



Impact study of the tablet on the Dutch publishing industry

Point of View



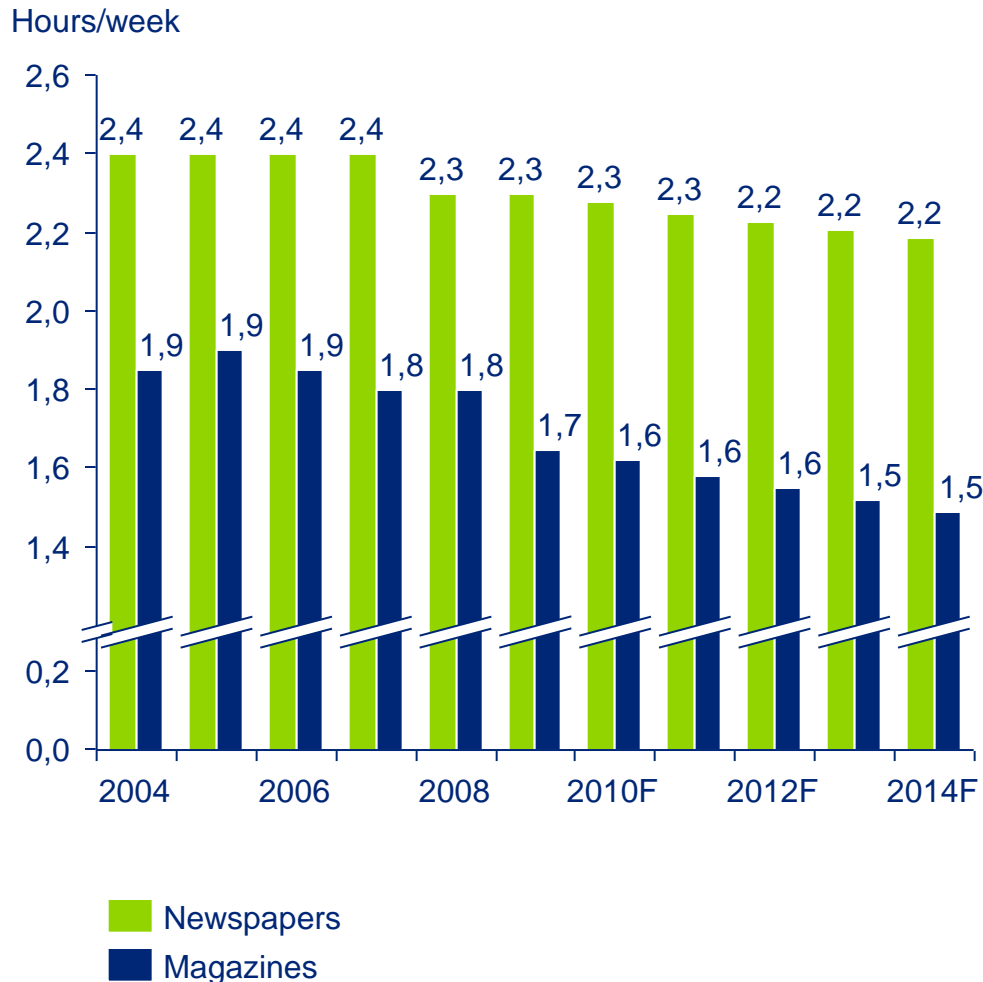
Amsterdam, September 2010

Market background

Newspaper and magazine readership has been on the decline, and is projected to decline further

