



Abridged Version

Paid Content Benchmark and Best Practices

—Part 1—



digitalcontentnext.org

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Executive Summary

Digital paid content models offer publishers opportunities for growth and diversification, as well as the stability of recurring revenue streams. Consumer subscription models also provide publishers a direct relationship with the consumer, allowing deeper data and insights, and the associated benefits for first-party ad targeting, content development and engagement.

While there are examples of digital subscription success across industry segments, the success is not shared equally. An estimated one-half of publishers have low levels of investment in marketing, staffing and technology for direct-to-consumer products reflecting a cautious — yet opportunistic — approach. Paid content represents less than five percent of digital revenue for eight of the 20 companies that participated in this research.

Facebook and Google's recent announcements of plans to support publisher digital subscription models through subscription tools (some in beta testing now) and new policies are promising, although the devil is always in the details. Early indications suggest that Facebook is not asking for a share of subscription revenues¹ and, even more critically, may be open to allowing sign-up and payment off its platform on the mobile web — a critical step in providing publishers increased access to data about their subscribers². The meter rule is likely the remaining obstacle to more significant support and participation.

Google is also in the early stages of developing subscription tools that will integrate into its Accelerated Mobile Pages' (AMP) initiatives and leverage its mobile payments and ad targeting capabilities³. In other related developments, it has announced the termination of its "first click free" policy that required publishers to allow three free articles a day to be indexed in its search engine⁴. While Google's search-based AMP technology is easier for publishers to work with, they report that there is still a lot that Google could do to make data available and easier to use.

¹"Facebook, Seeking to Satisfy Publishers, May Let Them Charge for Articles," Mike Isaac and Sydney Ember, The New York Times, July 19, 2017.

²"Facebook is getting ready to test paid subscriptions with publications," Lucia Moses, Digiday, July 10, 2017.

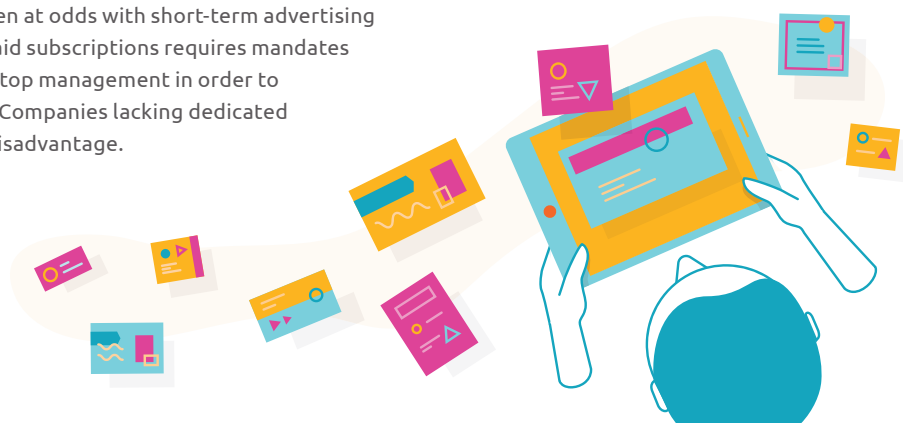
³"Google Tests Subscription Tool for Publishers," Mark Bergen, Bloomberg, August 18, 2017.

⁴"Google plans to end 'first click free' policy," Kevin Tran, Business Insider, September 14, 2017.

EXECUTIVE SUMMARY

Core Challenges

- 1 Many digital publishers currently lack the strong brand, differentiated content with a distinct consumer value proposition, and audience size to succeed with direct-to-consumer subscription products; smaller publishers may be additionally constrained by lack of capital to invest in new business models.
- 2 Publishers face technology, business practice and skill gaps in developing paid content initiatives particularly regarding subscription marketing.
- 3 Many publishers report limited opportunities to grow subscriber audiences through paid advertising due to the high costs of acquiring new subscribers.
- 4 Facebook and Google technologies and policies have limited publishers' ability to leverage new audiences sourced through distributed content. Such subscription business models require the control of paywalls, the ability to track and differentiate the experience of repeat visitors, and the capture of data to manage the relationship with subscribers.
- 5 Publishers report high churn rates for direct-to-consumer products due to a range of underlying issues including content engagement, content breadth, and renewals management.
- 6 Paid content strategies compete internally for attention and resources, and are often at odds with short-term advertising pressures. Growing paid subscriptions requires mandates and cooperation from top management in order to successfully diversify. Companies lacking dedicated staffing are also at a disadvantage.



