

4.3

Classified Models Revisited

As the relentless migration of classified advertising to online continues, there still remains an opportunity for newspaper publishers to defend their markets – and make the best of the advantages newspapers can offer advertisers

Shaping the Future of the Newspaper



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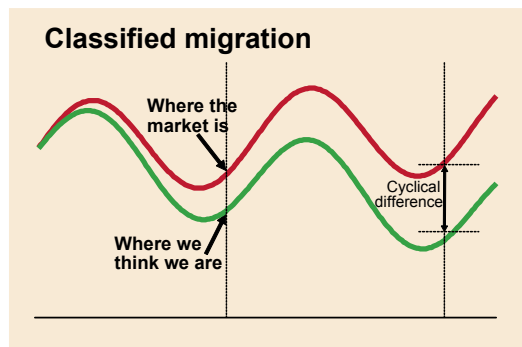
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Introduction

THERE are two clear messages in this year's study of classified migration. Firstly, the bad news: if publishers do not move fast to transform their business models, they will lose a lot – if not most – of their classified revenues over time. In some markets, this could be as quickly as in the next five years. In others, it could take up to 15 years.

The second message is good news. If you are prepared to overhaul your business radically, to accept that the opportunity to make profits in the new digital world is greater than the losses you will incur by relinquishing your traditional ways over time, then there is a good chance you will retain many of your derived profits in the long term. Newspapers have a range of outstanding competitive advantages – local branding, strong readership across most generations, contact with traders, reliable reputation, strong marketing capability, in-house resources, in-house sales, content management skills and technology – which remain the envy of all competitors, old and new.

The long-term restructuring of the classified



market is also being clouded by cyclical factors. In most mature markets, the economic cycle is on the upswing. For many of us, there appears to be a long-awaited recovery going on in advertising volumes and revenues. But the underlying picture is very different. While newspaper revenues are recovering, the volume of business that is coming back into newspapers is far less than that going into the digital media. Over the period of the next economic cycle we will witness significant changes in the structure of the customer base, which will only be truly felt when the cycle takes its next downturn.

Many managers close to the ground express frustration that their own boards are failing to see the need to radically change the business strategy and re-engineer the organisation and the P&L to reflect the new reality. To quote one frustrated advertising manager we interviewed:

“This is very hard to explain to management. They are basking in the glory of increased revenues and believe that we have bucked the migration trend. Once we start losing revenue and they agree to online sales it will be too late.”

Those publishers who still believe they have to structure their sales operations primarily to protect their traditional business (without giving due attention to attracting their share of what is becoming the new business) are likely to see their revenues drift away to identifiable and emerging digital competitors.

The pace and structure of migration are far from uniform. Last year we offered a model that assumed that the nature of migration was driven by two factors: the traditional scale of classified revenues in the market or the newspaper and the experience and penetration of internet usage.

This year’s survey confirms the rationale of the model. It also serves to reveal some trends, reactions and initiatives that offer publishers in less dynamic markets a range of experiences and actions to draw on in order to avoid the revenue collapses that some of their peers have experienced. These will also, it is to be hoped, accelerate control of the new digital market ahead of an increasing array of new and geographically expanding players.

There is one small consolation in these difficult times – and a source of potentially vital trading stability – is that we in the media are not alone.

The driving factor in this digital age is what is known as disintermediation. The notion that buyers and sellers are seeking to bypass all the people who previously would participate in their transaction process. These personal transactors have two motives for doing this. The first is financial. Many people do not want to pay car dealers, estate agents or recruitment companies the margins they demand. Similarly, many consider the cost of advertising as being too high relative to the benefit they receive.

This is obvious, and the advent of more

specialist media able to introduce buyers to sellers at a dramatically lower price than newspapers can viably offer has been an issue for 20 years.

But the second cause of disintermediation is more interesting. Buyers find it simpler, quicker and more convenient to deal directly with sellers. Against this factor we can offer a number of potential solutions.

In the world of disintermediation, our relationship with our trade advertisers – car dealers, estate agents, recruitment agents, and even advertising agencies – changes. Today we are all fighting for a share of the buyers’ and sellers’ attention. Each of us has to justify our role in the transaction process that takes place between the two.

More and more buyers and sellers are choosing to transact directly. The latest research from Borrell Associates in the United States, suggests that in the last year the number of car sellers who sold their vehicles privately rather than through a dealer rose by 20 per cent.

In this climate, traders are also fighting to remain involved in the transaction process. Some see newspapers and other media as competitors in this. Others see their traditional local media partners as their salvation. Part of our strategy has to be to decide to partner with our long-term advertisers or move with the trend toward disintermediation.

This report provides an update of the trend toward classified migration. It reports that this trend is accelerating, but that publishers can respond to these changes positively and exploit the inevitable, inexorable movement toward digital to their own advantage – and that of their traditional advertising partners. But it is essential that publishers move quickly and confidently to embrace these changes, and do not sit back and simply try to retain their old business streams at any cost.

You can win. But you will have to play by someone else’s rules.

Classified migration: Perception versus reality

Perception	Reality
<p>“Since we market digital and printed media, online advertising is seen as another potential source of revenue. It is not a threat.”</p> <p>Classified advertising manager, daily, East Asia</p>	<p>Clients will not spend more on advertising because another advertising channel opens up: they will more likely reallocate their ad spending among different types of media. Demand for advertising is elastic – it will grow in volume as prices fall, which is likely to happen both in print and online due to the arrival of digital-only competitors. In Denmark, Sweden and The Netherlands – the markets where the shift to digital classifieds has been strongest – print advertising prices have been slashed by up to half, as newspapers found themselves priced out of the market.</p>
<p>“We have turned the corner. Last year saw a growth of 20 per cent in [print] job advertising.”</p> <p>Research director, daily, Scandinavia</p>	<p>Advertising in general and recruitment advertising in particular are very cyclical. As many developed economies are starting to pick up, recruitment advertising is on the rise in all forms of media. This does not mean that print newspapers have won a battle – let alone the war – against the digital-only competition.</p> <p>The regional press in France, for instance, is estimated to have lost 30 per cent of its recruitment advertising to online media, according to Sophie Arnould, the commercial director of Com-Quotidiens, the national sales house that represents the French regional press, to national advertisers.</p> <p>In Australia, the recent strong growth in recruitment advertising, particularly in display ads for senior appointments, has offset the migration of lineage advertising to the internet. “The decline has been masked by the strong employment cycle,” says Alan Revell, commercial director of John Fairfax Publications..</p>
<p>“Large organisations advertise only in reputable newspapers to promote their corporate image. Traditional advertisements in printed media are still popular as a means of public relations and recruitment.”</p> <p>Classifieds manager, press group, East Asia</p>	<p>Large organisations are going to advertise in reputable media as long as it cost-effectively delivers qualified job applicants, house seekers and car buyers. As internet penetration increases readers, and so advertisers, will gradually shift some of their attention online. Newspapers, if they follow the right strategy, are in a good position to transcend the media divide and become the reputable and leading player online.</p>
<p>“We are the market leader online. The internet has not threatened our existence.”</p> <p>Classified advertising manager, daily, Eastern Europe</p>	<p>It will threaten the classified revenue stream. The barrier to entry online is much lower than in print, so newspapers cannot command the same prices. Online prices average between 5 per cent to 10 per cent of print. Without a surge in volume or a reduction in costs (or some combination of both), newspapers’ bottom lines will be threatened even if they are market leaders online.</p>
<p>“We do not expect to lose revenue, since it will be compensated from online sales.”</p> <p>Advertising director, regional daily, Germany</p>	<p>None of the newspapers in the survey has managed to replace lost print revenues from online sales. With online prices at about 5 per cent to 10 per cent of print prices, volume online would need to grow, depending on a newspaper’s exact prices, between ten and twentyfold for digitalisation to be revenue neutral.</p> <p>SFN estimates that the fall in costs associated with administering and delivering ads online rather than in print means that newspapers need to grow their classified volume “only” seven to eight times for the transition to be neutral in terms of net revenues. Even this lower threshold has not been reached by any survey participant in 2004.</p> <p>“Given the large investments we’ve had to make to position ourselves in the online markets, and the pricing ratio, the online volume would need to grow between ten and twentyfold for digitalisation to be revenue neutral depending on a newspaper’s exact prices,” said Rik Corman of Dutch daily De Telegraaf.</p>
<p>“Our market share has not fallen.”</p> <p>Research director, regional daily, UK</p>	<p>Market share measured the traditional way (against other newspapers) is more than meaningless: it is misleading. By focusing on this metric, newspapers do not realise until it is too late how much of the market has shifted to classified advertising magazines and the internet, when they only concentrated on competing with the newspaper across the street.</p> <p>Furthermore, many transactions that used to be advertised in the newspaper now take place online through eBay. For instance, a newspaper may believe that it has a 50 per cent market share in the second-hand car market by tallying the total number of relevant ads in all competing publications and media. However, if only every other car is ever advertised, the newspaper’s share of all transactions is only 25 per cent – and probably falling.</p>

1. The 2005 WAN survey

By Miklos Gaspar

IN ORDER to continue tracking the level of migration in classified advertising from print to online, the World Association of Newspapers repeated the survey conducted in 2004 and gathered fresh data from newspaper companies around the world.

1.1 Methodology

WAN interviewed 78 executives at press groups representing more than 200 newspapers and classified magazines, with a combined circulation of 73 million copies and print classified revenues of \$2 billion. To spot trends in markets at different stages of the classified migration process, publishers with different experiences and approaches were selected from 45 different countries from around the world. Around half of the executives interviewed also participated in the survey last year, so trends could be followed on a case-by-case basis.

Classified advertising accounted for an average of 40 per cent of revenues at the newspapers

**Table 1.1: Overall trading
Year-on-year summary
– total survey**

Circulation	+3%
All newspaper revenues	+3%
All newspaper advertising	+5%
Newspaper classified	-10%
Online visitors	+51%
All newspaper digital revenues	+50%
Newspaper online classifieds	+20%

in the survey, ranging from 0.1 per cent at a national daily in Southern Africa to 76 per cent at a regional daily in the United Kingdom.

Interviews were questionnaire based, followed by telephone or email conversations. The following data were collected:

- basic corporate figures: newspaper circulation, internet site traffic, print and digital revenue;

Survey participants at a glance

Number of interviews: 78

Those also in 2004 survey: 50

Number of newspapers represented: 210

Number of countries represented: 45

Total circulation: 72,875,000

Total classified revenues in print: \$1.97 billion

Total classified revenues online: \$91.5 million

- revenue from different categories of classified advertising in print and online: recruitment, automotive, real estate, travel and miscellaneous;
- market share in the various classified advertising categories in 2004, 2003 and before the commercialisation of the internet in the marketplace;
- market share of print and digital competitors across the various classified advertising categories.

By concentrating mostly on changes in market share rather than revenue over the past few years, we aimed to neutralise the effects of the economic cycle assuming that, all factors being equal, economic recession and expansion would affect the market players to the same extent and so market share would not change.

The collection of quantitative data was followed up by telephone and/or e-mail interviews with each participating company. Here publishers were asked about the marketplace in which they operate, the strength and nature of their competition and their current and future strategies. Respondents were asked to summarise successes as well as failures over the past few years.

The interviews were conducted in February to April 2005. The quantitative data refer to 2004 figures.

1.2 Revenue changes since 2003

More than half the respondents also participated in the Digital Classifieds survey

last year, which allowed us to track revenues across this subset of the sample in the various classified advertising categories.

The overall change in a newspaper's revenue could serve as crude proxy for the health of the economy in which it operates, and so the effect of the digital migration on print classified revenues can be measured relative to this overall change. Among the developed country publishers in the survey, overall revenues in 2004 were up by 4.4 per cent, including a 4.7 per cent rise in advertising revenues. At the same time, however, revenues from classified advertising decreased by 12.1 per cent from 2003 to 2004.¹

The biggest loss, more than 20 per cent each, occurred in the miscellaneous and automotive categories. At the same time, recruitment revenues were up by 14 per cent – signalling that newspapers do benefit in print from the effects of the economic upturn. In fact, newspapers have actually slightly increased their share of recruitment advertising in print in 2004, which is discussed in the next section.

Digital revenues at newspapers in developed countries were up by more than 50 per cent in 2004 compared with the previous year. Classified revenues, however, increased by just over 20 per cent during the same period. This is a far cry from compensating for the lost print revenues, and indicates that newspapers need better defined and more realistic strategies to succeed online.

The picture is much rosier among newspapers operating in emerging economies and developing countries. Publishers in our survey in these markets have increased their overall revenues by more than a third and their classified revenues by more than half in 2004 – though in terms of classified from a significantly lower base. In many of these markets newspaper readership and even literacy is on the rise, while the internet is not a significant factor for the time being. The challenge for newspapers operating in these markets is to learn from both the successes and the mistakes of their peers in developed markets and prepare for the online competition that is to come. Indeed, in terms of the middle class, internet penetration in Eastern Europe, Turkey and some Asian

Table 1.2: Print revenue change (2003-04)

	Total revenue	Ad revenue	Classified	Automotive	Property	Recruitment	Travel	Other
Developed countries	4.4%	4.7%	-12%	-22%	-10%	14%	-9%	-31%
Emerging economies	39%	52%	52%	34%	51%	19%	140%	190%

Table 1.3: Online revenue change (2003-04)

	Total revenue	Ad revenue	Classified	Automotive	Property	Recruitment	Travel	Other
Developed countries	50%	66%	33%	180%	47%	140%	100%	-20%
Emerging economies	150%	220%	110%	NA	NA	NA	NA	NA

countries is already close to the overall levels in the developed world.

Online revenues among survey participants from emerging and developing markets have increased by almost 150 per cent, with classified revenues up by 106 per cent. These numbers, however, are increases on very low bases – as many of these newspapers are at the stage of selling their first banner ads to their web sites.

1.3 Print losses

The trend of slow but steady migration out of print and into digital media continued in 2004 – though newspapers in different markets are exposed differently to this trend. Newspapers overall have on average lost 13 per cent of their classified market share since the “pre-internet era”. In other words, they have lost 13 per cent of their classified advertising revenue between corresponding points of the economic cycle.

Between 2003 and 2004 newspapers in the survey have lost 4 per cent of their advertising market share. This indicates that migration has picked up compared with earlier years, but this is due not to faster migration in individual markets but to migration starting in more countries around the world. Indeed, even newspapers in Africa have reported digital classified revenues, which may be small in absolute terms, but signify that no region is completely free from the effect of classified digitalisation any more.

At the other end of the spectrum, newspapers

in the most digitalised markets, Northern Europe and The Netherlands are arriving at the new equilibrium, with a sustainable share of advertising remaining in print. “Most of the migration has been reached. There can still be some movement but it will be slight,” said Janette Kyröläinen, classified advertising manager at the Finnish regional daily, Turun Sanomat.