Print media consumption among European adults

Comments

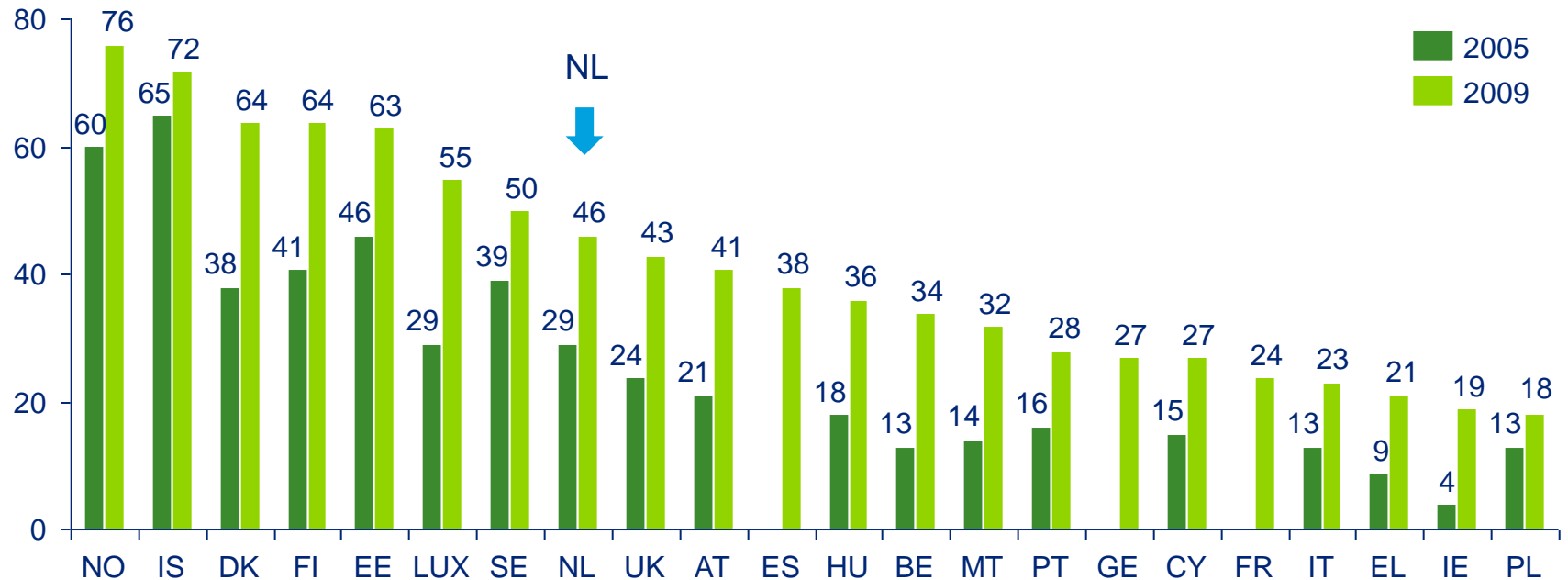


- Newspapers are facing demographic challenges as their average reader grows older
- Circulation of dailies is down, offset to some degree by free commuter newspapers
- Pressure on magazine circulations leads to a strong cost focus
- Magazine market characterized by niche publishing

Source: Carat insight media survey, European Technographics Benchmark Surveys, Deloitte Analysis

Reading news online is an increasingly important internet activity

Individuals using the internet for reading online newspapers/magazines 2005 vs. 2009 (%)*

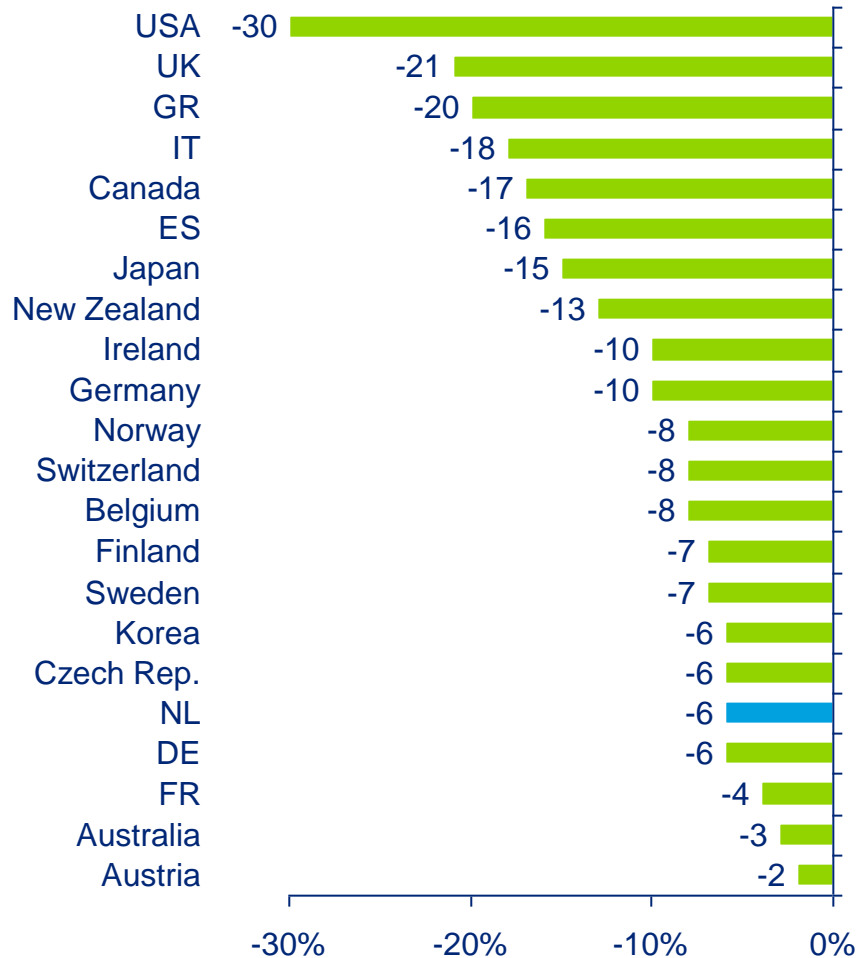


- In a number of European countries more than half of the population read newspapers online
- Nearly, 20% of the population read newspapers on line; the willingness to pay for online news is low but increasing

* Individuals between 16 and 74
Source: Eurostat, OECD, Deloitte analysis

The decline in subscribers, along with a fall in advertising revenues has resulted in a decline in the newspaper market in OECD countries

OECD newspaper market* decline 2007-2009 (%)



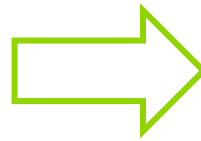
Comments

- Global newspaper market growth slowed progressively from 2004 to almost zero in 2007
- Negative growth since 2008
- Largest declines in the United States, the United Kingdom, Greece and Italy; countries with high advertiser dependence
- Lower Dutch market decline has to do with lower dependency on advertising income and greater loyalty to newspaper subscription

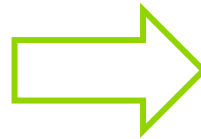
* Newspaper market is defined as online and offline circulation and advertising revenues of traditional newspaper publishers
Source: OECD

The opportunity

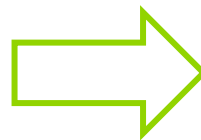
The tablet is expected to stimulate online media consumption and create new revenue opportunities for traditional media



The iPad is the fastest growing mobile device and will create a separate tablet PC category