Publishers report high churn rates for direct-to-consumer products due to a range of underlying issues including content engagement, content breadth, and renewals management.

EXECUTIVE SUMMARY

5 Key Practices

- 1 Support commitments to paid content initiatives at the highest levels of top management.
- 2 Invest in premium content — including the creation of original content — for direct-to-consumer subscription products that inform, educate, enrich, benefit, entertain and thrill consumers to drive subscriptions, high levels of engagement and renewal.
- 3 Support direct-to-consumer subscription products with opportunity for growth with investments in dedicated staffing, marketing, and technology and develop disciplined subscription marketing operations to optimize your marketing spend.
- 4 Where possible, push for a high level of accommodations from key third-parties – Amazon, Facebook and Google in particular — for subscription content and products. These platforms need to continue to develop policies and tools that provide for the data capture, paywall management and the direct customer relationships required to manage a subscription business.
- 5 TV/cable companies should also consider launching strongly branded Subscription Video on Demand (SVOD) services.



Where possible, push for a high level of accommodations from key third-parties – Amazon, Facebook and Google in particular — for subscription content and products.



Participating DCN Members



ATLANTIC MEDIA

BUSINESS
INSIDER



CONDÉ NAST



GANNETT



NBCUniversal



Slate



The New York Times

The Street

turner



DCN thanks all these members who contributed data under NDA to the study and took the time to share their thoughts and opinions for this research. It's greatly appreciated.

* Interview only



Background

Digital content publishers face a highly-challenging advertising marketplace as Facebook and Google continue to dominate US digital advertising and capture the lion's share of growth.^{5,6} The Facebook and Google business models, which primarily use free services to collect data and target advertising at the largest scale possible, are also at odds with paid content models that publishers are evolving. Digital paid content models offer opportunities for growth and diversification, as well as the stability of recurring revenue streams. Consumer subscription models also provide publishers a direct relationship with the consumer, allowing deeper data and insights, and associated benefits for first-party ad targeting as well as content development and engagement. Publishers with consumer subscription products at the core of their business rely on subscription revenue to underwrite content development not supportable through advertising revenue alone. For TV/cable companies just now navigating the intensity of disruption that print publishers have long faced, a direct relationship with the consumer offers the possibility of an alternative to the disintermediation experienced with MVPDs.

The Facebook and Google business models, which primarily use free services to collect data and target advertising at the largest scale possible, are also at odds with paid content models that publishers are evolving.

⁵ "Facebook and Google Tighten Grip on US Digital Ad Market," September 21, 2017, eMarketer.

⁶ "Internet Trends 2017 – Code Conference", Mary Meeker, May 31, 2017, Kleiner Perkins.

Objectives

Key questions for this research included:

- How important is paid content to participants' overall digital publishing business?
.....
- To what degree have publishers been able to successfully develop direct-to-consumer subscription businesses? What are revenue and paid subscription benchmarks?
.....
- What levels of investment in staffing, marketing and technology are publishers making in paid content strategies? Are they investing enough to succeed?
.....
- What are the best practices for marketing direct-to-consumer subscription products? What are the key conversion, retention and lifetime value metrics for these products?
.....
- Which marketing and distribution partnerships are important for publishers and what accommodations are important to negotiate?
.....
- What technologies are publishers investing in to enable direct-to-consumer subscription businesses? Are they making technology investments internally or through third-parties?