The following charts summarise losses in print market share across the various classified advertising categories in the last few years and in 2004 alone.

Newspapers in every region are now reporting digital classified revenues. Many markets have moved along to the next stage of the

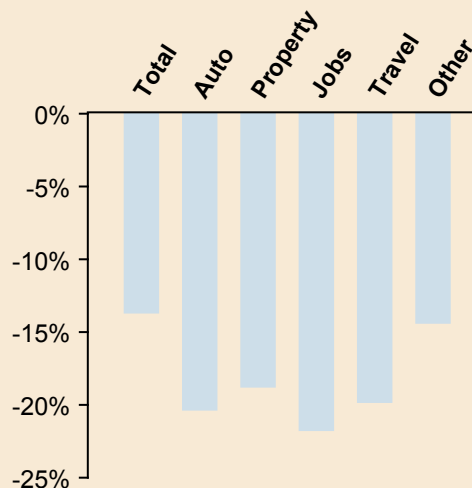
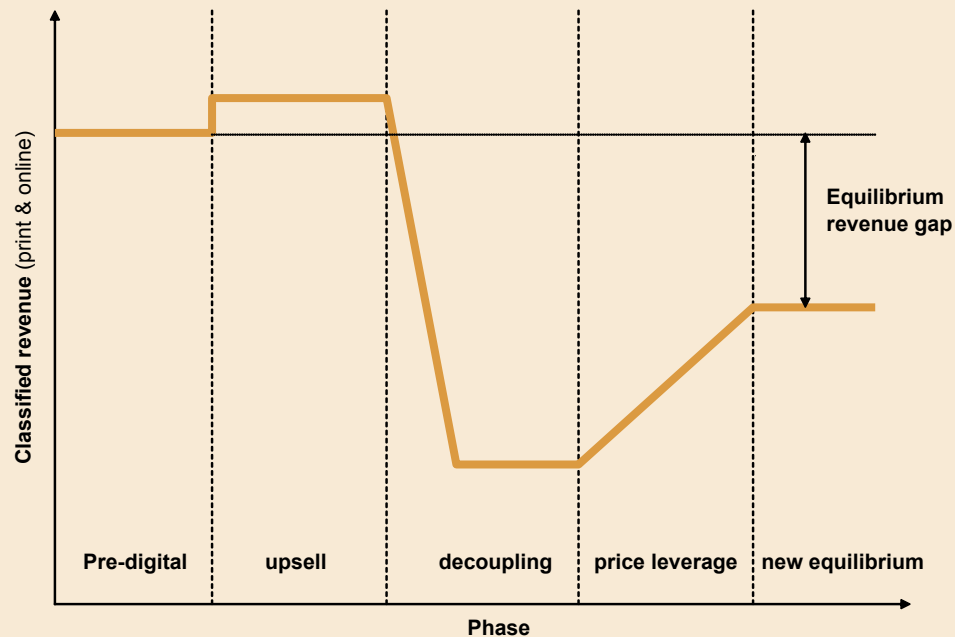
Chart 1.1: Market share loss (pre-internet – 2004)

Chart 1.2: Classified migration revenue model

migration model established in the 2004 SFN survey. In the early stages of the migration process, this means growing revenues for a period of time: newspapers can charge extra for placing ads on the internet. This is the stage where Latin American, African and many less developed Asian markets such as India, Indonesia and Thailand are.

In Southern and Eastern Europe, however, which fell under this category last year, in more and more markets newspapers are forced to “decouple” sales of internet and print classifieds – allowing their advertisers to purchase ads for online only, bypassing the print product altogether. Though this means an often significant decrease in revenue, it is a strategic must. The opportunity to upsell clients is a comfortable position, but when enough readers are online it also opens the door for a digital-only competitor to undercut the newspaper, hurting its print and online market position at the same time.

The barrier to entry into the online classified market is low, and if newspapers, the dominant local forces in classified advertising, do not allow web-only ads, they are helping only their competitors.

A better long-term strategy is pursued by

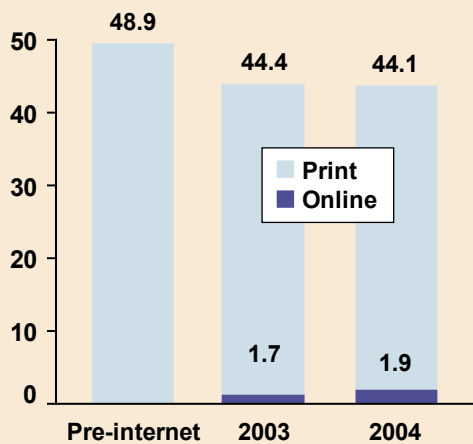
Eurosud in France and Capital in Bulgaria: both papers already allow the option of web-only buys but do not actively publicise it. “You can find it on the web site if you are really looking for it, but we do not promote online-only sales,” said Rumiana Georgieva, advertising director at Sofia-based Capital.

As of late last year, French regional dailies also allowed web-only placement of recruitment ads into its joint recruitment site, said Sophie Arnaud, who oversees the project at the newspaper association, Com-Quotidiens. With this move they hope to avoid the fate of Paris-based papers, which have seen a significant drop in recruitment advertising volume, she said.

Other papers have not yet gone down this route, but are watching the market and are prepared to decouple when market conditions dictate. “With time, we will be under pressure to accept online only classified ads for low-end jobs,” said Perry Mak, publisher of the Hong Kong Economic Times.

If newspapers have decoupled their sales and established themselves as leader in the new market place, they can slowly begin to raise prices. This has started happening in Finland, where several regional dailies, including Etelä-Suomen Sanomat, have begun raising

Chart 1.3: Newspapers' share of classified market – Recruitment



prices. Prices have been raised by around 10 per cent said Markus Kräkin, the marketing director.

However, it is unlikely that rates will be anywhere close to print rates – but much of that fall in revenue per ad can be compensated by a surge in volume and a decrease in costs associated with online-only advertising.

1.4 Findings by sector

1.4.1 Recruitment

In many markets recruitment advertising for more qualified, white-collar jobs tends to be the first category to migrate to the internet. This is the category where newspapers have lost the most over the last few years: 21 per cent of their market share has moved online. The highest loss is reported by newspapers in Scandinavia and the United States.

One Nordic newspaper has lost 60 per cent of its print market share in the past five years. “We are reaching equilibrium now, and are looking forward to regaining some of our market in coming years,” the daily’s classified advertising director said.

A fifth of recruitment advertising has migrated out of newspapers in The Netherlands as well, where another quarter of current volume and income will likely shift to digital media, said Harold Rimmelzwaan, who heads the online operations of the Dutch

regional publisher, Wegener Dagbladen.

Newspapers have actually regained some of their market share last year. Not only have overall recruitment revenues grown in line with the economic rebound in many markets but revenues in print newspapers have grown faster than in their digital and other competitors – which is strategically more important. This has meant a 4 per cent increase in market share in recruitment advertising in 2004 compared with the previous year.

The chief reason for this slight rebound is that newspapers have managed to convince more of their advertisers that dailies are the best medium to reach passive job seekers: those who are not actively looking to switch jobs but could be enticed to apply with the right offer. “Recruitment consultants will tell you that 35 per cent of their placements are browsers of newspapers,” said Liam Holland, advertising director at the Irish Times.

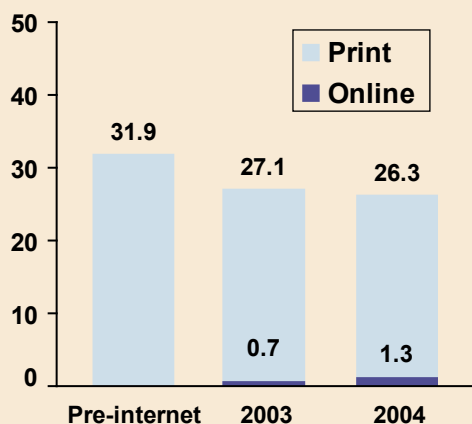
Many regional papers also actively exploit in their sales pitches the corporate image value that recruitment advertising has in the paper. “You show the community that you contribute to the local economy by hiring their friends and neighbours,” said Ildikó Értelmes, head of classified advertising sales for Pannon Lapok, a chain of regional dailies in Western Hungary.

The next challenge to newspapers, both in print and online, may come from human resource managers. In early April the internet Corporation for Assigned Names and Numbers (ICANN), which regulates top level internet domains, approved the creation of .jobs domains – for the sole purpose of posting corporate jobs. Once such sites proliferate, a meta-site or search engine deep-linking into the individual postings will offer a very powerful tool to active job seekers.

1.4.2 Automotive and property

Newspapers tend to concentrate on losses in print recruitment advertising, because in most cases that is the category that begins migrating to the internet first. However, they face a larger potential threat in automotive and property advertising, which, unlike recruitment, is dominated by a relatively

Chart 1.4: Newspapers' share of classified market – Automotive



small number of professional advertisers, who can get together and design their own publishing platform.

“Our customers are becoming our competitors,” commented Terry Hall, advertising director at Cumbrian Newspapers in northern England.

As much as 60 per cent of automotive advertising has migrated to the internet in The Netherlands, said Mr Rimmelzwaam of Dutch publisher Wegener Dagbladen.

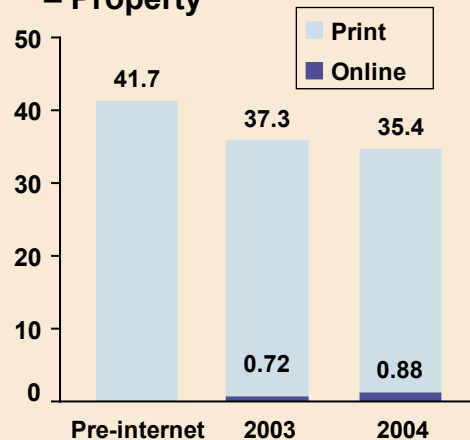
In Ireland, the realtors’ primarily use newspapers to push their web sites, said Liam Holland of The Irish Times.

In the United Kingdom, the realtors’ association has established a competing web site, which is hooked up to the databases of member agencies. Not only does this mean a threat to the newspapers’ print franchise, but also to their own internet classified solutions: the realtors’ rightmove.co.uk is now the clear market leader in most local markets in the UK.

Though car dealers have been traditionally more independent minded, here local newspapers face a different kind of challenge: dealers are more and more often required to contribute to a national campaign, part of which is a push to drive traffic to the brand’s national site. “They are downsizing print but are not putting the savings towards [local] internet advertising,” said the classified sales director of a UK regional daily.

The Leicester Mercury in the United

Chart 1.5: Newspapers' share of classified market – Property



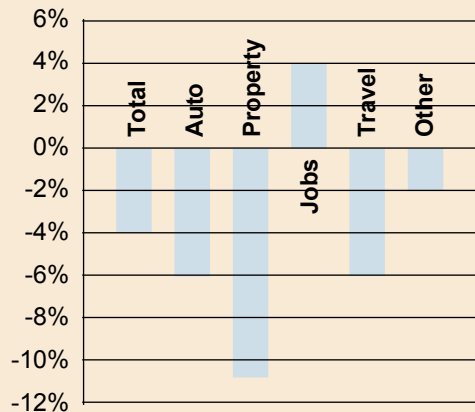
Kingdom is trying to match leading property websites by setting up auto-upload channels from estate agents to its own web site at no extra cost to the advertisers. It needs to reach beyond the organised agents and hook up the smaller, independent agents who are not on the web, explained David Allen, the Mercury’s marketing director. The paper is pursuing the same strategy in the motors segment, where it has arranged auto-upload for about 80 larger dealers, who are also print advertisers and who make up 70 per cent of volume in the market. “We are actively developing robust online links to car dealers’ and property agents’ inventories of vehicles/property to maintain ‘first choice status’ and share of the local marketplace with an integrated online/print proposition,” he said, summing up the paper’s strategy.

To address the challenge of migration in these categories, newspapers began last year to exploit the strategy that worked for retaining recruitment advertising in print: emphasising the value of the passive house and car buyer in their sales pitches.

“A classified ad is more than just an ad for a car or piece of real estate,” said Gunnar Springfeldt, summarising the pitch of Swedish daily Göteborgs-Posten, which has managed to halt the migration of ads in both categories, to free papers and the internet last year.

This approach works especially when the newspaper’s proposition includes a bundled

**Chart 1.6: Market share loss
(2003-04)**



sale for the print product and the web. “We actively encourage advertisers to include more content online than in print – and use the print listing to drive people online,” said Wes Freas, senior advertising manager at the online division of the Arizona Republic in the United States.

To best target passive buyers, many newspapers have reorganised their classified advertisements and have moved from a purely classified section to thematic sections. Népszabadság, Hungary’s largest broadsheet, for instance, has introduced weekly car and real estate supplements, and has moved its relevant classified advertising there to generate better response to its advertisers, explained Erzsébet Sudár, the advertising director. The same approach has been taken by the Toronto Sun in Canada and by Göteborgs-Posten, which have recently introduced weekly real estate and car sections with a mix of strong editorial coverage, display and classified ads. Canada’s Globe and Mail has a thrice-weekly career section, with one of these sections in a standalone supplement with related editorial coverage, said Gottfried Wirth, the sales manager.

The German regional publisher, Neue Osnabrücker Zeitung, went even further, starting its classified section on the front page of its weekly thematic supplements, said Cornelia Schulte, the deputy advertising director.

The most important long-term problem for newspapers in this sector may well be

that their best customers are themselves under threat: classified sites and direct sales channels such as eBay are cutting out the need for dealers from the sale of used cars.

In Denmark many sellers of secondhand cars now typically bypass dealers, and, along with them, the newspaper. “More and more transactions [are] directly from private to private,” said Poul Melbye, research director at a leading daily, Politiken. This has meant that in automotive advertising online has now overtaken print in importance, he said.

In the United States, private party car sales increased by 20 per cent in 2004, according to a recent report by the consulting firm, Borrell Associates. And, as the next section explains, private party advertisers tend to avoid the newspaper both in print and online.

1.4.3 Private sector ads

Newspapers in the most developed markets have lost much of their private sector advertising already – and, unlike in the professional ad categories, they typically have not managed to retain these ads in their own online operations. Much of this advertising has migrated to local sites such as eBay, craigslist.com and their local equivalents.

“P2P [peer-to-peer] advertising is dead in metropolitan newspapers,” said Alan Revell, commercial director of the Sydney Morning Herald, which has recently launched its own free site for consumer-to-consumer ads to compete with craigslist.com and local free sites in Sydney, Australia.