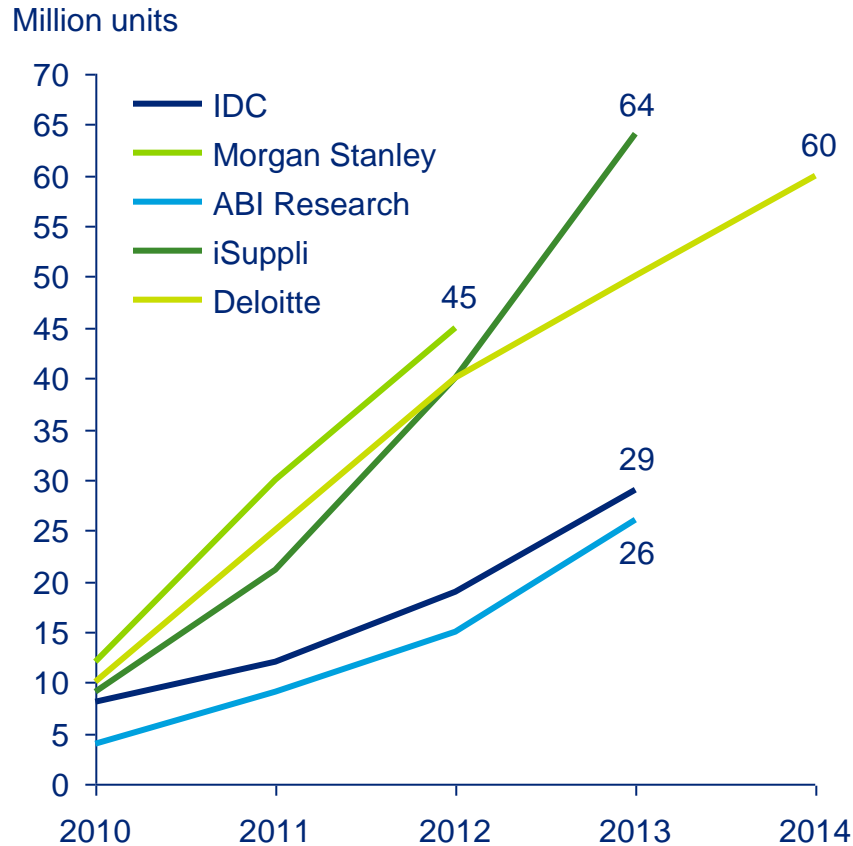
Tablet PCs are a major driver towards 3-screen convergence



Tablet PCs will lead to the creation of new revenue opportunities for traditional media

The success of the iPad is expected to lead to the creation of a large tablet category

Growth projections of global tablet market



Comments

- The launch of the iPad has been hugely successful with over 3 million products being sold to date*
 - Recent estimates for iPad sales are significantly higher than estimates at the start of the year
 - One iPad has been sold every 3 seconds
- Many major companies including HP, Samsung, Toshiba, RIM have launched and are planning to launch their own tablets in the coming months

