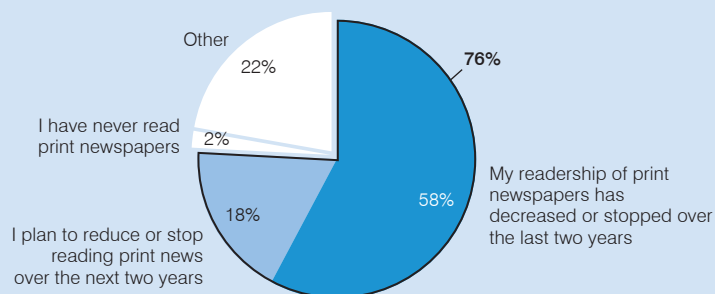
To better assess the ways in which news print media is being affected by digital technology, Booz & Company recently conducted a survey of news consumers in the GCC. The survey drew responses from 523 self-described news readers, spread fairly evenly across five urban markets in the UAE and Saudi Arabia: Dubai, Abu Dhabi, Dammam, Riyadh, and Jeddah. Because the survey was conducted online, its findings reflect an inherent bias in favor of digital media and toward younger consumers, who tend to be more active technology adopters than older people. (Some 79 percent of respondents were between 18 and 35 years old.) However, our purpose was not only to determine how quickly media consumers are shifting away from print and toward digital, but also how they will spend their time and money once they have made that transition.

Among our key findings: Of the wired consumers with fixed or mobile broadband (or both), approximately 40 percent still choose to read a print newspaper. We also found that print's resilience is driven primarily by behavioral factors. Survey respondents said that reading a physical newspaper is a habit, or that print copies are more accessible than content available online, or that they simply like the feel of a newspaper. That's the good news for publishers.

The alarming news is that nearly 76 percent of respondents with broadband access had either decreased or stopped their consumption of print news already, or planned to in the next two years (see *Exhibit A*). "On-the-go" consumption is rapidly picking up pace. About 89 percent of survey respondents with mobile broadband access already read news using their mobile devices. Overall, a large-scale shift away from print is clearly coming. And although some news consumers will always prefer to read a physical paper—just as some people still listen to the radio despite the advent of television and other media—that audience will soon be a significant minority, and publishers will have no choice but to reach their readers en masse through digital media.

### *Exhibit A* Respondents with Broadband Access Have Scaled Back on Print News or Will Do So

How has your readership of print newspapers changed over the last two years, and how do you expect it to change in the next two years?



Note: The survey base for this question consists of those respondents who access news in print, online, or via mobile phone (Total: 401).  
Source: Booz & Company News Readership Survey, February 2011

Even more ominous, 74 percent of respondents said they were not willing to pay for content. Just a small sliver (roughly 10 percent) said they were willing to accept pay-as-you-go charges based on the amount of content they accessed, and a similar proportion of respondents said they would pay for exclusive content in categories such as breaking news and sports.

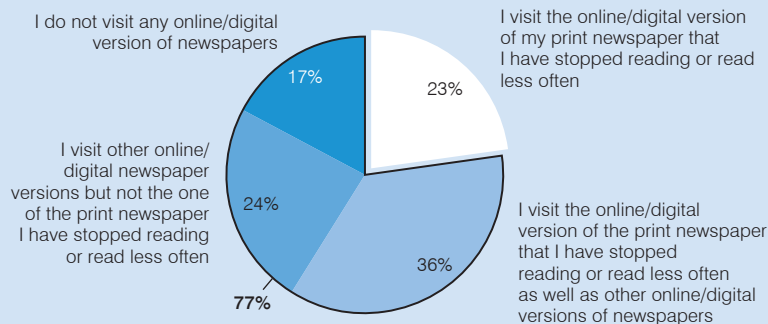
Finally, of the news consumers with access to broadband, only 23 percent said that they were going online specifically to read the digital version of their favorite print newspaper (see *Exhibit B*). The digital media market is far more competitive than its print counterpart, with many more sources of information, and no switching costs for consumers. As a result, publishers will find themselves going up against not only other newspapers but also players in other media. These new competitors may be the digital offerings of international television brands such as Al Jazeera, CNN, the BBC, and Al Arabiya, as well as other online-only news sites (AMEInfo), digital media portals (Maktoob, MSN Arabia), major aggregators (Google and Facebook), and telecom operators (SMS services by Etisalat and STC). Such competition should be especially fierce when non-newspaper players start offering local and national news to their readers, essentially competing on the basis of the newspapers' last advantage.