The only ads newspapers could retain in both print and online in this category are ads for items “that cost more to ship than to buy”, explained Wes Freas of the Arizona Republic. For items such as a fridge or a washing machine, the newspaper’s local dominance and reach is a key advantage, he said.

Göteborgs-Posten adopted a risky strategy which has paid off: the paper has slashed print prices for private party ads by 85 per cent and seen a surge in volume, which almost compensated for the decrease in income per ad, explained Gunnar Springfeldt, the development director.

The one category of private sector ads that are not susceptible to digitalisation is

birth, marriage and death announcements – which are the bread and butter of classified advertising for many local dailies in Eastern Europe and the Middle East.

“The purpose of these ads is to communicate to a wide local audience, who are not actively seeking these items. As a result, the newspaper’s position is not going to be challenged by online players,” said Ildikó Értelmes of Hungary’s Pannon Lapok.

At Lebanon’s An-Nahar newspaper, where obituaries account for three-quarters of classified advertising, there has been a slight increase in revenues since the newspaper started to publish obituaries online. The expatriate community, which makes up 95 per cent of the site’s readership, is now interested in placing obituaries for relatives who died outside the country, explained Naji Tueni, the deputy general manager. “Maybe the internet will give us an opportunity to develop this market further,” he said.

¹To neutralise the effects of exchange rate movement, the same conversion rates were applied for all developed country currencies when comparing data for 2003 and 2004. (For developing country currencies with high inflation, different exchange rates were used.)

2. The United States – an overview

By Melinda Gipson

CLASSIFIEDS continue to represent the frontline for online newspapers in their war for market share of internet users. I know, I know. I hear all my international friends saying, “How like an American to represent the internet in military terms.” But it turns out that the internet isn’t, as many may have thought, an ever expanding pie. In the United States, anyway, the people who are going to represent the internet audience for the near future are already there.

That makes the effort to engage them, in every aspect of their daily lives, a battlefield for mindshare.

Charles Buchwalter, vice-president of client analysis for Nielsen//Netratings told the Digital Marketing Conference and Expo in New York in April 2005 that growth of new users on the internet had stalled and may even be seen to decline. Using February 2004 and February 2005 figures as a benchmark, he said: “Over the last year, the gap between growth in unique visitors and growth in web pages consumed is nothing short of

staggering.” Taken as a whole, unique visitor levels dropped by 4 per cent and web pages per person increased two per cent for a gap of 6 per cent overall.

Citing a new report, Integrated Interactive Marketing: Quantifying the Evolution of Online Engagement, Mr Buchwalter charted five categories seeing significant growth in pages per person. Among them, News & Information saw a 27 per cent increase in pages per person compared with an 8 per cent decline in users.

The good news is that within the news category online newspapers are bucking the trend of user decline. The Newspaper Association of America’s own NetView numbers show that for the first quarter of 2005 an average of 42.4 million viewers read an online newspaper over the course of a month, for an average reach of 29 per cent of all those online. March marked the highest unique visitor total tracked in the last 15 months – more than 43 million people – which would seem to indicate that, over time, online newspaper readership is growing.

But our growth can't match that of the search engines. If anything, what's happening now is that, where online traffic is concerned, the rich are getting richer and the poor are getting poorer. Local online newspapers remain among the top media web sites in their markets. But if the local newspaper as an information franchise is going to retain its role as a means of putting buyers and sellers together, winning the battle for local shoppers online becomes a core objective.

And there, the gap between online newspapers and their portal competitors could be widening. The Kelsey Group revealed figures in March that 70 per cent of US households turn to the internet to find local products and services. That figure went up 16 per cent in 2004 over the previous year, putting the internet on a par with newspapers. A comparable number of users chose the internet as the place where they sought local purchase information.

Another study, the US Web2Store Benchmark Survey released by The Dieringer Research Group in February, reported that two out of three online shoppers sought local shopping information online in Q4 2004.

The study was developed in conjunction with ShopLocal.com, whose corporate parents are Tribune Co., Gannett Co. and Knight Ridder Inc. For those online newspaper affiliates who leverage their relationship with ShopLocal.com properly, the deep product database at the core of the online service can serve as a magnet to local shoppers to begin or end their purchase quest with their local newspapers. (See <http://shopping.tbo.com/> for an example of how this site looks when incorporated into a site the partners don't themselves own. This is non-standard; at boston.com where the site takes registration from users, shoppers are first asked for their postal code before being shown any "deals".)

Again, according to the Dieringer study, many shoppers would prefer to find what they seek locally if it meets their criteria and is the least expensive solution because they don't like paying shipping charges. Before the newspaper had so many deep-pocketed competitors providing such easily accessible online local shopping information, it didn't have to worry so much about being where shoppers turned to find a good deal.

Now, with local merchants making a habit of "stocking" the virtual shelves of their eBay stores, auto dealers making Autotrader.com a standard marketing solution and users making ready use of Craigslist.com or other free online listing services to sell their miscellaneous items, newspapers have to fight for ground in every product category, even the classifieds verticals.

But some of them are gaining on the competition. In looking at these perennial innovators – and the competitive Web "vertical" players for comparison's sake – we observe four characteristics. Their services are pervasive, passionate, personalised, and above all designed to be profitable.

Here are some of their stories.

2.1 Pervasive

SFN readers may recall that, in discussing the ubiquity of Google on the internet, last year I used the example of the search engine employing spy satellite technology to offer up aerial photos of US locales. But now the shopping site Amazon.com has taken the concept one better.

In January, Amazon launched its A9 Yellow Pages service, available now in two dozen major markets. In addition to providing merchant information commonly associated with online directories, A9 has used a digital camera mounted on the roof of a sport utility vehicle to capture and upload pictures of more than a million storefronts. It's happy to license its database the way many directory operators do already, but why does a local newspaper need Amazon to implement a similar solution?

PalmBeachPost.com continues to make inroads towards its "pervasive" mandate with Internet-enabled kiosks, explored in last year's issue. Libraries are clamouring for more units, and have a strict limit on time per user to make sure they're available. The idea is clearly targeted to non-subscribers, and has given the Post access to 2.5 million shoppers a month through 17 kiosks. There they can shop for more than 20,000 new and used vehicles or more than 7,000 properties.

Late last year, the kiosks added a "subscribe" button and now 1,000 shoppers a month

are clicking to read about subscribing to the print edition. Because non-mall store specials and ads appear on the kiosks, you might think it would be tough to break into shopping malls, but in fact, malls have asked for the kiosks so they can incorporate their own in-store promotions and because the publisher includes store directories, mall events, maps and even an application to join one mall's shopping club.

Now the newspaper is using its increased traffic to online classifieds and shopping data to launch a new, economical way for marketers to create 30-second videos which are included on the web site and on the paper's half-hour television show on Monday mornings. (For the real estate version, see http://www.digitalmediaclassifieds.com/Palm_Beach/Real_Estate_TV.htm.)

In the first full month, tens of thousands of people clicked on the web videos. The newspaper's partner, Digital Media Classifieds, creates the video from classified liners or display recruitment ads. The deadline is Friday at 6 pm and the web videos are available online and on the half-hour TV show on Monday. The show is then re-run daily until Friday. The Real Estate show uses multiple images for each property to create a unique video. Advertisers send in images up until 1pm on Wednesday and then the web videos and show are available on Saturday morning and re-run on Sunday. The copy comes from classified liners or print ads.

The new product generates tens of thousands more dollars monthly, but also drives more user traffic from people who enjoy watching the videos.

Of course, Google is a pervasive part of search in the U.S., and Google Local merchant listings, maps and driving directions are available even to web-enabled cellular phones. Google Local expanded to the US just recently. The response of McClatchy Co. newspapers has been to fire back with much more expanded local search services.

A one-word search for "bikes" on the home page of the Star Tribune in Minneapolis



(startribune.com) returns more than 660 stories, 1,520 local Web sites and Yellow Pages, 20 classifieds and 10 digitised and searchable newspaper ads. That's a far cry from some of the web site returns that are commonly achieved from local newspaper sites. What its relationship with vendor Planet Discover has done, is open up a single interface for anyone looking for news or items and services to purchase. It turns links into editorial and business decisions, and it provides plenty more page views with regular usage to serve as host to the large tower ad for the phone company at the right of the page.

But there's another key reason for the move. Google has changed the rules for its advertisers so that they can have more control over where their ads appear. The problem is, if they can designate their local newspaper with certainty, they're really getting exposure for which other advertisers have to pay a premium. It may not have the "buzz" of Google keywords, but if the home-grown solution delivers the same results and puts more of the profit into the pockets of newspaper publishers, it could catch on in the industry.

The newsletter Classified Intelligence Alert (<http://www.classifiedintelligence.com> <<http://www.classifiedintelligence.com/>>) recently reported that Tribune Co. has launched a new service Recycler.com that offers free ads for private parties and also aggregate listings from CareerBuilder, Craigslist and LiveDeal.com. Originally launched as an online offshoot of Los Angeles Free ad weekly newspaper Recycler, the service has been extended to six cities, where the group also

operates local TV stations, with a further five expected to follow. The Recycler.com sites are e-commerce-enabled. Buyers and sellers can complete either fixed-price or best-offer transactions.

Others focus directly on building up inventory in their shopping sites by taking direct inventory feeds from major retailers, pulling in searchable print display ads and providing a self-posting tool to people or companies who want to upload their items. Debbie Campbell at the Atlanta Journal-Constitution told an audience at the CONNECTIONS New Media conference in Dallas in March that the site now has more than 100,000 products in its database at ajc.com/shopping.

The self-posting tool was in fact designed with smaller advertisers in mind. "We don't want to leave any of our advertisers behind," Campbell said – certainly not retailers who don't digitise their entire inventory but still want to advertise online to drive footfall or move seasonal merchandise. We'll cover self posting more in just a minute, but it's worth noting that implementing this tool alone is often responsible for increasing site traffic. "Buy it now" capabilities protect the privacy of individuals who'd rather not call a classifieds seller online. Conversely, online newspapers are beginning to work with third party vendors who supply toll-free numbers to anyone who wants to post an item for purchase online. This protects the seller's privacy, especially one that might not want to advertise their financial state by selling an expensive item.

It has to be said at this point that many newspapers, motivated by competition from Craigslist.com have migrated their miscellaneous for sale classifieds to a charging category that is free online. Typically, there's a maximum break point, like \$100 or \$250 that a person wants to charge for an item at which price the classified becomes a paid rather than free service. But, caution: eBay is doing the same thing abroad, in 88 cities in Canada, Europe and the Far East with its local, free Kijiji site.

Much can be learned from eBay about making itself more pervasive by bringing

its site to the customer. It sends both merchandising and "personalised" emails to auction enthusiasts, either to highlight shopping categories like Spring fashion, or to wish buyers and sellers "Happy Anniversary" to mark the day they first registered for the site. (Then again, maybe that's an item for the "personal" section.)

Nothing says online newspapers can't gain mightily in making their classifieds sites more useful to consumers by watching competitors like Yahoo! and Google. In this context precisely, Lawrence.com, the perpetually innovative online site of the Lawrence Journal-World newspaper in Lawrence, Kansas, is in the process of integrating Google maps into its "Best Of" going out guide, and will soon make use of them in its garage sale listings.

The Lawrence Journal-World's director of new media, Rob Curley, said: "We've got our eyes on the next quarter century, not the next quarter," when commenting on the culture of innovation that pervades the operation. Sites looking to do the same may benefit



by hanging out at some of the same online watering holes as Curley and his project managers: Google Labs' Blogs (see <http://labs.google.com/>, click Google Maps as an example, and click on "Discuss with others".)

It's from spots like this that programmers pick up some seriously scary applications, like the marriage of Craigslist.com and Google Maps.

Aggregators can be friends of publishers as well, such as Oodle.com which seeks to aggregate classifieds in one locale but requires users to link back to the original publisher for the actual listings. Oodle is operating only in a few major cities and it remains to be seen if its business model will

be profitable. Sites that “scrape” a site for their classifieds content and post without attribution on their pages should be subject to copyright protections, but in fact it’s just simpler to block the “robots” that scan newspaper sites from accessing the content at all.

One contributor to the New Media Federation listserv (automatic mailing list server) even asked whether it had yet occurred to any publishers to “oodle” their fellow local competitors’ sites to pull their local ads into the online newspaper classifieds. This might add to the volume of smaller sites, but could water down the claim of many newspapers that their sites draw better results because there are committed sellers attached to the fee they must pay to be posted.

A few newspaper sites do make the online posting free if the ad appears in print to bolster competitive print classifieds businesses, but thankfully this number is diminishing as online classifieds prove their worth.

Finally, you’ll have no argument from me that mobile publishing is a wonderful way for online newspapers to expand their pervasive reach; there’s just not much new to report about online newspapers and mobile utility since my last report, at least in the US. Some really fabulous applications have been developed by publishers like ESPN.com, which is even exploiting mobile video with Verizon’s VCast service (see <http://getitnow.vzwshop.com/vcast.home.do>). Check out the “Get Famous” section with its user-generated videos for cell phones to see how engaging viewer-generated content can be in this medium. Then imagine a competition among sellers for who can most creatively “v-cast” his or her item for sale. Turning consumer passions into entertainment on classifieds is certainly one reason why eBay became so pervasive.

2.2 Passionate

In his NetRatings Engagement report, Buchwalter cited the Milwaukee Journal Sentinel’s football site about the Green Bay Packers as the poster child for tapping into users’ passions to build loyal readership. Providing user reviews, “buy it now” features,

and even opportunities for sellers to create personal narratives about their items for sale are all well-known ways of letting users generate compelling content for classifieds sites.

The examples I’ll use here, are all 2005 Digital Edge award winners for the best real estate classifieds Web sites in their newspaper size categories – a category that’s coming under special scrutiny in the US for a variety of reasons. I use this category as an example because so much of the technology and promotion that’s applied here is applicable to other classified verticals, and because it’s the one area where erstwhile “free” competitors like Craigslist.com are beginning to charge for postings. If online newspapers can win there, in other words, they can win anywhere.

Our winners, in three size categories, demonstrate that they’re passionate enough about classifieds to make them “best of breed”.

To find a winner, Digital Edge judges looked for sites that represented the most outstanding source for real estate listings in their market. The best sites offered exceptional search capabilities, tools, content and a deep pool of services. Judges paid special attention to the promotion of the real estate section on the Web site’s home page and penalized entrants who neglected to promote it properly. The judges used the following criteria when they reviewed the sites:

- Comprehensiveness of listings
- Quality of search and user interface, including the ability for homebuyers to search by location, price and type of property.
- Tools, content and services. Top sites supplement listings with in-depth information about neighbourhoods, schools, crime statistics, recent home sale prices by postal code and street, articles about new home builders, and more useful tools and content. Home descriptions should offer a variety of photos with 3-D views. The site should store homes and apartments of interest to viewers and send notifications of availability by e-mail.
- Breadth, creativity and value of services offered to real estate customers (brokers, realtors, etc). Advertisers should have the ability to place ads through a Web interface.