*Data until June 2010

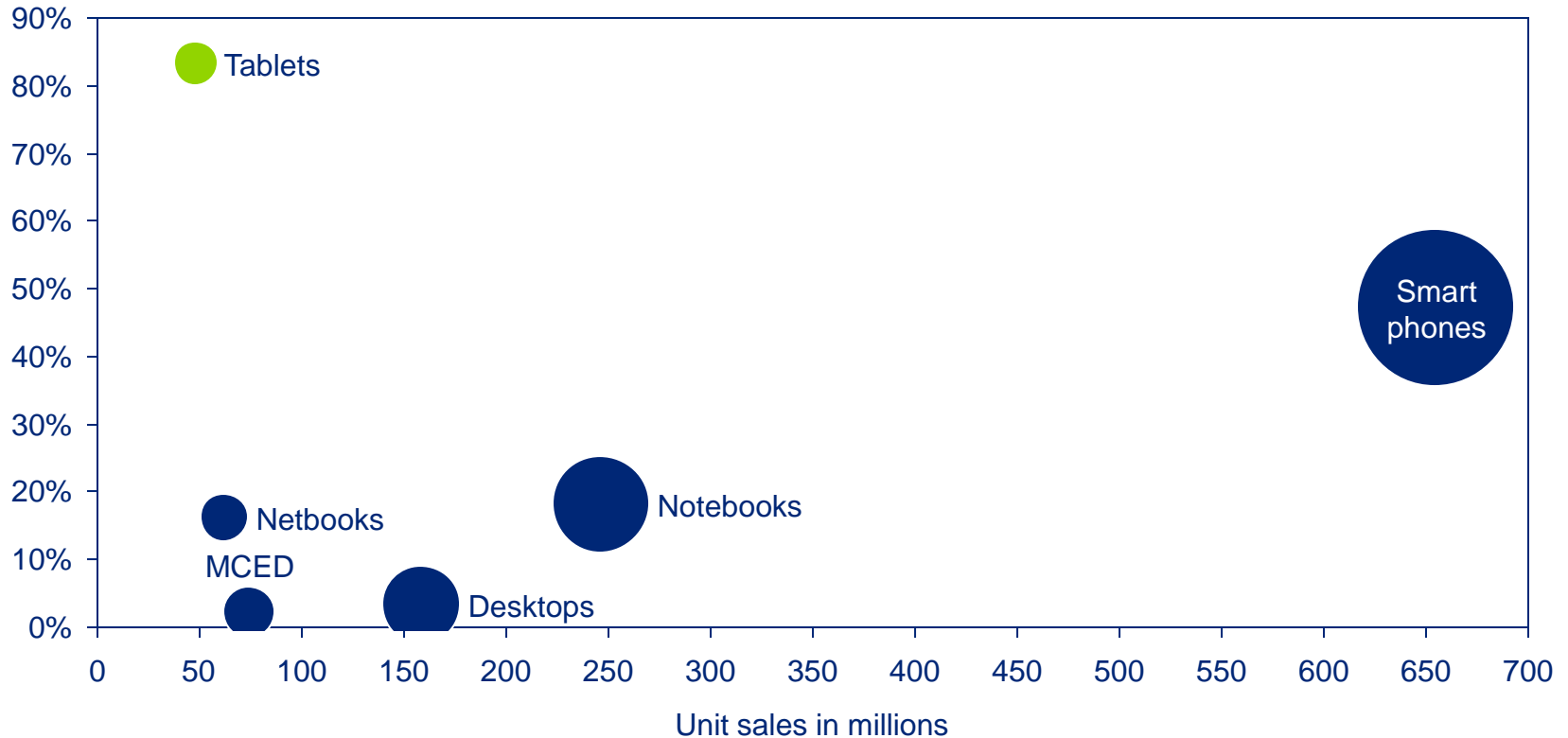
Note: iSuppli estimates for Apple only

Source: ABI Research (Feb 10), IDC (May 10), Morgan Stanley (June 10), Deloitte (June 2010), iSuppli (June 10), Forrester (June 10), Gartner, Deloitte Analysis

The tablet will be the fastest growing of all computing devices (mobile, desktop, laptop, net-book, tablet, e-Book markets)

Estimated global unit shipments in millions (2013)

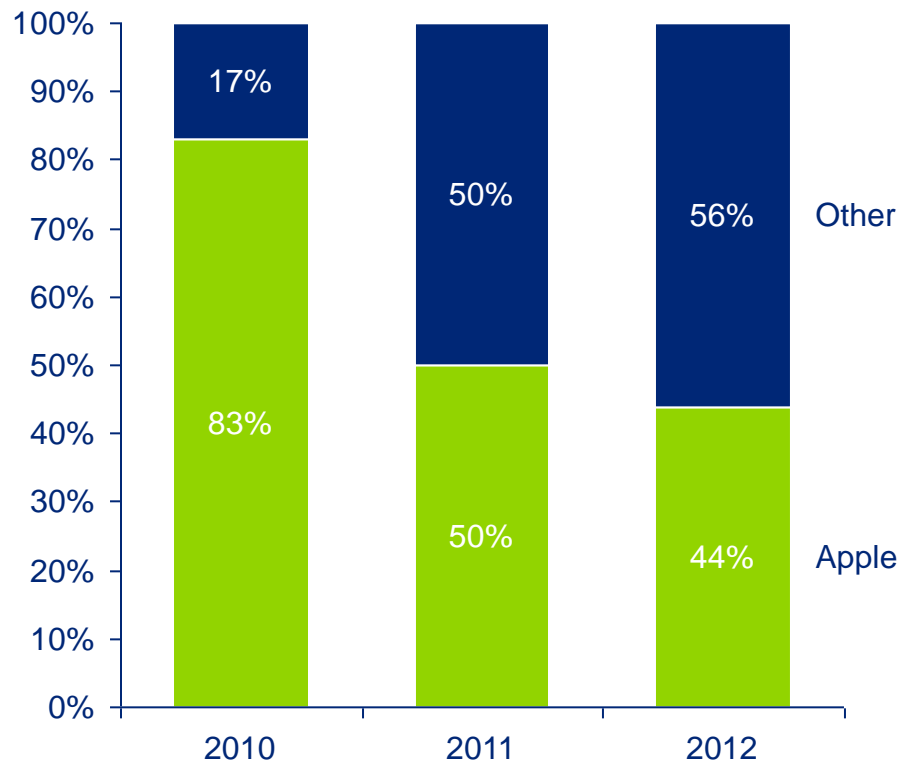
CAGR % (2010-13)



Note: Mobile Consumer Electronic Devices, e.g. Apple iPod, Amazon Kindle, TomTom XL
Source: Gartner