BACKGROUND

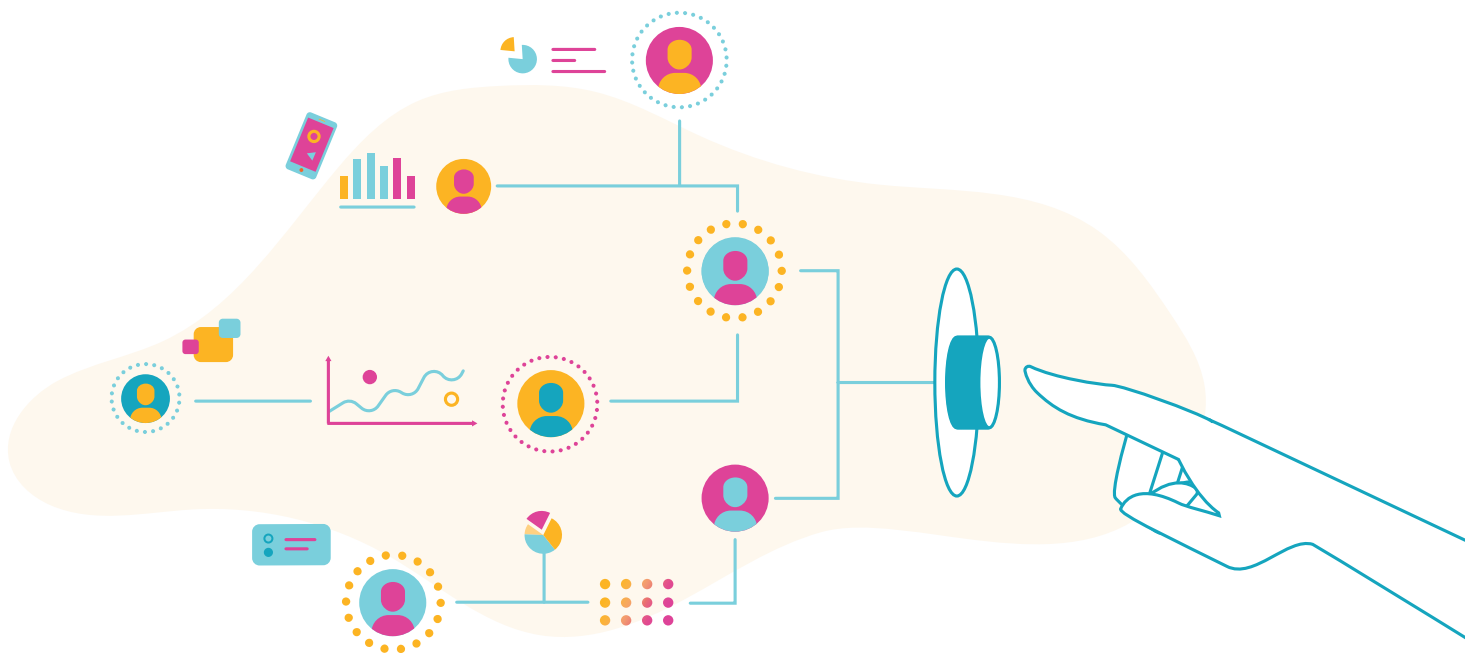
Methodology

Eleanor Powers, Powers Media & Entertainment Consulting, was hired by DCN to conduct proprietary research with its members on digital paid content products and their monetization by digital content publishers. Twenty DCN members provided data and answered survey questions: six TV/cable companies and 14 newspaper, magazine and pure play companies. Interviews were conducted with 13 companies to gather more in-depth insights. Data and information from interviews have been aggregated and anonymized to protect confidentiality.

While this report does encompass branded SVOD products (e.g. PBS Passport) managed by digital publishing operations, it does not attempt to quantify the distribution and monetization of long-form digital video content through third-party virtual MVPDs (e.g. Hulu Live), SVOD services (e.g. Netflix) and download-to-own channels (e.g. Amazon). These businesses are for the most part run from corporate distribution operations.



Data and information from interviews have been aggregated and anonymized to protect confidentiality.





Summary of Findings

DCN members are actively developing paid content initiatives including direct-to-consumer subscription products and third-party revenue streams for licensed content.



Participating publishers reported that one quarter of their digital revenue in the first half of 2017 came from digital content subscriptions, and 27 percent from paid content overall. They estimated a seven percent growth in the second half of 2017 for paid content overall⁷.