Entrants should enable customers to submit advertising online and aggressively promote this function.

- Presentation and promotion. The real estate section should be easy to find and promoted vigorously on the site's front page and internal pages.

The winner in the large newspaper category (circulation of 250,000 and above) was The New York Times real estate section, <http://realestate.nytimes.com>.

In New York City, there is no multiple listing service in which brokers share what's on the market for the benefit of buyers and sellers. At least there wasn't until NYTimes.com built one a few years ago. Today realestate.nytimes.com is one of the top sites a user will see after typing "New York real estate" into major search engines. But in 2004, in response to competition, the site was further improved with interactive maps that show data on home prices, income levels, school spending and other key information. Now, readers can simply roll over maps to compare neighbourhoods or construct charts comparing charts of suburban areas at a glance. There are hundreds of archived articles from The Times about communities in the region; and there are slide shows, audio interviews and interactive features about New York neighbourhoods and suburbs. For examples, see:

- <http://realestate.nytimes.com/community/searchindex.asp>
- <http://www.nytimes.com/pages/realestate/columns/>
- <http://www.nytimes.com/2004/11/21/realestate/21living.html/partner/rssnyt>

There are also two weekly features – "Habitats" profiling an unusual home or apartment, and another called "The Hunt" which tells the story of how someone made their latest find. Both are produced in audio slide shows in alternating weeks.

- <http://www.nytimes.com/top/classifieds/realestate/columns/habitats/index.html>
- <http://www.nytimes.com/2004/11/14/realestate/14hunt.html/partner/rssnyt>

In addition, enhanced search and e-mail alerts were added to the site, which allow readers

to focus on several neighbourhoods and specify what type of property they desire, how many bedrooms they prefer, and various amenities to choose from in the price range they specify: <http://realestate.nytimes.com/sales/SearchCriteria.asp>. Its creative blend of articles, data, interactivity and multimedia has led the site to become the dominant online source for real estate information in the New York area.

2.3 Mid-sized winner

In the mid-sized category, it's no surprise that The Palm Beach Post Real Estate channel came out on top. It offers thousands of local listings, videos, slide shows, mapping and every listing from every display ad in the newspaper. These services are on target to almost double online real estate revenue in 2005.

With more than 7,000 local listings, the site regularly attracts more than 1.2 million monthly page views and 2,200-plus daily visitors. It has far more local listings than any national or local competitor. As noted above, all listings and photos also are available on a network of interactive kiosks in every major mall in six counties giving the publisher access to more than 2.5 million shoppers a month. The most active kiosks are in Broward County from which more than 100,000 people have moved to Palm Beach County in the past decade. Since this county is outside the footprint of the newspaper and its Web site, the kiosks give the paper an affective way to attract the type of customer the newspaper advertiser seeks. Users can contact the broker, print the listing and search every item online.

This year, the newspaper also added the "Top Ad" bundles to the section. ("Top Jobs" postings caught on like wildfire in the US, adding millions of dollars to the bottom lines of newspapers. These featured listings in several classifieds categories rotate like keywords in a special banner that appears on popular pages of the site. Advertisers pay extra, on top of their listing fees, to have their ads rotate in such vertical tower ad spaces throughout the site so they can capture the attention of more "passive" shoppers.) PBPost.com added Hot Properties, Hot Rentals and Must See! Open Houses to its Top Ads rotations, adding almost \$4,000 a week in revenue and an average of 200 sales a week.

To make its database the most comprehensive in the region, it combined classified liners from the print edition, all the listings out of any display real estate ad running from ROP to Classified to the Real Estate Weekend broadsheet to special inserts to the Neighborhood Post and Residences zones. Also added were thousands of listings for existing homes for sale and models from dozens of new home communities, including interior and exterior photos and video tours and floor plans where available. Visitors can print colour brochures of new home communities, get driving directions and maps to most properties and search by county, city, neighbourhood, price and amenities such as pool or fireplace.

Also, they can perform targeted searches for golf, equestrian and waterfront properties and for luxury homes worth more than \$1 million. The online operations manager perfected a way for advertisers to purchase packages and then “surround” visitors with their ads during a user’s entire session in the pages of the online newspaper. To help visitors settle down, there are guides to hooking up utilities and cable TV, schools, hospitals, shopping, dining, recreation, libraries, local governments and houses of worship.

2.4 Compelling property guide

Even small newspapers can publish compelling online property guides. The Steamboat Pilot & Today is a small daily newspaper in Steamboat Springs, Colorado, with a daily circulation of about 10,000. SteamboatHomefinder.com combines a high-end real estate database with a top-notch visitors guide to create one of the most aggressive and hyper-local real estate sites in the nation. The site combines cutting-edge database technology with over-the-top “evergreen” content to serve homebuyers in new ways.

All of the site’s overkill hyper-local editorial content is cross-linked with every element of the home search database. SteamboatHomefinder.com allows users to search an enormous database of houses to find the perfect home. An extensive search process can narrow houses down by price, location, number of bedrooms, bathrooms and more. Once users have found a prospective

home, they can find exclusive information on the neighbourhood that the house is in, what schools are nearby (including some of the most detailed school information ever published by an online newspaper), and that home’s agent contact information. Users can then learn more about one of the best ski and resort communities in the world.

The site’s extensive city guide lets users find out everything they need to know about moving to Steamboat with content written exclusively for the Web site. The guide breaks down Steamboat into several neighbourhoods with an in-depth story about each area. There are articles, contact information and school report cards on every school in the region. Video and virtual reality 360-degree photographic tours let people see the sights and hot spots around the city without ever having to leave their homes. There is also an interactive Flash map that shows attractions and every public school in the Steamboat area.

Ten video vignettes depict life in Steamboat, along with several virtual reality photos and more than 100 stories written exclusively for the site, with all of this information tied directly into the classifieds homes search database. There are lots of real estate calculators on the site, and people can send in their information to get pre-approved for a loan on-line through a partnership with a local bank. People can become members of SteamboatHomefinder.com to get the latest information on open houses, receive updated e-mails with new homes that have come onto the market since their last visit to the site and make use of many other tools to help with the home-buying experience.

The site also allows visitors and real estate agents to print flyers for desired homes. All of the latest local real estate content from the Steamboat Pilot & Today is published on the site. The local board of realtors was so impressed with magnitude, content and technology of SteamboatHomefinder.com that the organisation abandoned plans to build a new web site and instead partnered exclusively with the local newspaper.

2.5 The personal touch

Registration has only picked up steam in the US in the past year, and linked users

to on-demand or as-available information from classifieds databases. More newspapers are availing themselves of short message service (SMS) to email headlines to readers, encouraging traffic to the main newspaper site, but surprisingly few sites have designed services explicitly for mobiles.

What publishers working closely with email or even promotional emails targeted towards readers have learned first hand is not to take their “opt-in” audiences for granted. A list of highly qualified consumers can be decimated overnight by a print subscription pitch from a newspaper’s circulators. Being charged with the care and feeding of such lists means saying “no” to stretching the definition of what’s relevant to a given audience, even when it’s hard.

Allowing users access to each other also can be an enormous draw to an online newspaper’s site. It’s for this reason that when Morris Communications launched a Web site and community newspaper in Bluffton, South Carolina, that it began with a Web-centric approach to community building. Along with the free daily tab, everyone in Bluffton received the gift of their own personal blog and a place to store and share all their digital photos. Items from the blogs appear in the print edition too, making the newspaper seem all the more personal.

In an age where the larger vertical players are discussing how to “compensate” faithful bloggers to post on their Web sites, it’s still often reward enough to bask in the recognition that comes with making a thoughtful contribution to community discourse in the local paper.

2.6 Profitable

Being profitable is not just a necessary but worthy goal for newspaper publishers. But it remains a mystery to many observers of the industry why so much is made of comparing one’s publication to others of its kind as a justification for success. As one industry leader put it, “it’s amazing to me how little risk this industry is willing to take, seeing that it’s still so profitable.” Being risk averse won’t launch another Google.

But before a couple of examples of how thinking differently can be profitable, we’ll

feed the beast for a moment and observe how online classifieds are contributing to newspapers’ bottom lines. According to an NAA report issued in April, Classified Advertising Benchmark Study 2004, online classifieds account for 5 per cent of a newspaper’s classified revenue, compared with 80 per cent for print.

Both figures are medians for the 18 per cent of NAA members who responded to the survey. These newspapers also said that this share breaks down differently among the categories. Not surprisingly, online generates 10 per cent of recruitment revenue and 4.8 per cent of real estate ad revenue.

We’d love to be able to say that there’s a direct correlation between the willingness to invest more in these businesses – especially via marketing and promotion – and their profitability, but this will require further study. What we can say with certainty is that staying close to the customer, and making his or her job easier, is one key to success.

So is accessible pricing that opens the newspaper up as an advertising venue for people and businesses that have, before now, considered it too expensive. Channelling these new customers into the newspaper customer universe may be the one most important reason for maintaining online-only classifieds categories.

It’s true that some newspapers can demonstrate some value by tying the ability to advertise online to a prerequisite print ad. But forcing our prospective customers buy something they don’t want to get something they know to be truly valuable doesn’t seem like a profitable strategy in the long run. A more lucrative strategy is to use online to make the print edition even more useful to sellers.

In a recent NAA Webinar on self-service web order entry systems for classifieds, Deborah Dreyfuss-Tuchman, vice president of sales for vendor AdPay, Inc., said selling users a Web ID to include in their printed newspaper ads prompts quick online viewing and sells an additional line of text. Reverse publishing a default photo generates more print revenues too, and takes advantage of a skill introduced to readers by eBay. Print ads initiated online result in revenue increases from 20 per cent to 30 per cent, she claimed.

She and other fans of online ad order entry note that online ads can offer expanded text; photo and multimedia opportunities not available in print; auction, buy now or “make an offer” options; online only categories; flexible pricing by category – which serves to expand revenue opportunities when the print rate card proves inflexible; anonymous communication, increasingly important in a world that is privacy conscious; feedback ratings; secure online payment options; and clear delivery options.

Tools like AdPay can offer back-end management tools that make supervising this new pool of revenue easier. Users have help and instruction templates on how to write an ad. There’s an ad renewal manager so perennial advertisers like owners of vacation property can be prompted to run their ad again seasonally. Reverse publishing goes without saying, as does the automatic nature of fielded data sources. In short, some vendors can be publishers’ best friend when it comes to making money from online classifieds.

Maria Slabaugh, Senior Product Manager of PowerOne Media, another online classifieds system vendor, said that the average price point of a print ad sold via online ad order entry using her company’s product was \$58, indicating that people tended to submit longer ads when they write them themselves. Some 20 per cent of ads had at least one upsell feature (such as a picture or other online enhancement). The expansion of hours alone enabled by letting users enter ads on the web meant that 14 percent of new ads were placed on the weekend and 38 per cent were sold after 5pm and before 9am. Nearly 10 per cent of email renewal reminders resulted in a seller buying a renewal ad.

Other useful details: Dreyfuss-Tuchman said of sellers choosing transaction enabled ads, about a third choose fixed price, but fully two thirds choose “make an offer” or negotiated pricing, meaning they value the flexibility the web offers in being able to interact anonymously with prospective buyers and make sure their item sells at the best possible price. Auctions have yet to catch on, in practice, but just knowing it’s available makes the newspaper more competitive with eBay.

Dreyfuss-Tuchman noted that, within the

AdPay newspaper universe a \$10 price point for online ads generated a 70 per cent “take” rate. She also quoted Dean Welch of the Atlanta Journal-Constitution as stating that revenues from Web-based print ads increased nine-fold year over year, and that 63 percent of ads placed online are new customers for the newspaper.

Michael Odza, web publisher of the SantaFeNewMexican.com shared similar figures, saying the percentage of ads that are from first-time advertisers online is 50 per cent, while the call centre boasts just 25 per cent new customers. He added that there’s an average of \$9 more spent per seller in online-generated ads vs. those taken by the call centre.

Slaybaugh said that the costs of running a phone centre generated ad run between 16 per cent and 28 per cent of the revenue gleaned by that ad. The cost of online ad solutions are typically closer to 5 per cent to 9 per cent of the cost of the ad, including staffing and licensing costs.

One more tip: Letting advertisers create their ads before gathering billing information increases use of the online tool. Once the seller has invested the time to compose and see how his or her ad will look, they typically buy it.

All our self-service experts agreed that, while this capability enhances revenue per ad, the service doesn’t sell itself. “Promote, promote, promote,” they advised repeatedly.

And, as popularity of these services grows, so does the opportunity to raise rates. Watching and perpetually reporting on ad performance to customers is one way to reinforce the value of this advertising. Some publishers have even generated reporting widgets that automatically report how many times a Top Ad is shown and/or clicked on, and generate emails for the advertiser. Another online strategist insists that, if “take rates” for online advertising solutions – either for basic ads or Top Ad upsells – come in much above 80 per cent, it’s time to raise the rates. Keeping an eye on this percentage helps publishers maximise the amount of revenue they can generate from the applications that are demonstrably working for their customers.

Creating this kind of market “float” for

advertising availabilities has even sloshed back into print display advertising. In a recent bulletin from Classified Intelligence, Jim Townsend revealed that BostonWorks.com, the recruitment Web site of the Boston Globe is preparing to let advertisers set the price of print advertising via online auction. Up for bid is the half-page ad position on the cover of the Globe's Sunday recruitment section. At full rate card, the slot goes for \$39,500, but it too often goes unsold. Once the ad price is allowed to float, the high bidder above \$15,000 buys the space, CI reported. This is a win-win for the newspaper because the space is much more unlikely to go unsold. (See <http://auction.bostonworks.com>.)

And, it's just one more way that Google's auctioning of keywords is changing the way advertisers think about ad value online.

3. The Netherlands – four case studies

By Jim Chisholm

THE Netherlands is a highly competitive media environment in print and broadcast, home to many of Europe's fastest growing new media organisations, and the battleground of the most aggressive fight for classified advertising. In one corner, some great newspapers with a well established reputation in innovation and competitiveness. In the other, Marktplaats.nl, a local classified service that was acquired for €225 million in 2004 by American auction site eBay for its turnover of just €12 million.

As is the case in many countries in the past 15 years, newspapers have witnessed their classified categories move initially from the classified columns in their newspapers to specialist magazines, and more recently to a new generation of internet services.