Despite the competition, Apple's iPad is expected to dominate the market

Tablet market share by vendor



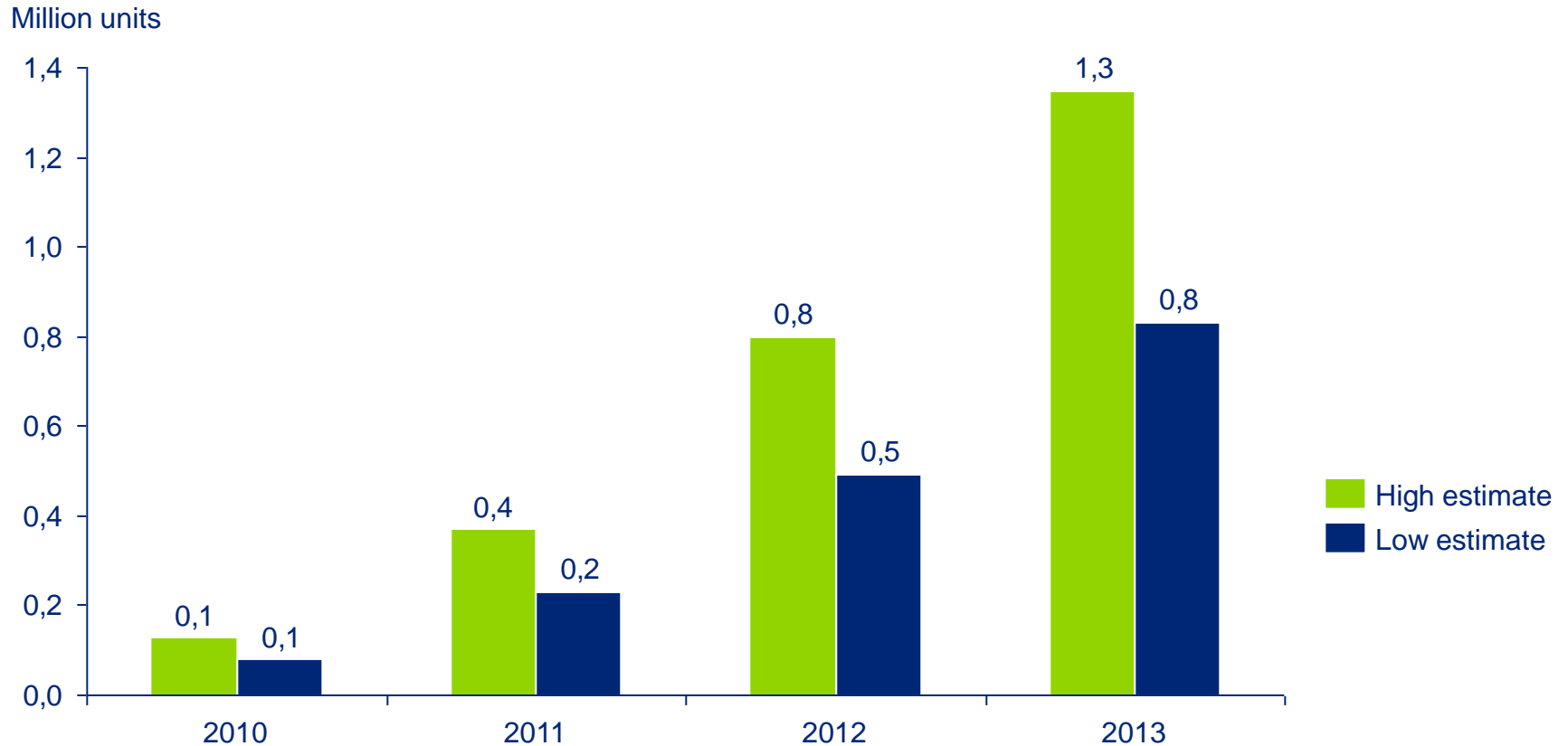
Comments

- The rapid adoption of the iPad is unprecedented. Compared with 28 days to sell a million iPads it took
 - 74 days to sell one million iPhones
 - 360 days to sell one million iPods
- The success of the iPad is a result of a creation of a supporting eco-system of products
 - 8500 software applications have been created for the iPad in the first two months
 - 35 million iPad software downloads delivered by the iTunes store
 - 5 million eBooks downloaded till June 2010

Note: Data until June 2010
Source: Morgan Stanley

The size of the market in the Netherlands will be significant, with the number of tablets crossing 1 million by 2013

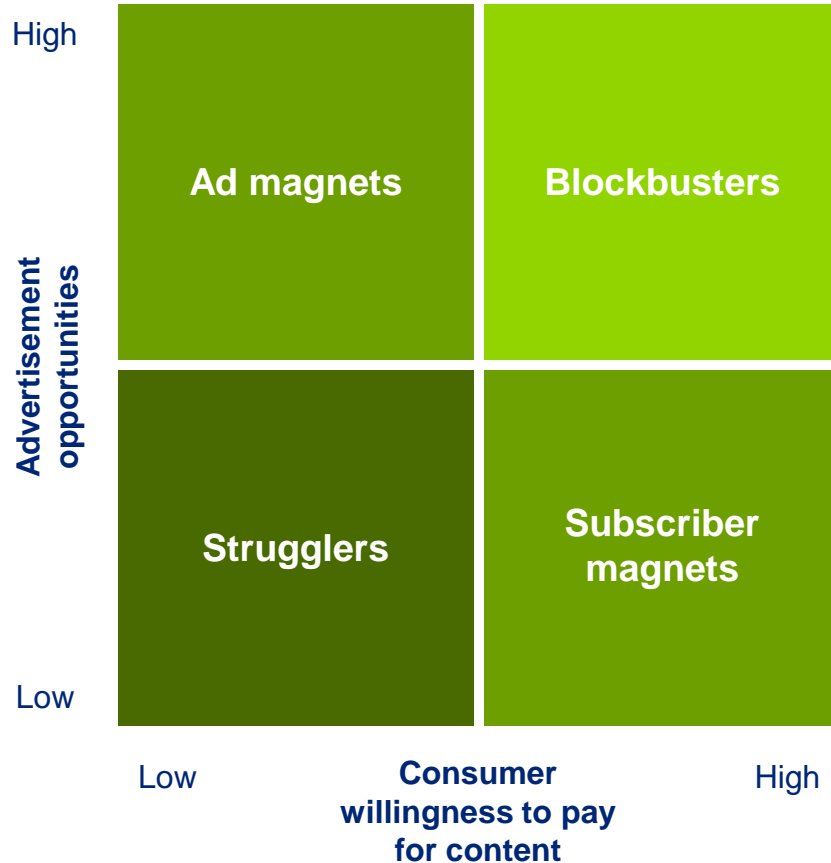
Tablets in the Netherlands (cumulative)



Source: Deloitte estimates

Advertising and user payments are the two most important revenue sources for media companies, also in the tablet era

Revenue segmentation and generic strategies of content companies



Strugglers: Content companies that offer little that cannot be found for free

Strategy: Focus the product proposition towards high willingness to pay (WTP) or increasing ad friendliness

Subscriber magnets: Books, niche journals and information services that attract paying users