There are examples of success in digital subscription across industry segments including pure play, magazine, newspaper and TV/cable companies. Participants reported traction in subscription models with consumers in all age demographics including Millennials.

Gains in paid content strategies, however, are not shared equally. An estimated one-half of publishers have low levels of investment in marketing, staffing and technology for direct-to-consumer products reflecting a cautious and opportunistic approach. Paid content represents less than five percent of digital revenue for at least eight companies.

Facebook and Google's recent announcements of plans to support publisher digital subscription models with subscription tools (some in beta testing now) and new policies is promising.

⁷ This is a conservative figure as it does not include distribution and monetization of long-form digital video content through third-parties.

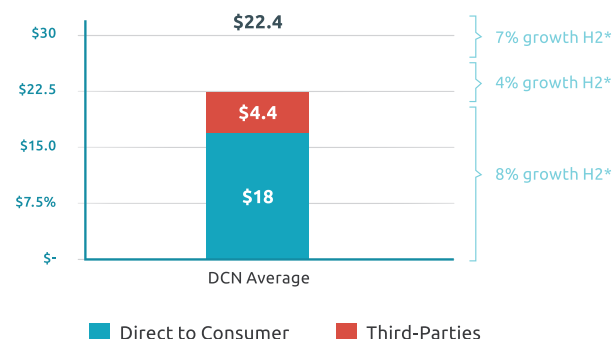
SUMMARY OF FINDINGS

Revenue Benchmarks

Digital paid content represented an estimated average revenue per company of \$22.4 million in H1 2017⁸. Of this, 80 percent is consumer subscription products sold directly by publishers, while the balance is divided between licensing and syndication (11 percent) and third-party sales of consumer subscription products (nine percent). More than 95 percent of paid content revenue was recognized on the digital P&L, while the rest was managed under other areas of the company (e.g. circulation).

Publishers reported restrained optimism for future growth of paid content revenues. Paid content revenue is projected to increase by an estimated weighted seven percent in H2 2017 over H1 for a total of \$1.5 million per company. Projected growth of seven percent overall is driven by eight percent growth in direct-to-consumer sales offset by four percent growth in third-party sales, for 18 companies providing data.

Average Digital Paid Content Revenue by Source
H1 2017, MILLIONS \$, N=20 PUBLISHERS

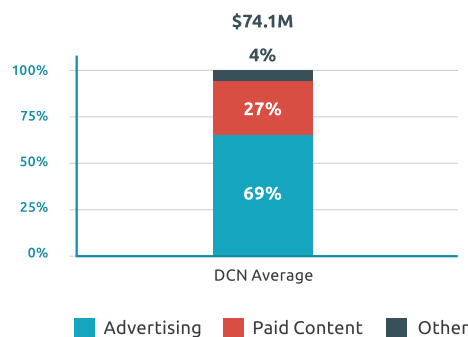


Publishers reported restrained optimism for future growth of paid content revenues.

Importance of Paid Content Revenue

While digital paid content is diversifying revenue for publishers, the level of success is not experienced equally. For 18 companies providing data, digital paid content revenue represented an estimated 27 percent of digital publishing revenue on a weighted basis⁹, compared to advertising at 69 percent, and all other revenue at four percent. Eight companies, however, reported five percent or less of their digital revenue coming from paid content.

Average Digital Publishing Revenue by Source
H1 2017, MILLIONS \$, N=18 PUBLISHERS



⁸This includes branded SVOD products (e.g. PBS Passport) managed by TV/cable digital publishing operations. It does not include distribution and monetization of long-form digital video content through third-party virtual MVPDs (e.g. Hulu Live), SVOD services (e.g. Netflix) and download to own channels (e.g. Amazon).

⁹Throughout this research, the term "weighted" is used for metrics calculated by weighting to volume (e.g. revenue), while "unweighted" refers to averages calculated without reference to underlying volumes.