The newspapers in our study have seen their share of car advertising fall from 31.9 per cent before the internet, to 27.8 per cent last year and 27.6 per cent this year. In property, newspapers' share has fallen from 41.7 per

cent pre-internet to 38.0 per cent last year and to 36.3 per cent this year. In recruitment, share has fallen from 48.9 per cent through 46.1 per cent and now stands at 46 per cent.

But now they are fighting back.

3.1 MiniMarkt

Minimarkt is the online classified service of a local classified newspaper, Handje Kontantje. Launched 22 years ago, it is delivered free to 500,000 homes in northern and eastern Holland every fortnight. The company was acquired by Koninklijke Boom Uitgevers, a media company with interests in books, newspapers, TV and new media activities. The classified service is also carried on teletext.

They believe they are the No 1. classified medium in their region of the Netherlands, ahead of other local newspapers or specialist magazines, whom they regard as their primary competitors. Handje Kontantje carries all categories of advertising; cars and household goods form the majority of its business.

The publishers firmly see their business firmly rooted in the private classified sector, which in turn attracts lucrative trade advertisers seeking classified buyers. As Hans Heisterkamp, a director of Minimarkt, explains: “Other papers carry news. We only carry ads, and the classified ads are our editorial. They are the cream of our content, around which the display ads appear. The revenues of our classifieds are much smaller. Our classifieds attract the readers.”

In recent years their analysis of their customer base has revealed that their private advertisers are getting older, and that the younger generation of classified users is turning to the internet for their needs. Like most other publishers, they see more and more classified advertising appearing in digital media.

While firmly believing its future business lies in print products, Minimarkt has launched a separate internet business to develop online classifieds and act as a service to their print customers – both trade and private. Advertisers can book their advertisements online free of charge and choose to have these advertisements uploaded into their newspaper for a small fee. Critically they see this approach – known as “reverse publishing” – as enhancing rather than threatening their core business.



Mr Heisterkamp explains: “Everyone else is threatening our core business. We currently have no online revenue model. We see it as a service to our customers, so they can go online very easily.

“Advertisers are getting older and older. Young people will place an ad in the paper

but only via the internet where it is easy and quick. They will not cut out and complete a coupon in the paper.”

Their view is that the holder of the biggest online database will ultimately be the player who will win in print, by controlling the market, and attracting the highest share of trade revenues.

However, there is a twist in the strategy. As



well as carrying the inventory of their own advertisers on to the web, the Minimarkt service also “crawls” the websites of all the other private classified websites, providing users with a set of listings very similar to those in Google.

When searching for a car, the user is presented with a list of 18 other Dutch classified websites that they choose to search through. Once the user has detailed what they are looking for and the sources they wish to search, the Minimarkt crawler then aggregates a listing. Each entry on that listing carries the logo of its source, and users can then click through to the original advertisement, which is framed within the Minimarkt web page.

But they are careful to differentiate between private and trade listings, and do not crawl sites that are predominantly trade, since they believe the growing opportunity lies in private transactions, that trader dealers will have to follow.

The listings are always ranked by timing, or by price. They have not put their own advertisers to the top of the list.

As in the case of Google, these lists are created live, and only consolidate on the

users screen. No database is created, and this, they believe, overcomes any copyright issues – though it should be noted that there are various legal challenges of this assumption going on around the world. Not surprisingly, the operators of the other websites are questioning the legality of the Minimarkt's strategy.

On the copyright of the advertisements, Hans Heisterkamp and Peter Hens have a simple response: “The advertisements belong to the advertisers. We are providing them with a welcome service because we are extending their reach of potential customers.”

They believe their strategy is working. As Mr



Heisterkamp says: “More and more people are liking what we are doing because it is easy for them. They are coming to us now because we are the most comprehensive.”

Over time, they also realise, there will be value in collecting users' details. These are already used to track the shifting demographics between their print and online customers.

Their analysis of their customer base suggests that younger people are turning to the web, but that older people are firmly committed to print. They also believe that while in the cities, people are turning more and more to the internet, in rural areas – such as their own market – the internet is taking longer to catch on.

In time, they hope that the model of reverse publishing into their own newspaper will provide a model for other publishers, and they claim there is growing interest in this capability from other publishers.

Mr Hens explains the long-term rationale:

“We will have revenues online but they are very limited. They are still emerging in a model we want to role out. Our perception is that the online business model will at best be a zero-cost model. The extra revenues will come not only from our print products but also from other print products, because advertisers in other print media are coming to our media to go online, and will therefore want to have their ad in their own local paper. Other publishers are beginning to realise that we can give them advertisers at a lower cost than they can generate themselves. Our online model is a service model, servicing print.”

“We are making it technically possible to connect all kinds of publishers to upload ads if the advertiser wants that. Other publishers are receptive to this because it is a cheaper way for the newspapers to generate ads back into the newspapers, without having to invest in websites.

3.2 Wegener Multimedia

Wegener is the largest publisher of local paid-for and free newspapers, with a total combined circulation of 8.4 million copies. A subsidiary, Wegener

Multimedia, operates all the newspapers new media activities, within which editors determine for the online newspapers their own local content, and local advertising managers generally coordinate their business in print and online with local advertisers. All the newspapers benefit from a centralised technology platform and users of each newspaper site can access content, or listings from across the group, a critical factor in the classified arena.

Their online classified strategy is firmly built around partnerships, separately and centrally operated.

Central to this is a realisation that disintermediation – the notion that buyers and sellers will bypass all middlemen to seek more efficient less costly transactions – is the major difference between the print and digital worlds.

Media companies are only one group of middle men. Others are retailers, estate agents, motor dealers, and recruitment

agencies. And it is among these players that Wegener has established close relationships.

In real estate, the company has formed a joint venture with the leading Dutch estate agent to launch Funda.nl, which is now the country's leading property website with 70 per cent of the homes that are for sale.

3.2.1 Secondhand cars

In cars, Wegener have an exclusive contract with the national dealer association to work closely with all the major motor dealers.

Wegener is also working with other newspaper publishers, and is entering a joint venture with PCM to introduce a new newspaper as a result of a merger of a number of newspapers in the centre and west (the most populated area) of The Netherlands.

Wegener are also members of Adexalliance, a partnership of digital newspaper publishers, from different countries including Norway, Finland, Germany, Switzerland, Belgium and the United Kingdom, that shares knowledge, market experience and, in some cases, technology.

The ambition is very simple: "To be successful on the internet you have to be No. 1," says Harold Rimmelzwaan, managing director of Wegener Multimedia. You could be No. 2, but No. 3 will not make any money."

In the future he believes there will be further consolidation, with perhaps only three or four main players. Wegener are determined to be one of these.

"Our strategy is a combination of trying to act as a pure online player – the things that are comparable with eBay – but using our skill



and knowledge of the local market. It is the addition of our connections through the local newspaper that will keep us ahead of the pure online players."

He believes that what is happening in classified has parallels across other newspaper activities. "The equivalent is weblogs and the news from the street. If you look at what is going to happen with our readers, they are disintermediating in news terms. They will find their own news [from their own sources]."

In the cars sector, Wegener sees long-term value in the "next to new" market, those cars that are less than two years old, where the value is highest and the buyers most discerning. "This is important for the car industry as well," says Mr Rimmelzwaan, who believes that aligning the local strengths of their newspaper portfolio with priorities of the manufacturers and their dealers is the right combination.

Their car site, Autotrack.nl, automatically uploads all the cars that the dealers hold in their showrooms. When the dealer receives another car to sell, it appears on the database; when it is sold, it is automatically removed. Every car is cross-referenced with the national car owner database to ensure its ownership and history are authenticated. In addition, all the details that the dealers hold on the vehicle – 85 in all – are stored within the database.

These details, Mr Rimmelzwaan believes, are the major point of advantage relative to other sites: "All the data are good. Every car we sell is matched to both the manufacturer and the national database. So, if you are seeking a green Renault Espace, you know every detail about the car. You know that its ownership



and history are guaranteed. You know that a certain green tint is that precise green tint. And you know that the price being charged is in line with other similar vehicles.”

“We have found that by concentrating on the top end, and by ensuring that our offer has quality both in product and description, people will pay more for the car.”

“If you put it on Marktplaats.nl, you will get €1,000 less than if you put it on autotrack.nl, because they know we are reliable. On eBay the car could have come from Ukraine or it may not have an engine!”

However, eBay is trying to build in similar quality assurance factors, learning from a similar strategy by eBay Motors in the USA, Mr Rimmelzwaan believes,

“The manufacturers see the autotrack.nl as the website that is important for the sell-through of their vehicles. Our goal is to dominate the nearly new market of secondhand cars that are less than two years old.

“Already we have 80 per cent of the inventory of these vehicles in The Netherlands on the database.”

In this model, “nothing is coming from the newspaper, all [the listings are] coming from the dealers”. The dealers pay a monthly “subscription” for uploading their inventory on to the website, which varies according to the number of vehicles. In addition, they can pay extra for what Mr Rimmelzwaan calls “webvertising”, with the dealers and manufacturers running regular advertising campaigns on autotrack.nl and in the local newspapers.

The listings are now being enhanced with more car content, relating to launches, vehicle specifications, road tests and all the other material you would typically find in newspaper motoring sections or magazines. This content is being repurposed from material produced by Wegener’s motoring writers.

3.2.2 Real estate

“Five years ago, we had to choose between creating our own website [that would supersede the role of the estate agents] or working with the biggest estate agent in the

market.” Wegener chose to exploit the fact that, unusually, one estate agent dominates the national market, where it deals with over 70 per cent of all homes sold. “Today we have a 78 per cent share of the property advertising listings” through Finda.

The obvious question is the impact that this has on other estate agents, but Mr Rimmelzwaan says the newspapers retain their local relationships with smaller estate agents.

Looking to the future, the key issue for Mr Rimmelzwaan is how house movers perceive the cost of moving house relative to the service they receive from the various intermediaries, the media and the agents. “People are looking at the cost of estate agency, and the total cost of moving house, and they are questioning the value of that.”

3.2.3 Recruitment

In recruitment Wegener have learned an interesting lesson. A local player, nationalevacaturebank.nl entered the market by copying advertisements from the newspaper and republishing them on its website. The company sued, which took time, and by the time it had won the court case, vacaturebank.nl was No. 2 in the market. Meanwhile, Monsterboard, a European incarnation of the US Monster.com, had found its way into the No. 1 position. Once again, the newspapers had to fight back.

Wegener centralised the sales of recruitment advertising. Most importantly, their sales people went out to companies seeking advertisements. In the past, they waited for companies to place advertisements with them. Now advertisers are sold across their different media.

Are newspapers finding that companies are returning to print rather than the internet? “This is a story that the newspapers would like to tell, rather than real experience,” he says. “Most jobs are for young people who no longer read newspapers. So how are you going to reach them?”

He points out that more and more jobs are now being promoted online by the companies themselves. “So Google will come along and crawl the company sites, and aggregate all the

jobs. You want to find a job, you want to know about the company so you will inevitably look at their site. So we are being disintermediated in this way as well.

"It's not Monster that is the threat, it is Google."

So far Mr Rimmelzwaan is satisfied with the success and sustainability of Wegener's partnership strategy. Like many publishers, they are realising that the development of such a strong database of online listings can be utilised to create classified listings in the newspaper. These not only widen the coverage of the listings to the large numbers of people who still do not automatically go online to find a car, house or job, but also serve to promote the online service. Advertisers remain committed to the print product and continue to pay for it, encouraged by the fact that the creation of their in-paper advertisement is considerably easier due to the provision of bespoke ad design and uploading software.

Wegener, like so many local newspaper companies, has realised the difficulties in embracing an online strategy that ultimately is likely to accelerate the shift of advertising volumes and revenues from their print products to digital media. "Some of our newspaper publishers still do not like me because of this. Too many newspapers are worried about cannibalisation," Mr Rimmelzwaan says.

"People are more aware now that if you are not doing this you are out of business in the long run. You have to destroy a little bit of your own business to make the new one."

3.3 De Telegraaf/Speurders

Speurders is the creation of the Telegraaf group, and is their response to eBay and its acquisition of the Dutch auction site Marktplaats.nl.

As the leading newspaper publisher in The Netherlands, Telegraaf has been the traditional market leader in classified. But in common with newspapers in most other markets, low-cost entrants have forced down the price and value of classified advertising. Initially, this was into specialist classified



publications. In the past five years the movement has been on to the internet.

Until now 90 per cent of classified listings have been published in print or online by what Michiel van der Meer, the manager of Speurders.nl, calls small and medium enterprises. But eBay's acquisition is changing all that. Mr van der Meer has a background of working for auction websites. So he has seen the online world from the other side and understands the enemy.

"Of course I respect eBay very much," he says. "You never see these guys make a mistake. "But we are fighting eBay/Marktplaats by building the best classified site in the world. On top of that, I am in a company with a lot of marketing power [including newspapers, TV and radio], which creates a proposition that might beat eBay."

His ambition is to have the best functionality of any online classified site on the world. "It is important to be clear that this is classified and not auctions," he says. People are nervous about the uncertainty and complexity of auction sites, he believes. And there is no room for other content.

"I'm not in favour of a classified site with all sorts of editorial stuff. I say to the editorial guys: 'Stay off my site, because you are poisoning my proposition.' I want a clean proposition; the content is the ads, not the introduction of the new Volvo S40."

All the technology is developed in house, with a team of five developers, a project manager and a site strategist, and they can draw on the considerable resources of the parent company.

The marketing power is paying off. After seven months they have between 400,000 and 500,000 visits a day. It has been one of The Netherlands' top ten sites for the past two months.

The story of Marktplaats

In 1999 Het Goed Beheer BV, a company that owns second-hand retail shops in The Netherlands, founded Marktplaats.nl, a website where buyers and sellers can meet to trade a wide array of items, from clothing and collectibles to cars and household items. Today it is the most popular classifieds website in The Netherlands with more than one million listings at any given time. In 2003 they launched an international version of the service, Intoko.com, into Spain and Germany, shortly followed by Canada and Turkey.

In November 2004, eBay acquired Marktplaats.nl from HGB. Ebay paid €225 million for a company that was estimated at the time to be turning over €12 million – a multiple of 18.8 times turnover, against a norm for newspaper companies of around 3.2.

eBay's stated rationale was twofold: The

deal enables eBay to expand its e-commerce position in The Netherlands while adding to its growing knowledge of classifieds-style trading. Meanwhile, eBay plans to continue to operate Marktplaats.nl as a separate business. It is clear that having learned from marketplaats.nl, which eBay sees as complementary to their own, they will expand into other markets. As Frank Crébas, managing director of Marktplaats.nl at the time of acquisition, said: "With its strong global presence and technical expertise, eBay can help expand our business into the future."