What can publishers do in the face of this threat? One strategy is to devote resources to developing their subscription base, instead of single-copy sales. Among respondents with current subscriptions to print newspapers, more than 60 percent said that they had no plans to cancel those subscriptions in the next 18 months. In the next few years, before readers shift from print news to digital in large numbers, publishers can expect their subscription revenue to remain fairly resilient.

However, this does not represent a long-term strategy for success. Publishers that wish to continue to compete for news consumers have few choices. They must optimize costs in their traditional print operations, reallocate those resources to digital capabilities, and create compelling digital offerings that can attract and retain readers.

**Exhibit B**  
**Newspaper Readers Branch Out as They Go Digital**

Which of the following describes your current habit?



Note: The survey base for this question consists of those respondents whose readership of print newspapers has decreased or stopped (Total: 234).  
Source: Booz & Company News Readership Survey, February 2011

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## SHORT-TERM PRIORITIES FOR GCC PUBLISHERS

News publishers in the region are fortunate that unlike their counterparts in mature markets, they will not be surprised by the advent of digital news. In fact, they have an opportunity to see what is coming and prepare accordingly. Top priorities for GCC publishers in the next couple of years fall into two categories: reallocating resources from traditional to digital media by optimizing costs and improving ad sales performance, and using these reallocated resources to build capabilities in digital content and ad sales.

### Optimizing Costs and Improving Ad Sales Performance

GCC print publishers currently have substantial room for cost optimization. Although they must prepare for the transition to digital by making immediate structural changes to ensure that their organizations are lean and ready, the fact that they have not had to take such measures in the past means that they can make fairly big gains quickly. Before the recession, newspapers in the GCC enjoyed margins of 20 to 25 percent, higher than anywhere else in the world. With constrained competition, the print environment

allowed publishers to build up large organizations simply because the market could support them. Now that these players will soon face new competition, they should prepare by creating leaner organizations that will be better able to absorb the coming loss of print revenue.

Many newspapers and magazines in Western markets have already begun this process. However, in general, they have erred on the side of caution, limiting themselves to one or two rounds of 10 to 20 percent annual cost reductions. Those have simply not been sufficient to offset the recent declines in revenue from lost subscriptions and advertising declines. Stronger measures are needed.

For example, in the editorial function, publishers should explore means of sharing content across “sister” publications; integrating newsrooms and editorial staffs across publications; and developing more centralized, outsourced, or offshored editorial capabilities, including production for magazines and the generation of specialized content such as analysis for newspapers. They can also cut

*Newspaper publishers should create leaner organizations that will be better able to absorb the coming loss of print revenue.*

down on the overstaffing that results from models in which reporters are “stationed” in key news centers or assigned to narrow topics. Instead, they can consider freelance or contracting models, as well as the judicious use of news agencies.

Some Web-only publications offer a more dramatic model for reducing the cost of generating content. For example, About.com (part of the New York Times Company) uses paid external contributors rather than in-house staff for much of its content, turning fixed costs into variable costs. Other sites, such as the Huffington Post, do not pay very much at all for content; with the exception of a few high-profile editorial hires, the Huffington Post relies primarily on outside contributors looking to drive traffic back to their own blogs or websites.

In addition, editors should embrace, not shun, user-generated content. Some smaller newspapers, such as the *Tallahassee Democrat*, have begun to acquire local sites with high traffic and “reverse publish” their bloggers in the daily newspaper. This model reduces the cost of content, even as it enhances audience engagement.