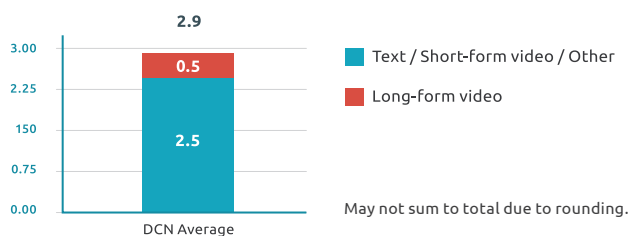
SUMMARY OF FINDINGS

Product Distribution

Companies reported an average of 12.3 digital subscription products sold directly to consumers. Adjusting for companies that have a large portfolio of digital paid content products corresponding to print brands, the average is a more sober 2.9 digital subscription products per company. More than 80 percent of these products are based on text, short-form video and other assets, reflecting the slow arrival of long-form video products.

Average Adjusted Consumer Subscription Products per Company

H1 2017, N=15 PUBLISHERS

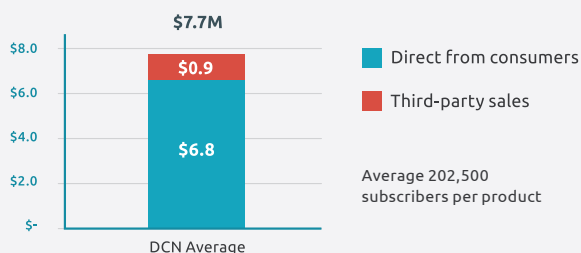


Subscription Product Revenue and Subscribers

Participating companies reported business model, subscription, marketing, and revenue metrics on 43 of their largest products.¹⁰ Subscription products averaged \$7.7 million in revenue in the first half of 2017 for 37 products for which publishers provided revenue data. Products average 202,500 subscribers.

Average Consumer Subscription Product Revenue and Subscribers

H1 2017, MILLIONS \$, N=37 PRODUCTS, 18 PUBLISHERS



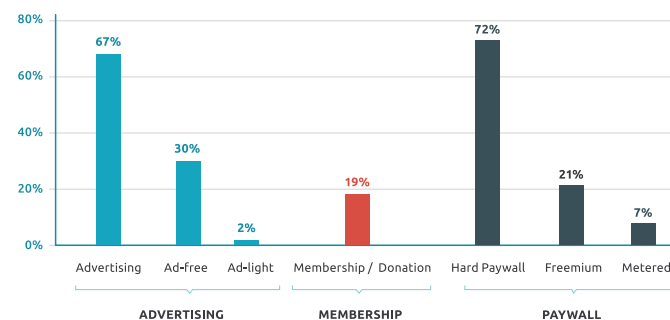
Business Models

Most of the products for which publishers provided business model data carry advertising, apart from the ad-free (30 percent) and ad light (two percent) versions of products developed by publishers in response to the threat of ad blockers, or digital versions of ad-free products that have migrated online. An estimated 20 percent of products are positioned as memberships and/or solicit donations that include offline consumer benefits and motivations. Companies have yet to incorporate pay-per-view into their business models.

Most products operate under a subscription model with a hard paywall. Freemium models are popular among pure play publishers, while metered models are favored by newspaper companies leveraging exposure to content to grow their subscription base.

Consumer Subscription Product Business Models

PERCENT OF DETAILED PRODUCTS, H1 2017, N=43 PRODUCTS, 19 PUBLISHERS

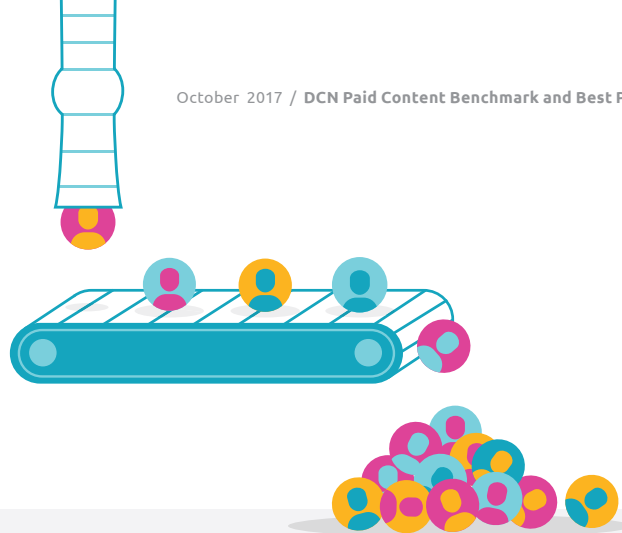


¹⁰ While publishers provided metrics for 43 of their largest products, they may not have been able to provide complete data for all categories, in which case analyses will be based on smaller subsets of these 43 products.