Strategy: Maintain high WTP while exploring opportunities for advertising

Ad magnets: Fashion magazines are bought as much for their ads as their content

Strategy: Maintain high traffic and develop non-traditional ad opportunities

Blockbusters

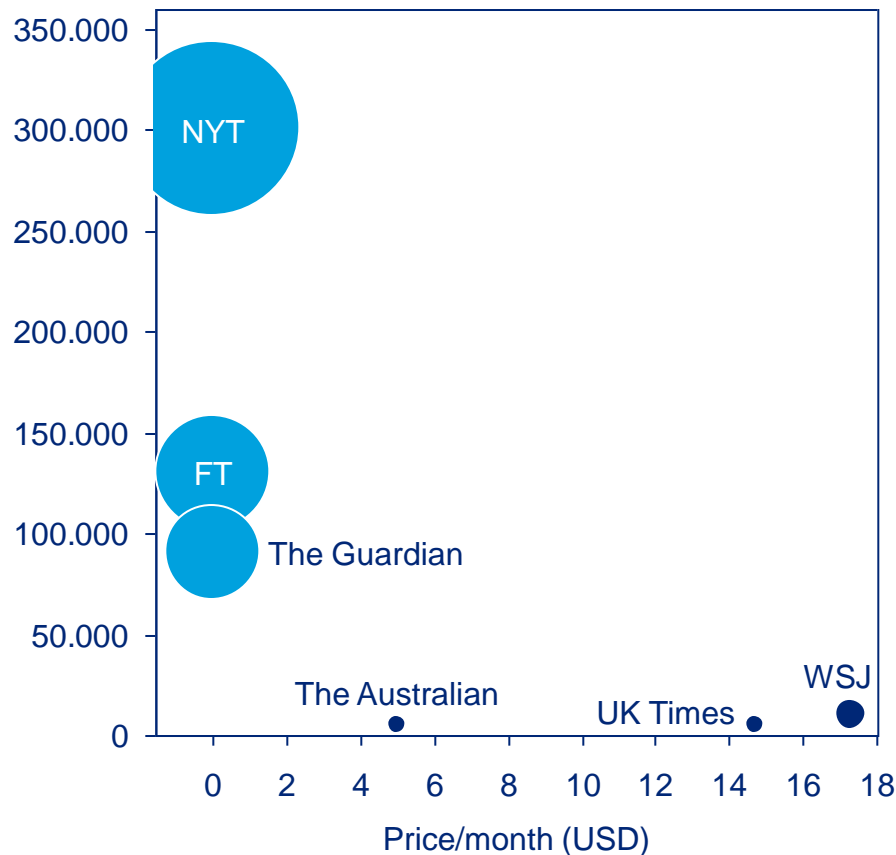
Live sporting events such as the Super Bowl generate both ad and user revenue

Strategy: Increase control over high value content (acquisition, syndication)

Source: Deloitte analysis

Most newspapers have kept their iPad apps free by relying on advertising revenues; a few have launched paid newspaper apps

Total downloads iPad app on iTunes store*



*As of 3 June 2010
Source: Gannett Co., Financial Times

Comments

- The FT iPad app had a two-month free access period which was sponsored at launch by Hublot, the watchmaker as opposed to its subscription only policy on its website
- FT plans to revert to a subscription model similar to its website for the iPad in due course

What idiot would pay \$10 bucks a month to watch ads
– *iTunes user review*

You either charge a subscription, or you make money with ads. Not both. Would make sense to offer an ad version and charge \$10/month to remove them
– *iTunes user review*

Be ware of the internet trap:
“Everything is free!”

Magazines have embraced the iPad and are experimenting with their business model; as Apple has insisted on single issue sales

Premium Pricing

TIME Magazine costs \$4.99 per week, same as cover price compared to \$30 for annual subscription

Analysis: Premium pricing without significant product innovation has been off-putting



E-Commerce model

Oprah Magazine's iPad edition will sell and display E-Books

Analysis: Good utilization of strengths of iPad like its user friendly payment system



Free for subscribers

Subscribers of print version of People magazines (paying an average of \$116) get the iPad version for free

Analysis: Relevant as current subscribers have an expensive subscription



Discount Pricing

Popular Mechanics app sells at \$1.99 (\$3.99 cover price) as it doesn't contain full magazine

Analysis: iPad price still lower than subscription price



Early sales figures reaffirm that products incorporating the full technological capabilities of the iPad can draw paying readers



Case study: *Wired* Magazine

A monthly magazine about technology and gadgets. *Wired* has about 672,000 paid subscribers.

- **Online business model:** Users can download the app for \$4,99 and pay \$4,99 for each single issue. This is identical to the cover price in newsstand. No digital subscription possible.
- **iPad app:** A first version was available on 26 May, 2010. User ratings were comparatively good (3.5 out of 5), although both pricing and technological issues are raised by reviewers. In the first nine days after the launch, the first iPad issue of *Wired* was **sold close to 73,000 times**. After Apple's 30% cut, this amounts to **US\$255,000 in revenue**. By comparison, *Wired* normally **sells about 82,000 single copies on newsstands** every month. For five days the app was the most downloaded paid app in the iTunes store.
- **Analysis:** The June issue of *Wired* is packed with video, audio, slide shows and other animations. The success on iPad app sales suggests that users are willing to pay for an innovative product utilizing the full functionality of the iPad.