Regarding distribution measures, options abound. The *New York Times*, for example, reduced the

number of physical sections of the newspaper, combining the sports and business sections, which reduced printing and distribution costs. The *Detroit News* eliminated home delivery a few days each week, betting that the reduction in advertising on those days would be more than offset by the costs saved.

Another venue in which to significantly reduce costs is printing, an asset-intensive process with high capital and operational expenses. Ideally, the news print industry would consolidate print shops, sharing a single set of assets and increasing the leverage on such assets. In the absence of a coordinated industry effort, however, individual newspapers should explore divesting their print shops and outsourcing the process.

There is also significant opportunity to evaluate ad-sales effectiveness, through category and account management. Publishers should conduct a thorough review of all major categories and compare existing clients with the universe of potential new clients within those categories to determine where untapped revenue opportunities lie. One effective way to capitalize on such opportunities is to launch supplements on specific topics, such as automobiles, to attract advertisers

from under-penetrated categories. In addition, publishers should look at incentives for the sales staff, with an eye to realigning them to the revised strategic goals in a digital market. Finally, publishers should consider their rate card and discount structure, to determine whether their pricing is consistent with the new realities of the market.

#### **Developing Digital Capabilities in Content and Ad Sales**

The money generated by the measures above should be reallocated to the second short-term priority for print publishers: building capabilities in digital. On the content side, this requires investments in IT infrastructure, design and development functions for the Web and applications, and editorial staff who can create rich, user-centric content in the digital world. Some editorial capabilities, such as the skills needed to gather information and write and edit news articles, are similar whether applied to digital or traditional print platforms. Personnel with these capabilities can be shared across platforms. However, production and layout of content requires distinctively different skill sets for the two platforms.

Publishers also need to consider whether to have the digital assets in a separate business unit from print, with separate budgets and manage-

ment. This decision is often dictated by return on investment requirements and the costs of operating each class of assets. If digital and print are in separate business units, it will be difficult to share editorial resources between them.

The importance of high-quality content cannot be understated, because the digital marketplace for information is far more competitive than that for print. In the world of newspapers, readers tend to be loyal, and few subscribe to more than one publication. However, when readers migrate to digital news, they prefer to get their information from multiple sources. A recent Booz & Company survey found that only 23 percent of the audience for digital news went online specifically to find the site of their favorite print newspaper. In fact, in the digital marketplace, newspaper publishers must compete not only against other newspapers but against the digital assets of other news-gathering organizations. This includes the websites of television news stations, such as CNN, the BBC, and Al Jazeera, which are ahead of many newspaper publishers in the region in terms of digital expertise. In a medium where people prefer to browse among multiple information sources, instantaneously and with zero switching costs, news publications must establish a stellar digital brand in order to retain their audience.

In addition to digital content, publishers must develop digital ad sales capabilities. Digital platforms are creating a new environment with limitless advertising inventory. As a result, supply is rapidly outpacing demand, resulting in downward pressure on CPMs (costs per thousand viewers). The increasing popularity of ad networks, social media, and search makes the situation regarding pricing and inventory even more challenging: These aggregators often charge substantially less to reach a similar audience, often at greater scale, than what premium content publishers charge.

In such an environment, print publishers need to offer an unparalleled value proposition to marketers—one that leverages a deep relationship with their audience, based on target interests and rich, exclusive content. The primary driver for advertising effectiveness is relevance: placing ads next to related content. Search engines have this capability, but print publishers need to learn it. In addition, digital advertising is usually technology-enabled and requires a focus on data as well as analytics to demonstrate the value of audiences and types of inventory as well as the effectiveness of campaigns within digital media properties. Furthermore, both the terminology and the sales cycles are different between print and digital. Most of the sales staff at print publishers in the GCC have little

exposure to these evolving areas and related skill sets. Such new capabilities must be built up within existing print organizations and well integrated within the existing operating model. Print sales expertise, although of diminished importance in the future, will remain a necessary capability because most publishers will sell integrated print-and-digital campaigns.