SUMMARY OF FINDINGS

Pain Points

Publishers report a number of pain points in developing paid content strategies:



- Digital paid content models may challenge current business models, for example by compromising a mass reach advertising model, or threatening to rock the boat with relationships with MVPDs by licensing to “virtual” MVPD channels for skinny bundles and evolving branded SVOD products.
.....
- Rapid change, particularly in long-form content consumption, distribution, and monetization makes placing bets on new business models a moving target.
.....
- Many digital publishers lack strong product/market assets to leverage for direct-to-consumer subscription products: brand, proprietary content, a distinct consumer value proposition, and audience size.
.....
- Smaller publishers may be additionally constrained by lack of capital to invest in new business models, to research and launch new products, market to new audiences, and staff new businesses.
.....
- Publishers face organizational experience, technology, business practice and skill gaps in developing paid content initiatives particularly with regard to subscription marketing.
.....
- Many publishers report limited opportunities to grow subscriber audiences through paid advertising due to the high cost of acquiring new subscribers.
.....
- Facebook and Google technologies and policies have limited publishers’ ability to leverage new audiences sourced through distributed content. Digital subscription business models require the control of paywalls, the ability to track and differentiate the experience of repeat visitors, and the capture of data to manage the relationship with subscribers.
.....
- Publishers report high churn rates for direct-to-consumer products due to a range of underlying issues including content engagement, content breadth, and renewals management.
.....
- Paid content strategies compete internally for attention and resources; companies lacking high-level champions and dedicated staffing are particularly disadvantaged.

SUMMARY OF FINDINGS

Key Best Practices

Some of the best practices publishers have developed for managing paid content include:



- Prioritize opportunities for direct-to-consumer and third-party licensing that have the potential to profitably scale and/or achieve goals for developing alternative revenue streams and direct consumer relationships.
- Support commitments to paid content initiatives at the highest levels with clear lines of top management responsibility.
- Invest in premium content — including the creation of original content — for direct-to-consumer subscription products that inform, educate, enrich, benefit, entertain and thrill consumers to drive subscriptions, high levels of engagement and renewal.
- Support direct-to-consumer subscription products with opportunity for growth with investments in dedicated staffing, marketing, and technology.
- Develop disciplined subscription marketing operations to optimize your marketing investments. Continually test, evaluate, and monitor marketing options. Leverage data for attribution analysis, marketing funnel management and lifetime value analysis. Test pricing, discounts, trials, messaging and product options on an ongoing basis.
- Push for a high level of accommodations from key third-parties — Amazon, Facebook and Google in particular — for data related to subscription content and products. These platforms must continue to develop policies and tools that provide for the data capture, paywall management and the direct customer relationships required to manage a subscription business.
- TV/cable companies should also consider launching strongly branded SVOD services.

Invest in premium content – including the creation of original content... that informs, educates, enriches, benefits, entertains and thrills consumers to drive subscriptions, high levels of engagement and renewal.

ABOUT DIGITAL CONTENT NEXT

Digital Content Next (DCN) is the only trade organization dedicated to serving the unique and diverse needs of high-quality digital content companies that manage trusted, direct relationships with consumers and marketers. The organization was founded in June 2001 as the Online Publishers Association (OPA). Comprised of some of the most trusted and well-respected media brands, DCN produces proprietary research for its members and the public, creates public and private forums to explore and advance key issues that impact digital content brands, offers an influential voice that speaks for digital content companies in the press, with advertisers and policy makers, and works to educate the public at large on the importance of quality content brands. Digital Content Next's membership has an unduplicated audience of 223,098 million unique visitors or 100% reach of the U.S. online population.*



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* Source: comScore Media Metrix Multiplatform Custom Audience Duplication, June 2016, U.S.

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