Reports at the time highlighted the value of the Dutch internet market. Business-to-consumer e-commerce in The Netherlands was estimated to have reached \$5 billion in 2004, a figure that is expected to grow to more than \$15 billion in 2007, according to IDC's Internet Commerce Market Model.

It is clear that eBay is confident that the Marktplaats business model will work across the world, and that further expansion will justify their heavy investment.

The site now attracts 45,000 cars for sale privately each week, plus a further 85,000 uploaded from the newspaper's own motoring website, autotelegraaf.nl.

"Speurders was set up in recognition that the big newspapers were too large to take small classifieds and advertisers would go to small services," he says.

It is firmly aimed at the consumer to consumer (C2C) segment which newspapers lost years ago, and which is increasingly dominated by eBay and Marktplaats.nl. As Mr van der Meer says: "I am a strong believer in building a C2C strategy. All the successful platforms worldwide started from consumer-to-consumer strategy."

His route to market leadership lies in simplicity. "The Dutch people, he explains, "favour the simplicity of Marktplaats, they don't like difficult auction sites with ratings and complicated listings. I believe there is still a hole in the market, which is the best of both worlds. Speurders comes with the simplicity of Marktplaats in terms

of interface. But on top of that, it has the great tools of the auction sites. It has the rankings and good functionality – without the barriers."

Another barrier, Mr van der Meer believes, is registration. "Keep early registrations as easy as possible. Perhaps once they are on for a third time, ask them to complete more details, name, demographics, interests, they get a bonus in terms of promotions tools in return for profile."

From the start Speurders benefited from its links with the newspapers and their own websites. The 85,000 cars uploaded on to the Speurders site from autotelegraaf.nl are mostly dealers' cars for sale, reflecting the newspaper's strong links with the motor trade.

But just as eBay started as a consumer-to-consumer medium but has grown to attract major advertisers to its massive user base, so the Telegraaf has realised that its long-term strategy must support traders as well.

Consequently, as Speurders has become established, the company is now setting

up cross-selling opportunities with the print products. This they believe provides a key competitive advantage against eBay/Marktplaats, since the newspapers have had a strong relationship with traders – motor dealers, real estate agents, retailers.

It also fits in with the international trend of consumers bypassing the media and traders and going straight to the seller of the goods. “I have two kinds of customers: sellers and buyers. The seller wants to get rid of his stuff as quickly as possible for a fair price.”

“The dealers really are having problems,” says Mr van der Meer. “The consumer is cutting out the middlemen. If you don’t bring value to the table stay at home . . . or lower your price.”

Price is a tricky issue. “It has to be new tariffs with special offers across web and print, and it must be very attractive. I told the newspaper if you are going to charge the same price, forget about it. I don’t want a dead horse in front of my car.”

“If you look, the print editions have already lost the consumers, and the business is all about the consumers. Now I want to bring back the consumers into the print edition, but I can only do this by offering the cross-sell into print at a realistic price.

Fortunately, the newspaper’s management agrees. “The support we get from the newspapers is 110 per cent. I am so pleased with the attitude of the Telegraaf board. They are willing to cannibalise their print editions to ensure the future. If they do not do this they will screw the business.

Other categories are now following, but the emphasis is firmly on C2C. Property, he believes, will remain largely within the newspaper’s own site.

“At the Telegraaf we have a niche team who sell into the print edition and have their own site. It is not an important category for Speurders. The first base is building C2C platforms. I think that most B2C propositions failed or had big troubles to create profit to loss.”

“Household items were lost but online it has come back. One thing that is exploding in the Dutch market is baby clothes; every day there are more and more items. Everybody puts them online but the buying is slower. There

are not a lot of buyers, because every mother wants to buy new.”

Measurement is a critical issue in a rapidly changing competitive environment. Speurders tracks the numbers of listed items across all their competitors then adjusts the number to account for the different upload periods of the different sites – eBay is seven days. Speurders is 28. Over time, this enables them to monitor the rises and falls, and changing shares across the different sites. They are now looking at monitoring ‘sell throughs’ by tracking how quickly items appear and then disappear (presumably having been sold).

Profitability is some time off. Marktplaats has only recently started charging, and Speurders will do the same. “Maybe somewhere in 2006 we will start asking for money.” Until then, revenues will come from added value such as rankings, special entries, pictures, etc.

The Telegraaf considered buying Marktplaats, but decided that it was more cost effective for them to launch against it and exploit their other core assets to build the service. In the end, eBay paid €225 million for Marktplaats.nl, which at the time was turning over €12 million.

“The decision was to go for it, and give it what it takes,” Mr van der Meer says. “Other publishers are not prepared to cannibalise. They don’t have the vision, or perhaps it’s the cash. But they are not prepared to invest in a service. But at the end of the day they are losing their business at a rate of 15 per cent to 20 per cent a year.”

3.4 ViaVia

ViaVia is the Dutch subsidiary of the Canadian Trader Classified Media group. In The Netherlands they publish nine titles, and operate the website viavia.nl. Worldwide, the group operates 575 titles and 56 websites in 20 countries.

According to Tim Scholte, general manager of ViaVia, sales of classified publications in The Netherlands fell by 25 per cent in the last year. Cover price revenues fell by 32 per cent as established titles sought to maintain sales and fight off new low or no-cost entrants. ViaVia has been forced to launch free distribution products.



Why? Mr Scholte explains: “We have seen classified business move to the internet. Most of the sites are free/free concept.” By this, he means they are free to advertise in and they are free to access. The new free distribution publications “are less lucrative but a way to maintain a position in the classified market”.

Paid-for models were first threatened by the launch of marktplaats.nl at the end of the 1990s. A year ago, when Marktplaats’ online audience had reached 600,000 daily visitors, they introduced a modest €6 listing fee. Since then, ViaVia have watched as other companies, in particular the Telegraaf’s *speurders.nl*, have launched free/free online services into the market.

While Trader Classified’s experience has been painful – both in The Netherlands and in Sweden, where the classified online service Blocket was recently bought by Scandinavian publisher Schibsted –it has learned a lot and now launched equivalent services in many of the other markets in which it operates.

From such a strong pedigree in print, the Trader Classified Media’s group website homepage makes it clear where its strategy is going in the future.

“Trader Classified Media is a world leader in classified advertising, creating value for its shareholders through profitable growth via the delivery of exceptional services to its customers around the world. These are delivered through multiple channels with a specific focus on the internet.”

While the internet is impacting heavily on circulation, Mr Scholte cautions against holding back the internet strategy in the hope of protecting the old business. “Publishers think that by launching on the internet, they will further erode circulation. So everyone

is holding back their internet activities, and ending up being a secondary online player, while failing to protect sales

“You have to be an aggressive internet player. Don’t think about the print product. Go full ahead, and ignore the print implications. You have to think in terms of market share and not in revenues.

“Circulation is something we can milk for a period of time. Old people don’t know we have a website. Young people don’t know we have a print product.”

What is more, advertisers continue to see the value of print. “Trade advertisers have less difficulty paying €300 for a page in print, than they do for a page on a website.”

Mr Scholte believes there are two steps in the strategy:

“First, be *the* generalist classified site in the country. Be a pure player.” That is: without any non-classified material, such as editorial content or secondary services.

“Second, we are launching at a rapid speed free-circulation products for specific categories. Advertisers like it and we don’t have the difficulty building response. In the free circulation pitch you have to distribute where the guys for the advertising are going to be. So the boat publication goes through marine ports, marinas, boat shows. There are no generalist free sheets, They have to be specific to different verticals.

“As a publisher you have to build a business model that does not need money from circulation.”

He also believes that a new trend is emerging, namely highly localised markets. “On the web another trend that is coming alive, is where eBay, Craigslist and Livedeal.com are pushing transactions at a local level. Now we can regroup by town, trying to create a community around the content. Even in a small country like The Netherlands, people don’t like to travel.”

4. Strategy

By Jim Chisholm

PUBLISHERS are facing some major challenges in retaining and growing their advertising revenues. Our survey encountered many newspapers that have lost considerable revenue over the past five years. More significantly, newspapers are now losing their share of the classified market.

However, we also encountered many newspapers that are fighting back and recovering their share and control of their market, and moving forward. But these successful newspapers are making radical changes to their business model, their products and their way of operating. They are taking risks. They are having to balance short-term necessity to protect their current revenue streams and associated staff, products and reputation with the risks of entering alien territory. They are having to use methods, products and business models that have been in existence for less than 10 years – whose success for others may still prove transitory.

Table 4.1: Newspaper market share

Advertising category	Pre-internet	2003	2004	Compound variance
Cars	31.9%	27.1%	26.3%	-3.0%
Property	41.7%	37.3%	35.4%	-5.1%
Recruitment	17.9%	16.7%	15.9%	-4.8%

Source: WAN Classified Survey

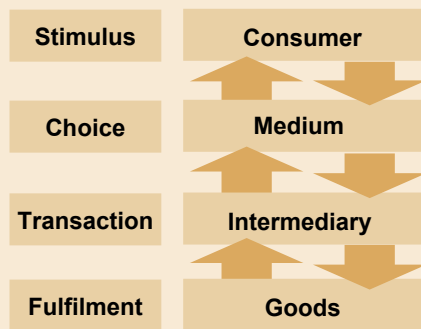
In this chapter we examine what is happening to the classified market and present a range of scenarios and alternative strategies that newspapers can consider.

4.1 Analysis

4.1.1 The nature of change

The internet is having a significant effect on the way that we conduct business in general and the way that personal transactions are undertaken. Central to this is the well established notion of disintermediation.

In the traditional consumer process a number of factors stimulate the consumers' purchasing

Chart 4.1: The traditional transaction process

choice and behaviour, part of which is advertising by traders and manufacturers. Both the traders and the media therefore play a role in the transaction.

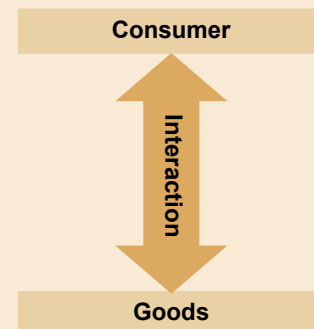
In the case of classified, the newspaper acts as the means of introducing the buyer to the seller. Private advertisers seek buyers through classified advertisements. Car dealers and estate agents are, in effect, acting as middlemen selling private items on behalf of sellers. In the case of cars, the dealer may buy the car from the owner and sell it for a higher price. In the case of homes, the legal transaction is ultimately between the buyer and seller, with the estate agent taking a commission for introducing the buyer.

In the disintermediated world buyers and sellers bypass the middlemen, namely the medium which makes the introduction or the trader who makes the sale. In so doing, they save time and money on the transaction. It is therefore logical to assume that if a means appears that makes such introductions efficient and safe, buyers and sellers are going to take this route. Everyone is out to save time and money.

Private buyers and sellers are seeking ways to save the money they would otherwise give to a trader or a classified medium. They are willing to offset these costs if it either makes them more money or saves them time.

Traders are seeking ways to save money they spend on advertising but are willing to invest in advertising if it attracts more or better customers and saves in other forms of sales costs.

The challenge is determining where

Chart 4.2: The disintermediated transaction process

newspaper publishers can either add value to the new forms of transactions or save money for the participants in the transaction. Newspapers have been fighting to maintain their position in the transaction process for decades, and have habitually failed to respond to the threats nibbling away at their classified customer base.

As far back as the 1960s, classified magazines, particularly those specialising in cars, attracted large numbers of private advertisers by offering low rates that they could achieve because their niche circulations were a fraction of newspapers'. Having established a critical mass of buyers who paid to buy the publication and sellers who paid to advertise their cars or other goods, the publications were able to attract trade advertisers who sought to enter the same market.

In the 1970s Yellow Pages directories began to offer business-to-consumer advertisers a means of reaching consumers with a single advertisement every year.

During the 1980s free newspapers and magazines emerged. These publications were distributed free of charge to consumers and were solely funded by advertising revenue. This concept has evolved and today there are free daily newspapers and free distribution niche publications.

In the 1990s the model was reversed. Paid-for publications began to appear that were full of free advertising listings. People were willing to pay for newspapers that they perceived were full of bargains.

In each of these cases, the attraction lay in the large volumes of private transactors who in

Cautionary tales

Traders are seeking more effective means of promoting themselves. They can easily list their own inventory – although there is little revenue to be made now by newspapers doing that for them – but what they cannot do themselves is attract new customers to their site or premises. Many are turning to a new generation of intermediaries who are offering to aggregate and promote traders' inventories, but as two experiences from the United States suggest, these are not always successful.

- Kathy Schwartz, new media manager at Telegraph Publishing Co, in Nashua New Hampshire, cautions against involving other intermediaries in the inventory management process. "In 2002, one auto vendor had 46 marketplaces listed on its site. I went to each marketplace and added up the number of dealers. According to my calculations, the 46 marketplaces had a total of 347 dealers participating for an average of 7.54 dealers per marketplace.

"In 2004, this same vendor listed 66 marketplaces on its site (25 of the sites listed in 2002 either were not listed or, when I went to the site, they were no longer using this vendor). I counted 491 dealers per marketplace for an average of 7.55 dealers per marketplace.

"When I counted the number of dealers in the 41 new marketplaces listed in 2004, there were 300 for an average of 7.31 dealers per marketplace.

"I have to ask: Why haven't these marketplaces grown past an average of seven dealers? Who is making more money out of this newspaper/vendor arrangement – the

vendor or the newspaper? Dealers don't like third-party intermediaries, especially ones that don't or won't meet their specific needs.

"If we are to remain relevant and create a meaningful local marketplace for autos or fill in the blank, I think we have to build that marketplace as an integrated solution for all products and types of advertisers – and we need vendors or in-house skills to make that happen."

- Bradley Koltz, director of internet operations at the Eagle-Tribune Publishing Company of North Andover, Massachusetts, believes his newspaper is taking a different approach to managing the customers' data.

"We're linking to the customers' existing online database. Most of our dealers have sophisticated websites that they've invested thousands of dollars developing and they already maintain an online database there. After having our online auto vertical shrink from 9 to 0, we're rebuilding it using this approach. All the dealers who left said a key element in their decision was the duplication of databases and their desire to track activity from their own sites.

"We realised that what we do best is send traffic from our site to our customers' sites, and that using third-party intermediaries for data management only caused friction between us and our customer when the customer wasn't happy with the service, performance or features of the vendor we used.

"Now we have the simplicity of only tracking traffic referrals and have lost the headache and expense of coordinating a relationship between our dealers and a third-party vendor."

turn attracted trade advertisers, who provided the bulk of the profits.

It was inevitable that eventually the so-called "free/free" medium would evolve. Free to advertise. Free to acquire. Enough non-paying private transactors would create a market, which in turn would attract traders. The internet has created this opportunity.