Finally, the optimization of search and social media as channels for distribution and audience generation will become a significantly more important capability for publishers. Although these channels are still gaining momentum in the GCC market, the experience of print publishers in more developed markets shows that they can offer natural, low-cost venues for building audience communities and promoting that audience to marketers.

These short-term imperatives, if executed correctly, merely position a publisher's internal operations for the shift to digital. They do not represent a comprehensive strategy for thriving in the digital media landscape. Publishers must look at long-term considerations as well. For example, they must invest in the necessary digital infrastructure to support the migration of readers. They must also invest in building strong brand loyalty to ensure that readers will look for their sites and applications when they switch to digital platforms.

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## LONG-TERM STRATEGIES FOR THRIVING

The current struggles of Western print publishers may appear daunting, but GCC print publishers have several advantages over that group. Most significantly, they do not need to be digital pioneers—forced to invest substantial time, capital, and attention in a trial-and-error approach to determine what does and does not work in digital. Instead, they can adopt and localize strategies from the lessons already learned by print publishers in other geographies.

### What Does Not Work

First, there is a clear consensus on what does not work. Almost certain to fail is the minimalist strategy of simply posting content digitally and trying to charge for it. Our survey of digital news consumers found that 74 percent refused to pay for content, outside a few key categories such as sports and breaking news. This finding is backed by the experience of publishers in other markets: When the *Times* in the U.K. put up a “paywall” on its site, 90 percent of Web readers left. Although the *Times* has

succeeded in building some level of paid subscribers, it has not yet made up for that loss. There is simply too much free information on the Web for many publishers to make a credible case that theirs is unique enough to pay for. (A few notable exceptions exist, such as the *Financial Times*, the *Wall Street Journal*, and the *Economist*, which all offer extremely high-quality journalism aimed primarily at a business audience and thus have been able to charge for content.) Conversely, switching to a digital-only model in which all digital content is free is also unlikely to work. The advertising revenue from digital alone is unlikely to support the costs of generating content.

For publishers to win in digital, they will likely need to charge for some aspect of their content in those new formats. (Only a small portion of the money lost in traditional advertising revenues is recovered on digital platforms.) First of all, the overall advertising market in digital is smaller; second, and more important,

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a wider set of competitors is chasing the advertising dollars spent on digital compared to the traditional publishing world. However, content development alone is not the solution. Publishers need to think hard about what they can offer *in addition to* content if they are to convince users to pay. This is not a quick and easy decision. It will require true product innovation in the digital world and new pricing models that few publishers have yet imagined.

#### What Does Work

Experience from other media markets shows that publishers have four ways to differentiate digital content, and thus convince readers that it is worth paying for.

1. *Pure content play.* If content is to have value, it must be differentiated from free offerings. To that end, publishers can specialize by creating highly specific vertical offerings that focus on specific areas of

interest, such as business, health, or sports. The *Financial Times* recently launched its seventh such niche site, a news and analysis site that covers the pension sector, which is part of the publisher's overall effort to reduce its reliance on display advertising. In addition to being attractive to readers, niche verticals are more appealing to marketers because they offer a more focused audience. Using features such as comments sections, they foster debate and interaction with the content, which increases readers' overall engagement.

Alternatively, publishers can build a "one-stop media shop" that offers consumers a truly deep media experience. Rather than simply posting the print newspaper on the Web, publishers can add enhancements such as videos and additional photos as well as enabling social media components including reader comments and citizen reporting on local issues.

There are early signs this model is emerging in the region, and several publishers have made significant strides in developing one-stop media shops.

For example, the Saudi Research & Marketing Group's political affairs magazine, *Al Majalla*, converted to a digital publication in April 2009 after 30 years in print. *Al Majalla* is now published weekly online, with free news in both English and Arabic and features such as a daily news update, interactive forums, blogs, videos, and links to Facebook and Twitter. In addition, Saudi Research & Marketing offers free iPhone and iPad apps for *Al Majalla*. The company generates revenues exclusively through digital advertising.