The pricing model of the Wall Street Journal is an interesting case study; as it charges a premium for usage on the iPad



Case Study: Wall Street Journal

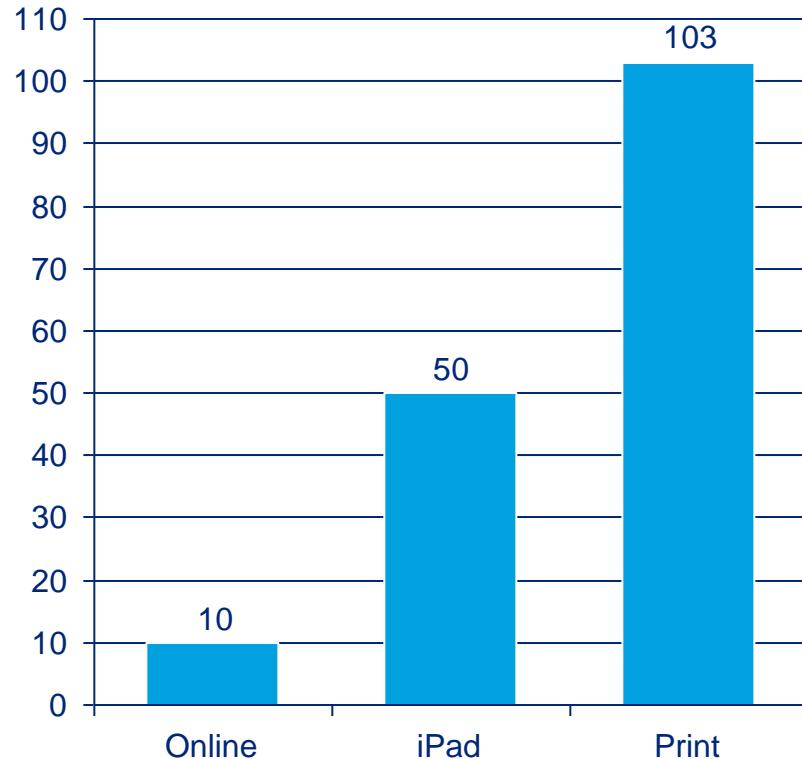
Owned by News Corp, the WSJ has a circulation of 2.1 million (414,00 paid online subscribers).

- **(Online) business model:**
 - iPad: \$4.15/week for non-subscribers / free for subscribers to print version
 - Paper: \$2.99/week
 - Web only: \$1.99/week
 - Paper and Web: \$3.50/week
 - On iPhone: \$1.99/week
- **iPad app:** The WSJ released the app on 2 April 2010. So far 10,000 new, paying subscribers have downloaded the app with an additional 100,000 print subscriber downloads.
- **Analysis: Pricing** remains a difficult matter. This holds more so for newspapers than for magazines, as their content is more commoditized. Still, the WSJ charges more for its iPad app than it does for the paper version and the website *combined* and is relatively successful. Some **key success factors** emerge.
 1. The content comes from a trusted, well-known brand.
 2. The content is “curated”, that is, aggregated in a sensible and selective fashion.
 3. The content is tailored to a niche market.

In the future, experts see newspapers adding more design and interactivity, combined with live news updates. This would create a hybrid newspaper-magazine, which could combine a high willingness to pay and considerable ad-friendliness.

As a second revenue stream, the tablet also offers better advertisement opportunities than 'traditional' online media

Average USA Today ad rate (\$) per 1000 eyeballs



Comments

- PointRoll, a US ad agency, has placed four \$200,000 campaigns so far for Ford, Unilever, Marriott and Target within the iPad edition for USA Today and reports six times higher click-through rates than ads on the web
- iPad ad rates will go down as the 'newness' factor wears off, but likely to remain higher than on normal websites

"What is unique about the iPad is they are truly the most tactile device, (...) you are moving the content with your hands, (...). This is a more immersive experience than the lean back of TV or the lean forward of the PC. You are part of the content." – *PointRoll*

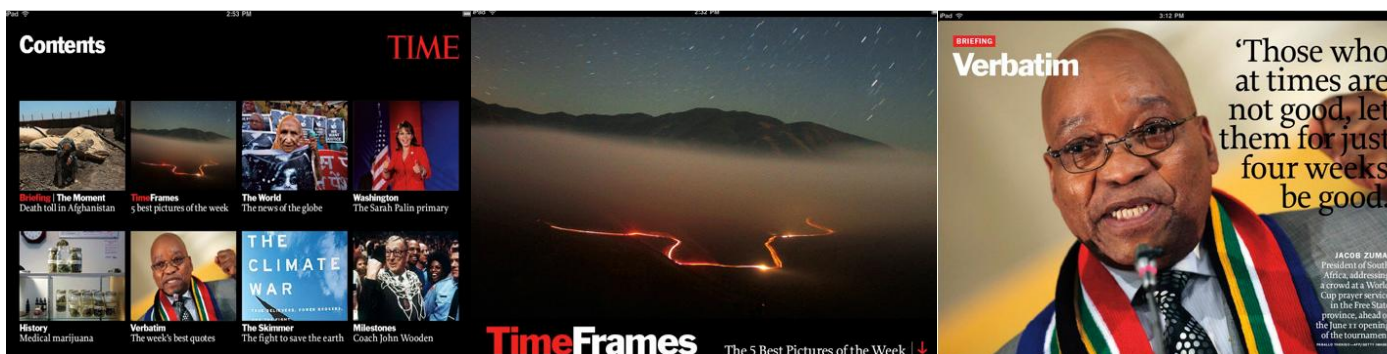
The immersive experience of the iPad leads to higher ad value especially for first movers