Sites such as Marktplaats.nl in The Netherlands, Craigslist.com in the USA or Blocket.se now enable buyers and sellers to transact at no cost.

The recruitment market has seen similar changes. As the world moved from communities of geography to international specialisms, so large volumes of recruitment advertising drifted into trade journals, where the majority of advertising now resides. More recently, we have seen new digital entrants such as Monster not only introducing employers to prospective employees but establishing a range of added-value services within the offer.

Newspapers' classified business models have been encumbered by their relatively high cost base, buyers and sellers represent only a tiny fraction of a newspapers' circulation.

The drivers of change over the past 30 years have been the private buyers and sellers. They originally moved away from newspapers to magazines. They were the segment originally targeted by the new generation of online services. Where the private buyers and sellers went, the trade advertisers followed.

Perhaps the key issue here for newspapers is generational. As one of the respondents in our survey commented: "Young people don't know newspapers; to them there is only the internet. Old people only know newspapers, they would not turn to the internet."

So it is going to be some time before older readers abandon print. And this provides a continuing, if dwindling, revenue stream.

Younger generations of private transactors, however, are looking for more than simple listings. They are seeking direction; and in the case of online, they are seeking additional services such as search, notification and recommendation. These are all services that newspapers are well placed to provide since they are already executing many of these concepts in editorial.

Finally, younger generations of transactors seem unwilling to pay either for access or to advertise. But they will pay a commission on a transaction, as eBay has so powerfully demonstrated.

Traders are looking for new ways to reach their customers, but they too are frustrated by the impact of the internet. They are finding it increasingly difficult to justify a viable margin on their sales, when sellers can simply advertise the vehicle themselves. There challenge is to retain their brand presence at a time when buyers and sellers are abandoning them because of price.

In fact the internet offers publishers a great opportunity to recover some of this lost business by aligning the new business practices with their traditional strengths. But in the context of newspapers, it is important to realise that these changes were beginning before the internet was established, and that the emergence of new media is serving to accelerate this trend.

As far back as 1999 the Gartner Group were predicting that companies that sought to maximise their business on the internet would eventually fall back on a new breed of web-based intermediaries who would bring buyers and sellers together in new ways.

At that time, the term reintermediation entered the lexicon.

Newspapers have a unique opportunity to be that reintermediary by exploiting their core relationships with those advertisers who are sharing the challenges of disintermediation, and readers – and online users – who are seeking the simplest and cheapest way to buy goods and services. But first we have to face some new economic realities.

4.1.2 Digital economics

Newspapers' advertising pricing is driven internally by two factors:

- The variable cost of newsprint. Newsprint typically accounts for 15 per cent to 20 per cent of a newspaper's costs, and of this between 36 per cent and 43 per cent is devoted to advertising space.
- The fixed costs elsewhere in the newspaper organisation that have to be paid for by the advertising revenue. Paper used for advertising accounts for about 7 per cent of advertising revenue. Some 13 per cent is spent on other advertising costs. The remainder funds the rest of the newspaper's operations and contributes to profits.

The issue of advertising pricing is more related to the need to fund other factors in the newspaper than to fund the advertising message. In a specialist classified publication, circulations are dramatically reduced, and the things that have to be funded other than delivery of the advertising message are minimal.

If newspapers want to compete in the transaction economy, they will have to rethink how they allocate costs within their companies if they are to compete with alternative intermediaries – rather than depending on the willingness of buyers and sellers to fund other parts of the newspaper operation. In other words, pricing in the

Table 4.1 The cost of selling

	Car	House
Price	20,000	200,000
Newspaper advertising	30	200
Adverts in other media	90	200
Trader	10.0%	1.5%
	2000	3000
Legal fees	0	1000
Technical assistance	0	500
Tax	0	?
Total %	10.60	2.45
Sellers fees	2120	3400
Sellers fees %	10.6	1.70

future will have to be determined by the market and not by internal needs.

Externally, advertising pricing is determined by the percentage of an article's price that the seller is prepared to surrender in order to sell that article. In the case of private sellers, this percentage is spread between both the medium and a trader. This simple model, Table 4.1, outlines the typical cost of selling a car or house.

In the case of a car, newspaper advertising accounts for 1.5 per cent of the transaction costs, or €2,030. In the case of the home, advertising accounts for 6.25 per cent, or €3,200. Travel agents are generally paid about 10 per cent of the value of a holiday, hotel booking or fare. It is no wonder that sellers are seeking other ways of selling houses and cars.

In fact, the latest findings on the US market from Borrell Associates suggest that private transactions – as opposed to those through a trader – have increased by 20 per cent in the past year.

This trend is confirmed in the SFN research. As Poul Melbye, the research director of Politiken, a leading daily in Denmark, told us: "More and more transactions [are] directly from private to private. This has meant that in automotive, advertising online has now overtaken print in importance."

The fact that so many buyers and sellers are choosing to bypass their intermediaries is affecting car dealers and estate agents every bit as much as it is affecting newspapers and other classified publications.

If as the Gartner Group predicts, buyers and sellers ultimately seek a new range of digitally integrated intermediaries rather than deal directly with their transaction partners,

then newspapers have to determine where to position their business model. Should they seek to become the point of interaction – as eBay initially did? Or should they seek to support their traditional advertisers – car dealers, estate agents, etc – and build new marketplaces?

In this scenario, advertising is no longer the issue, and advertising pricing is no longer the currency. The battleground is over the total share of the transaction process that intermediaries are able to command. This includes the commissions that the traders take. But it also includes a number of other values that are part of the transaction process.

Credit card companies demand a percentage of a transaction cost from a retailer. An internet or mobile company will take a percentage of any transaction value. Estate agents take a commission for selling a home buyer insurance.

Table 4.2, overleaf, outlines some of the added value services that our advertisers offer their customers. Those in green are services which newspapers could easily offer. Those in orange are ones which they could offer in part or through some action. Those in pink would be hard for newspapers to deliver.

While the finer details of the analysis are open to debate, the purpose of the analysis is to show that many of the added value services currently offered by the traders who are our advertisers are things that newspapers are equally capable of offering. This exposes one option for the newspaper company. That is to diversify into the activities offered by these traders. In effect, the newspaper becomes the estate agent or travel agent.

In the digital world, pricing is dictated by result and not by internal operational costs. Why? Because the direct variable cost of realising a transaction online is very low. Websites can afford to scale their listings or bookings. They still, however, have to fund their central overheads.

So a website carrying listings of cars or homes for sale can afford to carry as many cars as it wishes at no additional cost. The challenges come in persuading people to place their listings on their site and to visit their site to respond.

Where websites of newspapers and other players are continuing to charge by the insertion or item, our survey found that prices

Table 4.2: Analysis of services by intermediaries

Could a newspaper company provide these services <div> <div>No</div> <div>In part</div> <div>Yes</div> </div>	Car dealers	Estate Agents	Travel agents	Recruitment agencies
Worthiness guarantees for buyer	Yes	Subcontract	Yes	Yes
Usage Insurance for buyer	Subcontract	Subcontract	Yes	n.a
Technical back up for buyer	Yes	Subcontract	Third party	Sometimes
Advice on choice for buyer	Yes	Yes	Yes	
Customer targeting on behalf of seller	No	Yes	No	Yes
Expert selection process for buyer	No	No	Yes	Yes
Legal contract	Yes	No	Yes	No
Provide finance	Subcontract	Subcontract	Subcontract	n.a.
Buyer pays fee	Within price	Varies	No	Sometimes
Seller pays fee	Yes	Yes	Yes	Yes
Buyer defined	Car buyer	Home buyer	Holiday buyer	Job seeker

are generally between 10 per cent and 20 per cent of the lowest print prices, which tend to be in the niche publications.

So as more and more transactions and transactors move their activities from print to online, so the point of value moves from the advertisement to the transaction itself.

Instead of thinking of advertising as a unit cost for each line of inventory, we have justify our value in terms of our contribution to the transaction process, and therefore find a means of attracting as much of the costs of the transaction as possible.

Rather than thinking about how we retain our share of the 0.15 per cent of a car's price that is spent on advertising, or the 0.1 per cent of the price of a home that is spent on advertising, we should think of ways of attracting a larger proportion of the 10.15 per cent of the car price that is spent on all aspects of the selling process. Or the 2.35 per cent of the house price that is spent on its sale. In addition, by transforming our business model and seeing ourselves as enablers of transactions rather than simply conduits for buyers and sellers, we can realise a share of the additional revenues that surround each of these transactions.

4.2 Strategy and implementation

4.2.1 Strategy drivers

Faced with this seemingly relentless migration, what should newspaper publishers do? The key thing is to accept that this change is inevitable, and in the long term unless the business model

in product, practice and people is radically overhauled then newspapers are unlikely to retain their current profits. But it is important to examine where future revenues and profits are going to come from.

"We need to be the biggest market place on web. But that does not mean ruining the business totally by having free ads and free 'circulation' on the web," said Kaisa Ala-Laurila, vice president at the classified magazine subsidiary of Finnish publisher Ilta-Sanomat. "You need to build working business models where you have an idea from the beginning where the money will come from."

In the future the product will be radically different and so therefore will the revenue streams.

There are eight key factors drive the strategy:

4.2.1.1 Structure of the market

As we indicated above, two factors determine the rate of migration of classified namely, the depth of the traditional classified business and the experience and uptake of the internet. Our survey has confirmed that those markets where both are highest are those where migration will take place fastest.

4.2.1.2 Active entrants

The second key issue is the level of activity of players in the market. The Netherlands is seeing particularly aggressive changes to the market because of the nature of competition

Table 4.3: Old World	New World
Advertising In the old world we had advertising	Contact In the new world we contact. Advertising was one way. Contacting is two way
Advertisement In the old world we had advertisements	Inventory In the new world we have inventories of items to be sold. All that matters is speed and price of sale. Advertising is irrelevant
List In the old world we browsed through lists in our newspaper to find what we want	Search In the new world we seek precise matches of our specification across a range of traders, media channels and private offers
Readers In the old world we offered readers to our advertisers	Prospect In the new world sellers prospect for buyers. Hot prospects.
Response In the old world we generated response for our advertisers	Transact In the new world sellers and buyers transact directly
Campaign In the old world we carried campaigns	Sell In the new world things are sold
Noun In the old world everything was a noun	Verb In the new world everything is a verb
Advertising In the old world we measured our business according to the number of advertisers we had, how often they advertised, what size of ad they booked and how much they paid	Results It's all that matters.

and new entrants. New entrants will cause major fragmentation and price dilution in the short term, but the question is whether their entry will improve service to private and trade transactors in the long term, or whether they will merely serve to change business models and force prices down.

4.2.1.3 Timing

A third factor is timing. As noted above, older readers will continue to use print classified advertising for some years yet. Traders also prove slower to move from one method of doing business to another. The benefit of this is that newspapers can rely on their more traditional customers to maintain their current business in the next few years. The challenge is mixing and merging the two business models in this interim period.

A side issue here is that the trusted newspaper is well placed to help their older readers understand the internet. As more elderly people buy a computer and discover the benefits of the internet, the newspaper can encourage them to turn to their own services – including online classifieds – through appropriate promotion in the newspaper.

4.2.1.4 Market control

In the long-term, market control and customer loyalty will be major determinants of business success. The new digital business concepts may be proving successful in the short term in encouraging trial, but their sustainable value has yet to be proved. This does not mean that the threat is diminished, rather that what we are seeing as competition currently, may not prove to be the final model that gains greatest acceptance in the long term.

4.2.1.5 Trade and private

All the experience of the past 30 years suggests that the private transactors are the market makers and the trade follow. After all, they are ultimately the consumers.

4.2.1.6 Free advertising or free access?

Previous business models are increasingly turning on one of two options. Either the advertising is free and people pay to access the content, or the access is free and people pay for the advertising. Such is the entry

Table 4.4: Value and format of online advertising

	2004	2003	% var
Search	4,061	2,107	92.7
Display ads	2,030	1,671	21.5
Classified	1,726	1,235	39.7
Sponsorship	914	872	4.8
Rich media	812	654	24.2
E mail	203	291	-30.1
Referrals	203	73	179.4
Special positions	203	363	-44.1
	10,152	7,267	+39.7

Source: IAB/PwC

cost of the internet that free/free is becoming more prevalent. In this model the free private advertising is the content, and it is hoped that the traders will pay to access the site traffic.

In the initial stages of new sites' development many operators are having to utilise these models to gain a critical mass of inventory and traffic. But over time more and more are either charging for listings or a share of the transaction value. Payments, however, remain extremely low.

4.2.1.7 Added value service

Increasingly revenues are being generated by services beyond the listings and

display advertising. A recent report by PricewaterhouseCoopers, reported in the SFN report 4.1, Profiting from Digital, examined the range of communications revenue streams.

The study revealed that the three formats of advertising with the greatest expenditure are "search", "display" and "classified", while the two fastest growing formats are "search" and "referrals".

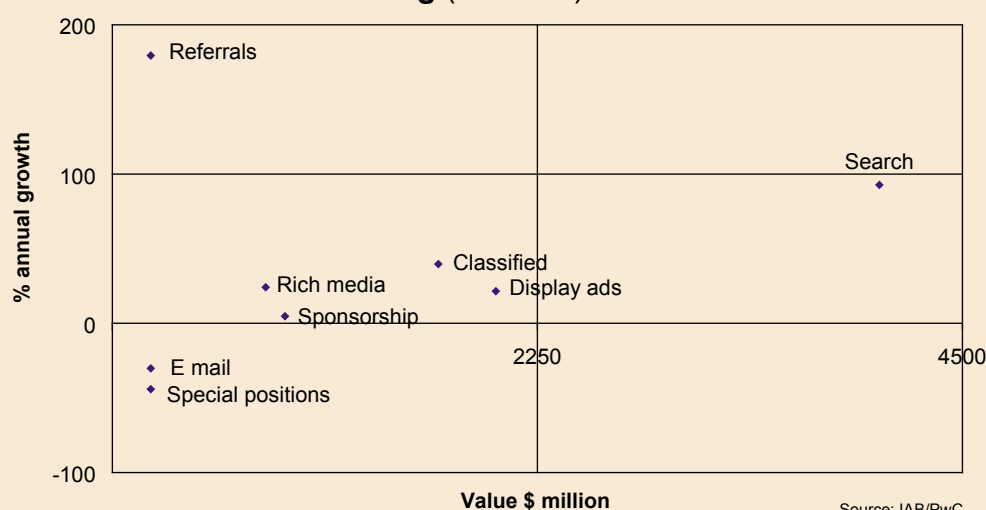
All of these advertising formats lend themselves well to the activities that newspaper companies are adopting online. Search, the highest value format, and referral, the fastest growing, are ideal for enhancing the inventory-based online service.