In the UAE, *Gulf News* offers another digital product, [gulfnews.com](http://gulfnews.com). The site has magazine-style features, along with videos of current events, internal search tools, user-generated content,

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contests, RSS feeds, and mobile functions. The site generates high advertising revenues, with some 35 campaigns a month, making it the fifth-highest ad-driven website in the UAE.

A third example is Zawya, a UAE site that serves business and financial professionals in the Middle East. Zawya aggregates newspaper stories throughout the region, along with live news coverage through partnerships with other media outlets and financial news through Dow Jones newswires. In addition, it offers profiles of more than 12,000 companies and approximately 2,000 infrastructure projects. The business model is a hybrid; Zawya provides a limited amount of content at no charge, along

with various subscription packages for access to premium content. So far, Zawya has a subscriber base of more than 200,000.

*2. Content and related applications.* A further means of differentiating content and justifying its price tag is to offer essentially the same content with a substantially better user experience. This works best in new device environments such as the iPad, where interactive elements can be seamlessly integrated with the content. In Web-based environments, this is more difficult, but some publishers have found success. *Popular Science*, a monthly magazine owned by the Bonnier Corporation, is one good example. It has published a Web-only

“Genius Guide,” on specific subjects such as home entertainment, with good results.

*3. Content and complementary services.* Adding premium and complementary services that meet individual needs on top of the content can significantly increase perceived value. Examples include news sites that offer exclusive conference calls and chats with journalists, and health sites that offer live streaming or services such as personal workout plans and access to experts.

*4. Content and partner products and services.* Publishers can partner with outside providers of add-on products and services to create innovative,

*Adding premium and complementary services that meet individual needs on top of the content can significantly increase perceived value.*

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integrated offerings; for example, featuring accessories or tickets to events on top of the content. Naturally, the products and services must be linked to the content—game tickets on a vertical niche devoted to ice hockey, for example.

These four elements of a successful paid content offering should not be considered in isolation. Indeed, combining them into exclusive new offerings will make them more compelling and increase the willingness of consumers to pay for the content offered. A case in point: ESPN Insider. Produced by ESPN, a sports-oriented

U.S. cable television network that is part of Walt Disney Company, ESPN Insider is a premium content service targeted primarily to players of fantasy sports. The site provides access to exclusive content, including articles and videos, as well as gaming tools and partner offerings such as tickets to professional sporting events. Users pay a monthly or yearly subscription fee, and in return, they also get a subscription to ESPN's print magazine.

#### **What Could Work in the Future**

The digital media landscape is one of rapid change. Tablets such as the iPad have transformed the experience

of digital media, and new devices are coming on the market that will further push its boundaries. Such devices will complicate the challenge of convincing readers to pay for content, but they will also offer increasingly dazzling features. For the first time, users will have a credible choice between the standard browser-based content they are accustomed to getting free, and a much richer media experience they will likely have to pay for, all on the same device. Publishers will therefore have to create truly differentiated content, and distinguish between the various free and paid digital offerings they present to consumers.

*Tablets such as the iPad have transformed the experience of digital media, and new devices are coming on the market that will further push its boundaries.*

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Publishers can approach this new challenge in three ways:

*1. Differentiation.* Publishers can offer their “commodity content” free on traditional websites and smart-phone apps, while encouraging users to pay for value-added content on tablets, on e-readers, and in print. *Time* magazine and some Hearst publications are taking this approach—in some cases even charging more for the e-reader version than they do for the print magazine.

*2. Parallel play.* The growing number of ways available to access consumer media will lead to a strategy in which publishers will offer “brand subscriptions,” allowing subscribers to access the same content through a variety of channels. *GQ* magazine is taking this approach by offering a paid iPhone app that essentially replicates all the

content available in print, with a few additional features. Here, the goal is to serve traditional readers as they move to digital, and simultaneously attract new readers.