Case study: TIME Magazine

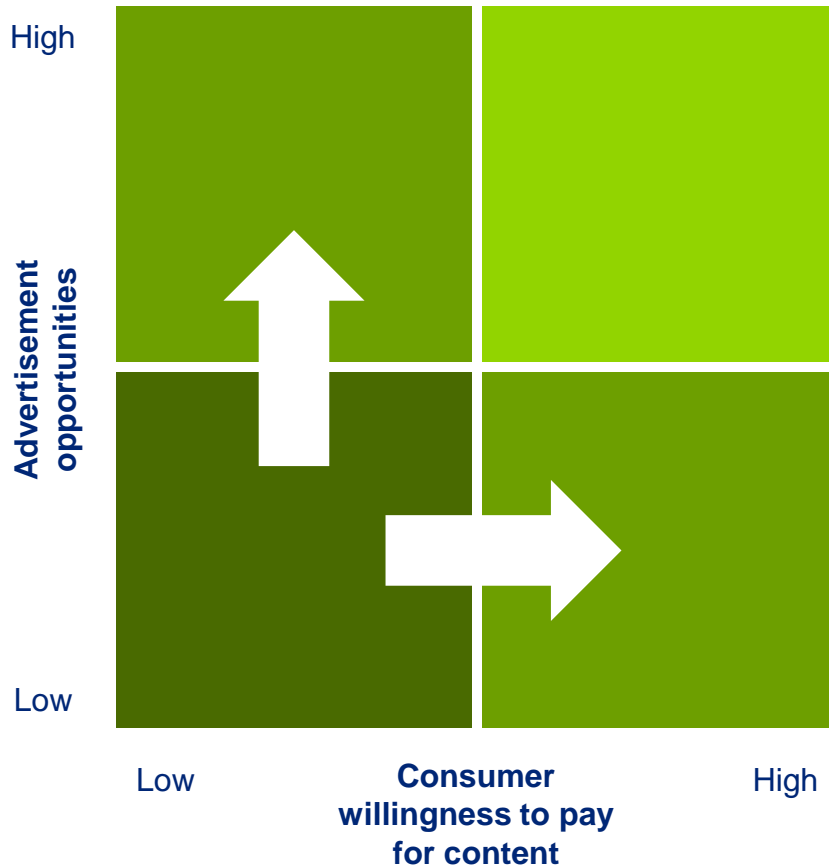
A weekly international newsmagazine covering a wide range of topics including business, politics, lifestyle and opinion. TIME has 3.4 million paid subscribers.

- **Business model:** users can download the app for free, but pay \$4,99 for each single issue. This is identical to the cover price in newsstand. No digital subscription possible
- **iPad app:** A first version was available on Apr 30, 2010. User ratings were extremely low (1 out of 5), again focusing on both pricing and technological issues. Nonetheless, **TIME made \$1.6mn in advertising from the first 4 issues on the iPad.**
- **Analysis:** The launch of the iPad version of TIME was accompanied by a large marketing effort, drawing many advertisers. When the 'newness' factor wears off, the reader will still be provided with ads that contain video, games, embedded shops, etc. This likely ensures higher interactivity with the ad and thus higher ad value.



Source: iTunes store, Expert interviews, Deloitte Analysis

The iPad could increase both the willingness to pay and the advertisement revenues and has strengths that are relevant for e-commerce



Increasing consumer willingness to pay

- ✗ Consumers unlikely to pay for products that they have been receiving for free; unless significantly improved packaging
- ✓ Unique, interactive, higher value products that cannot be found for free likely to be able to increase prices because of a higher user willingness to pay

Expanding advertising opportunities

- ✗ Online advertising rates are roughly ten times lower than in print, but iPad rates likely to remain significantly higher than online
- ✓ More immersive ads lead to higher ad rates with advertisers willing to pay premium for novelty or higher relevance
- ✓ Higher measurability of customers can be used for targeted marketing
- ✓ Several e-Commerce opportunities abound; as impulse buying is very easy on the iPad

Is the tablet going to save the
Dutch publishing industry?

Due to the limited size of the Dutch market most publishers will be unable to realize significant earnings from tablets before 2013

Key findings

Market Size

With an estimated 1 million tablet devices by 2013, the Dutch market remains small. Revenues from newspaper or magazine sales will therefore be limited. However, the user base (early adopters) will be interesting for advertisers thus keep advertising levels above current internet rates

Cost

A tablet is not a piece of paper. To fully utilize the capabilities and exceed user expectations, publishers will need to invest in content (e.g. video) and optimise the user interface/experience. Considering the limited market size it remains questionable whether revenues will outweigh costs in the short term

Internet Pitfall

“Everything is free!” Consumers are spoiled on the internet. The lack of cooperation between publishers is partly the cause for this default in the (internet) marketplace. Better cooperation, shared learning and developing superior products will help the industry avoid similar mistakes

However, we expect tablets to change consumer behaviour and it could become an interesting market in the future (1/2)

Route to success

1 Adapt to the device and medium

Don't just translate the product to a digital version. The app should make use of the possibilities the medium offers

4 Pick a niche

Focus is the key. Limiting the user's options to an interesting subset is a service, not a shortcoming. It guides the user through the information jungle

2 "Curated Content" is the key

Bring order to chaos. Less is more. Although tablets offer virtually unlimited possibilities, the key to success is restraint

3 Design Matters

Tablets are a deeply immersive experience. Design is a crucial factor in successful engagement and will set you apart from the maze of similarly formatted competitors

5 Innovative ads

Just as with content, the iPad offers incredible possibilities for innovative, immersive advertising. Leverage this interactivity to build brands and sell ad space effectively

However, we expect tablets to change consumer behaviour and it could become an interesting market in the future (2/2)

Route to success

- 6 Leverage industry best practices**

Since tablets lie in uncharted and quickly changing territory, it is important to leverage learning across industries through best practice centres
- 7 Combining ads with sales**

Impulse sales have never been this easy. Online shopping will be a tap away. Seamless integration between content and ads is essential
- 8 Embrace the cloud**

Strong connectivity and weak onboard processors requires moving the processing burden to the cloud.
- 9 Value pricing**

Multiple pricing models will be tested, but establishing the price of the product in relation to the value the customer sees in the product is the key. This is applicable to advertising as well as content
- 10 Work with the middleman**

Control over customer information and payment gateways is unlikely to remain with the publishers in the future, so work with the aggregator who controls this information

Coming up....

TV anywhere?

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