*3. Bundled play.* The goal of the “bundled play” strategy is to encourage current customers to increase their spending by offering higher-priced packaged combinations of value-added content and services, on a variety of platforms. For example, in addition to its standard print and digital subscriptions, the *New Republic* magazine recently began offering subscriptions to its “TNR Society,” which includes archives, databases, and other content, as well as the standard digital and print subscription contents. By offering both low-cost and premium subscriptions, the magazine developed a coherent product and pricing bundle that not only gave consumers a choice

but also gave the company opportunities to up-sell to subscribers. Indeed, the package quickly became the magazine’s most popular subscription offer; it already accounts for 46 percent of all subscribers.

*Sports Illustrated* also recently launched an “all-access” play in which subscribers can pay a certain amount for access to content across multiple platforms. The Time Inc. publication, which has more than 3 million subscribers, costs \$48 per year or \$4.99 per month for a subscription to the weekly magazine plus digital content on Android tablets and smart-phones. (A digital-only subscription costs \$3.99 per month.) Time Inc. will offer a similar bundled subscription service for several other publications on Hewlett-Packard TouchPads later this year, including *Time*, *Fortune*, and *People*.

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## THE NEW ROLE OF THE PUBLISHER

The value chain for digital content is radically different from that for traditional print media. For decades, newspaper publishers have created and edited content, generated the physical product, and distributed the product to their customers' doorsteps. In the digital realm, a range of other requirements exist, including the creation of a publishing platform, a reading interface, hardware, and connectivity. Players that provide those elements can pose a direct threat to publishers. Such players include content aggregators and distributors such as Apple, Google, Facebook, and Amazon; device manufacturers such as Apple and RIM BlackBerry; and, to a lesser extent, telecom operators. Publishers determined to continue simply creating content and depending on the publishing software that it requires will ultimately lose control over the customer relationship and user experience, and end up sharing revenue with third parties that own the rest of the digital value chain.

A case in point: publishers currently offering paid content through the iPhone or iPad must pay some share of the revenues generated to Apple. For its part in this transaction, Apple takes 30 percent of the total cost. On Amazon's Kindle e-book reader, publishers pay 30 percent of their revenue from the sale of e-books to Amazon. In both cases, the device manufacturer retains the critical data on user behavior and preferences that the publisher

would otherwise be able to use to sell other products and services.

Google recently unveiled a more flexible version, called "One Pass," which lets publishers set their own terms and prices for digital content. Through the Google subscription system, publishers can customize how and when they charge for content, while experimenting with models such as standard subscriptions, metered access, and even selling single articles through their websites or mobile apps. Google provides a single point of payment processing through Google Checkout, and a single point of authentication so that users do not have to reenter their password for different digital platforms. In exchange for this service, Google takes 10 percent of revenue, leaving the remaining 90 percent for the publisher.

At a minimum, most publishers will want to control the user experience and have access to consumer data for marketing, which is more important for newspapers and magazines than for books. Thus publishers will likely prefer to maintain control over their own content applications, such as those sold in third-party application stores, including the embedded proprietary reading interface. By doing so, publishers can compete not only through content but also through the user interface. Many major Western publications now have their own iPad applications.

Others will want to go further, disintermediating third parties entirely by establishing their own stores and thus retaining control over customer data—in practice, becoming retailers or wholesalers of digital content. In such cases, publishers won't need to share the content revenue or advertising revenue. Several examples of this business model are on the market—including Relay, Pubbles, and Zinio—and we expect to see many more such launches in the future. Similarly, several U.S. magazine publishers have banded together to create a wholesale newsstand for digital content called “Next Issue.” Backed by Time Inc., Condé Nast, Hearst, Meredith, and the News Corporation, the project has been scaled back from its initial goals, and its launch has been pushed back by a year already. Although it is not yet a success, the venture represents a noteworthy attempt to shake up the traditional publishing model.

Still other publishers will want to bundle hardware and content offerings, an arrangement in which the publisher orchestrates or owns the hardware, and sometimes even pack-

ages it with connectivity. Playing in this game would allow the publisher to influence the device's market penetration and thus establish a larger role for itself in the market's overall development. The Borders Kobo e-reader is one example. However, this is a challenging endeavor: Hearst made an unsuccessful effort to develop its own e-reader, called Skiff. Both the retail and hardware plays require new capabilities, which many publishers may not be able to acquire.

All publishers should carefully consider the positions they want to control in this value chain; such decisions will have real effects on their revenues and profits. The options are clear:

- *Pure content play.* Provide only the content, and let others take care of the user interface, hardware, and connectivity.
- *Application play.* Provide the content and user interface, and let others provide the rest.
- *Digital retail play.* Provide the content, the user interface, and the

store where content is sold, essentially becoming a retailer of digital content.

- *Integrated play.* Integrate the store with selected devices, or bundle devices, content, and connectivity into complete offerings.

To choose from among these options, several factors must be considered: how much money a publisher is prepared to invest, how much revenue the company wants to generate, how much scale the publisher can achieve in terms of audience, what its in-house capabilities are, and—significantly—what kind of platform the publisher wants to use. For example, if a publisher is adamant about being on Apple devices, that decision effectively limits the publisher to an application play in which Apple will handle all other elements of the value chain (hardware and connectivity) while also taking a slice of revenue. Conversely, a publisher that wants to be on the Android platform and has the requisite capabilities (and the willingness to forgo the audience reach of the Apple ecosystem) could go further and establish a digital retail play, with its own media storefront.

*All publishers should carefully consider the positions they want to control in this value chain; such decisions will have real effects on their revenues and profits.*

## The Future of Media?

Rupert Murdoch's News Corporation recently launched a content and application play called *The Daily*, an iPad-only newspaper that has already generated significant buzz. *The Daily* offers features such as 360-degree photos, a magazine-like reading interface that allows readers to "flip" through pages, video overviews of all content, audio versions with professional voiceover instead of computerized voices, and social-networking features integrated into the content. It is an extremely polished, high-production-value product, but it is also notable for the negotiations that took place in advance of its launch.

Prior to the launch of *The Daily*, virtually all publications on the iPad were priced and sold on a per-copy basis. Because Apple takes a percentage of each sale, and controls access to the iPad, it preferred to sell individual issues, rather than longer-term subscriptions, in order to keep per-issue revenue high. However, the News Corporation was able to use its influence and set up a subscription model for *The Daily*. The publication sells for US\$0.99 per issue, or \$39.95 per year. How was the News Corporation able to do this? By making a concession during negotiations that allows Apple to sell shows from News Corporation's Fox network on iTunes at Apple's standard price of \$2.99 per episode.<sup>13</sup> Within a few weeks of *The Daily*'s launch, Apple announced that all publications could now be sold on a subscription basis.

In addition to offering compelling digital content for readers, *The Daily* also provides marketers some sophisticated approaches for reaching those readers, such as ads that are targeted on the basis of behavioral and location data, along with metrics to track the effectiveness of those ads. The News Corporation has stated that it will share data on impressions and engagement with marketers, along with unique user information. A mobile ad platform provider called Medialets is working with *The Daily*, its advertisers, and their agencies to produce the ads.

The News Corporation's goal is to capture 5 percent of the estimated 40 million iPad owners by 2011. The company estimates that the project will cost about \$500,000 per week. It is too early to judge its success; however, *The Daily* shows what is possible for publishers in determining where to play on the digital value chain. It does not merely adapt newspapers to digital formats but combines the best elements of traditional journalism with the best features of digital—and offers it all in a revamped business model that is innovative for the medium. It is a bold move to leverage the iPad audience, and a good example of true product innovation in the media industry.

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## IMMEDIATE STEPS TO PREPARE FOR THE SHIFT

We have discussed a number of priorities that will be critical for GCC newspaper publishers as the migration to digital approaches and after it is upon them. Although those steps are comprehensive in scope and may seem overwhelming, publishers can take a number of immediate steps to prepare for such a transition.

First, publishers and senior newspaper staff should start using digital platforms—across various subscription models and hardware platforms—so that they can begin to understand the challenges and opportunities of the medium for both content and advertising. During one recent board meeting at a major newspaper, attendees were struggling to understand the attractiveness of the iPad to advertisers. The board chairman flipped open his own iPad, launched his favorite newspaper app, and asked directors to huddle around him for a demo. This drove home the point immediately.

CEOs should also launch a campaign to educate all staff within their organization on the pending threat of digital, through relevant workshops and conferences, distribution of articles and studies, and physical and virtual discussion forums on the topic. All employees and directors must become vigilant observers of the creeping digital threat and its effect on their own newspaper. This approach is invaluable, considering that the digital landscape is still evolving and that the right business model has yet to be fully defined. Employees who understand digital can share creative ways of adjusting the current business model and product offerings to their market's particular evolution and their organization's specific competitive advantages.

In addition, given that virtually all newspapers in the region will need to undergo the lengthy process of significant cost optimization, publishers can start the process

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immediately by generating a detailed assessment of costs and potential savings. Publishers must ensure that they have thorough information in order to make the best decisions regarding cost reductions, and, equally important, must generate support from the board and shareholders for such measures.

Publishers can also take immediate initial steps to develop digital capabilities, by starting small and at the top. For large news publishers, we advise creating a senior officer position to play the role of the “digital champion.” For smaller organizations, retaining an external

expert on a contractual basis may make more sense. The key objective is to begin assembling a road map to develop the organization’s digital capabilities, encompassing the key areas of ad sales, content generation and production, and infrastructure. Over the long term, the digital champion’s role would be to work with executives and shareholders to define the organization’s key digital offerings and value proposition, and to develop the best business model for launching such offerings.

As traditional news publishers in the region set their agenda for the coming

years, they have the opportunity to watch the digital news market evolve in other parts of the world. Print publications in those regions have suffered significantly by not adapting fast enough to meet the demands of digital media. They have seen major erosions in their audience and share of advertising spending, and revenue has fallen accordingly. This process has resulted in substantial pain for employees, executives, and shareholders. GCC publishers have a rare opportunity to avoid repeating this experience. However, if they wish to protect their market positions, maintain profitability, and compete in the digital universe, they must act today.

## Endnotes

<sup>1</sup> The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

<sup>2</sup> ZenithOptimedia; Booz & Company analysis

<sup>3</sup> "The Crucible of Print," *Economist*; January 6, 2011

<sup>4</sup> "The Teetering Giants," *Economist*; February 4, 2010

<sup>5</sup> "The Newspaper Industry in Crisis," Harvard Business School case study; March 11, 2009

<sup>6</sup> Ipsos, 2009; *Arab Media Outlook, 2009–2013*

<sup>7</sup> World Association of Newspapers; World Broadband Information Service

<sup>8</sup> Spot On Public Relations, "Facebook Reach Beats Newspapers in Middle East & North Africa," May 2010

<sup>9</sup> Compete, Hitwise

<sup>10</sup> eMarketer

<sup>11</sup> International Monetary Fund, World Economic Outlook database

<sup>12</sup> Speedtest

<sup>13</sup> "News Corporation Introduces the Daily, a Digital-Only Newspaper," *New York Times*; February 2, 2011

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## About the Authors

**Gabriel Chahine** is a partner with Booz & Company in Beirut. He leads the firm's media practice in the Middle East and focuses on deregulation, privatization, and strategic transformation of regional media players, covering traditional and digital media.

**Christopher Vollmer** is a partner with Booz & Company in New York. He leads the firm's global media and entertainment practice, and focuses on the development of corporate and business unit strategies, as well as future operating visions, organizational redesigns, capability building programs, and pre- and post-acquisition integration efforts.

**Jayant Bhargava** is a principal with Booz & Company in Dubai. He specializes in growth strategies, operational restructuring, and mergers and acquisitions for the media and entertainment sectors, focusing on emerging markets and digital media.

**Amer Lahham** is a senior associate with Booz & Company in Dubai. He specializes in growth strategies, business planning, and operating model definition for the media sector, with special emphasis on new media strategies for traditional media players.

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