4.2.1.8 Newspapers transactions can be digital

It's not just buyers and sellers who can benefit from new technologies. Newspapers and their advertisers can also utilise digital interaction to make their own booking and fulfilment processes easier.

On top of generating cost savings, ensuring accurate copy and eliminating bad debt, allowing advertisers to submit their advertising into both the online and print product also leads to an increase in revenues.

"The online channel is a 24-hour operation. That in itself increases sales, especially in

Chart 4.4: Comparison of value and growth of US online advertising (2003-04)

Source: IAB/PwC

the private ad category,” commented Janette Kyröläinen of Finnish daily Turun Sanomat.

Equally importantly, it is a myth that the involvement of the sales representative is key to upselling classified advertising customers. “Left to their own devices, customers are already proving that they are better buyers than we have ever been sellers, in as much as they are spending more money and placing bigger ads for longer periods than ads placed over the phone,” said Sally Winfield, publisher of Loot, Associated Newspapers’ London-based classified magazine.

4.2.2 Business strategies

Companies should evaluate one or a mix of the following strategies.

4.2.2.1 Market dominance – transaction control

In this strategy, the newspaper partners with as many local traders as possible with the objective of featuring as high a proportion of the available cars, homes, jobs on its site as possible. Having cornered the market, and with it the reputation, it will then be possible to introduce premium pricing for added value services and branding.

In this model the items for sale become commoditised as content, and there is minimal or no charge for their being placed on the site.

The value of the strategy lies in two areas:

- In securing a role in every transaction, thereby becoming the essential site in the marketplace.
- In helping traders re-establish their position and brand values, by helping them promote themselves to buyers and sellers.

If successful, the site will have high levels of inventory for which additional charges can be levied for services such as integrated search and referral into improved content to maximise customer experience.

The online inventory can also be “reverse published” back into the newspaper, either as listings or as trade advertisers’ display advertisements. This can be built into an

integrated package for trade advertisers where they can have all their inventory automatically loaded on to the website, and then their best stock republished in their advertisement in the newspaper for the rate they were paying before. This way they maintain their level of expenditure but benefit from additional value online for little additional cost to the newspaper.

4.2.2.2 Value leadership

In this strategy, the local publisher seeks to force everyone else out of the market by dropping print prices to those levels seen online. Many newspapers have attempted such a strategy in the past. This may serve to force other print competitors out, but new digital entrants will always be able to compete on lower costs. The newspaper may then find itself with insufficient funds to compete and develop new services.

Even when all the competitors are beaten, it will prove difficult to recover print prices, since advertisers can always set up new services themselves.

Newspapers need to learn from the successes and failures of their peers. Adopting and localising strategies that have worked elsewhere carries much less risk than trying to invent something new. A group of Belgian publishers have learned this lesson the hard way. A few years ago they set up a joint online classified system, into which users could upload their first ad for free, but had to pay for subsequent ads. “The project ended in utter failure,” said the publisher of two of the papers involved. “Advertisers never published more than one ad per account.” Instead, they created new accounts with different email addresses to order other ads. The failure of this experiment has set back the publishers, who now have an uphill battle to take the market back from digital-only competitors.

Newspapers in markets at the early stages of the migration process can prepare for the battle with free sites and begin educating the market by assigning a value to internet ads. “We want the customers to feel that the internet delivers value, so it is something that has to be paid for,” said Rumiana Georgieva, advertising director at Bulgaria’s Capital, which has a 63 per cent share of the country’s

recruitment market. Mr Georgieva hopes that this strategy will make it harder for free sites to establish their credibility. "Does the [online] revenue matter for now? No. It's education."

4.2.2.3 Defend current model

The easiest recommendation to make in a report like this is to encourage publishers to abandon their traditional strategy for the online world. This would be foolish.

Certainly to defend the traditional model at all costs despite growing competition from online entrants will result in a slow lingering death for a newspaper's classifieds. However, the decline in classified will be slow enough for publishers to establish and invest in new digital businesses. The challenge is managing the relationship between the two business models.

Of course, publishers are right to fear that putting too much energy into the new, unproven, low-yield digital business will simply accelerate the decline of the traditional

in classified revenues since 2003.

Many of the publishers in the survey admitted that they realised the need to transfer their energies too late, by which time the competition had done their damage.

4.2.2.4 Consolidation

Another strategy that many publishers favour is consolidation with other players. In Norway, Orkla and A-pressen have established Zett to compete with Schibsted's Finn. In the United States, the newspapers established Classified Ventures to compete with Monster. In the UK, regional groups pooled resources to create Fish4.

"Trying to stand alone in the market has failed," said Poul Melbye, research director of Politiken, which has joined forces with other publishers to fight the digital-only competition. "As we seen many more competitors in the digital world than in the printed market we do not see our own company having the strength to compete in this market."

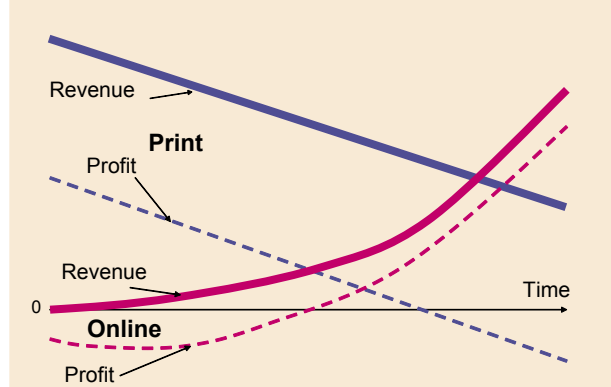
There are several advantages to such a strategy:

- Economies of scale and technology development;
- Creation of national databases, enabling transactors to deal over a wider area;
- National branding, with the opportunity to window the service at a local level;
- Separation from the core business, allowing the new, consolidated business to compete with other new entrants, while allowing the local business to milk its local trade contacts.

However, a number of disadvantages are apparent:

- Short-term decision-making among what are usually diverse companies, which often compete at least at the edges;
- Inability to react quickly and flexibly to single-minded competitors
- Long term, as the service becomes successful, there are arguments about integrating this consolidated strategy back into the core businesses.

Chart 4.5: Phasing of old and new business models



print business. The answer to this is that the rate of scaling of the new business must be one step ahead of any competitors. Otherwise the business will simply migrate to that competitor. It is vital that publishers take on board what is happening at the grassroots. One frustrated advertising manager summed up the experience of many of his peers. "We do not offer online only advertising. Our print sales team has so far successfully blocked all such efforts." He should know. His newspaper, a US daily, has reported a 50 per cent decrease

Measuring your market share

Market share should be measured across all major competitors in both print and online, including newspapers, classified magazines and Yellow Pages, as well as online newspapers and web-only competitors. Unless there is a standardised advertising audit across the market, it is difficult to measure every advertisement, so a set number of checks should be made every month. One idea is to count the number of Volkswagen Golfs or four bedroom homes in a certain area that appear in each medium. It is important to choose a range of types to sample, for example, Ford Focus, BMW 3 series, Volvo S40, to track whether your competitors are doing better or worse in different segments of the market. Of course, different services have different rules regarding the period of time advertisements

are allowed to remain on the site and different pricing models regarding duration. Over time these can be allowed for in the analysis and interpretation of the data. It is imperative to have a measure of the trends in the market.

Michiel van der Meer the Manager of Speurders.nl in the Netherlands points out two additional refinements to this measurement. The first is to adjust the count of inventory by the frequency period of the offer. So if one site allows users to upload for seven days, then the count is divided by seven. If the upload is for 28 days, then divide by 28.

A second refinement is to track for how long moving or popular items stay on the site, on the assumption that once sold they are removed. This provides a measure of the success of the site, and can also be tracked over time.

	Volume			Variance		Share		
	This Month	Last Month	Last Year	Month /Month	Year /year	This Month	Last Month	Last Year
Your print inventory count								
Your online inventory count								
Competitors print inventory count								
Competitors online inventory count								

While some of these ventures have undoubtedly been successful, publishers or national associations would be advised to examine closely the experiences and pitfalls of such an approach.

Another option here is to seek consolidation with related media. For example, newspapers might consider developing a joint venture with car or home magazines that deal with the quality segments and carry more lifestyle-based content. Here the features content, reviews, and product data of the magazines, complements the listings of the newspaper, creating national/local portals covering all aspects of the industry.

4.2.2.5 Reverse integration

Another strategy that may work in certain market conditions is to exploit

the trend toward private, consumer-to-consumer transactions, and become the trade intermediary. Here, for example, the newspaper launches or takes over the local estate agent or travel agent, and provides the range of services that they previously provided.

Metro International, publisher of the free Metro daily, has recently launched a travel service – metrotravel.com – appealing to young international travellers. Many British and Irish newspapers have operated reader travel programmes for years, taking readers on holidays and to events.

In the case of estate agents, it could be argued that newspapers are well placed to provide such a service. All the specialist issues surrounding a house sale – legal, surveying, removals, insurance – are subcontracted to third parties. Other than price negotiation,

and arranging viewings, there is little in the estate agent's value proposition that justifies their share of the transaction fees. It could be argued the basic services of communication, databasing, provision of local information, preparing brochures and banners, could all be done better, and certainly more cheaply by the newspaper company.

The newspaper would then be in a position to also take commissions from insurance companies, lenders and removal companies.

However, there is also the issue of appealing to a younger audience. The prime movers toward the internet are young people, and the newspaper has to determine whether such a strategy would align them to or alienate them from this next generation of transactors.

4.3 Implementation and tactics

Finally here are some comments on tactics:

4.3.1 Measurement

An absolutely essential point of implementation relates to market share. Once again our survey found that many of the newspaper companies we contacted simply did not measure their performance relative to the market, and were therefore in no position to either understand the nature of threats and opportunities nor make decisions on future strategy.

This subject was covered in detail in the first SFN report on classified, SFN 3.2 New Classified Models.

It is also essential to include all conceivable competitors in the measurement process. It is no use simply tracking competitor newspaper or magazine sites, when the competition is coming from web-only competitors. It should also monitor new entrants.

4.3.2 Separate products – integrated strategy

A central message from this year's study is that new products are required that specifically service new classified markets. Many newspapers are now establishing these services in parallel to their newspaper sites. De Telegraaf in Amsterdam has continued

to operate their newspaper online services, autotelegraaf.nl, Reiskrant.nl (travel, Vaarkrant (boats), Vacaturekrant (jobs), etc. These sites are portals containing a wealth of editorial content as well as classified. De Telegraaf has established a new business, Speurders, to compete with eBay and Marktplaats.nl.

However, the strategy between Speurders and the newspaper sites is integrated, with each service feeding off the other, to fight off the competition and offer the best range of services to the market.

As Rik Corman, of De Telegraaf, puts it: "We compete with 'pure internet' players through utilisation of our unique selling points: cross-selling from internet to print and vice versa."

This is completely different from the historic scenario that many newspapers faced where new media operations were set up largely because of management frustration that they could not get their core business managers to adopt and implement new concepts. Here, everyone is working together, but the market-facing product lines are driven by different goals and objectives.

"It can be argued that even though separating [print and online teams] helped in developing the online product faster, it did not help in developing better offering to our advertisers and to great extent also readers," says Tomasz Józefacki, director of local editions at Gazeta Wyborcza, Poland's largest daily.

Rather than treating its print and online versions as different products, newspapers can propose a campaign using both. This is a unique selling proposition that their digital-only competitors cannot match. "We do not believe that digital is automatically better than print. That's very dangerous," said Jarkko Kyttanen, category manager at Helsingin Sanomat, a daily in Finland. "Instead, we strongly feel that by combining both as a good value offering for the customers we can really succeed in classifieds."

Once newspapers are forced by the market to decouple their ads and lose print volume and revenue, they need to pursue two strategic goals:

- Design sales strategies that emphasise the value of print to minimise the damage; and

New structures

Delo in Slovenia was more daring than most when it came to merging its sales teams: its internet team has taken over responsibilities for print sales as well. Delo is the country's largest newspaper company by far, publishing the highest-selling broadsheet and tabloid at the same time. For years now it has witnessed a slow but steady decline in its classified advertising sales, while as a latecomer to the digital market it has been trailing the digital-only competition online.

"We wanted a new mentality in classified sales, fresh blood," said Deputy Advertising Director Domen Prašnikar. "The Internet team was more fit for the new market conditions."

Until the reorganization late last year, classified sales consisted mostly of picking up the telephone and taking orders from advertisers – with only very little in the way

of active sales. The paper's management had tried in vain for years to change the mentality, which has survived from the Communist days when Delo had a monopoly in Slovenia, and when classified magazines did not exist. "They were not even called a sales department, but the department of non-commercial advertising," Mr Prašnikar explained. "The mentality had to change."

Though the online sales made up less than 2% of classified sales revenues last year, management appointed Tomaš Prpiš, the one-man online sales department to reinvigorate print sales. "Clients are surprised that we are doing active sales," said Prpiš, adding that sales have increased especially in the automotive sector.

It is, however, too early to uncork the champagne just yet. "So far the decline in ad sales has stopped," Mr Prašnikar said, "but that on its own is a good result in just a few months."

- Ensure that much of the lost revenue from print migrates to the newspaper's online version, and not to digital-only players

4.3.3 New media, new customers, new categories

New media services are not simply about offering current buyers and sellers a new service. The new services inevitably appeal to new customers. Newspaper companies need to revise their sales strategies to trawl all private and trade prospects who are not traditional newspaper advertisers.

In addition, they need to revisit all categories of business: both consumer and business to business. Paradoxically, newspapers have become increasingly reliant on just three categories of classified advertising – cars, jobs, and homes. Some others – travel and entertainment – continue to provide useful incomes and accompany important editorial sections of the newspaper. But others – home and business services, restaurants, B2B – have all now moved to other media channels.

Here is a major opportunity for newspapers to recover lost ground, create new revenue streams and also re-establish contacts with the many

businesses and categories of business that are rarely seen in the newspaper, but could be hot prospects for the new digital environment.

Newspapers can and must retain their traditional platforms to continue to satisfy the older reader and the more traditional trader. History has shown that there is a lag both in consumer adoption and in trade adoption.

4.3.4 Print drives internet traffic drives print advertising

Those newspapers that are fighting back successfully are the ones that realise that not only can they match the online presence of the new digital entrants, but they can back this up with the phenomenal marketing power of the newspapers in both the consumer and trade segments. Imagine if eBay or Monster or Google had had the opportunity to communicate every day with all the readers of a newspaper, or had a ready-made sales interface with all the leading companies in town.

4.3.5 Merge traders' marketing into your implementation

A central issue here is the fight for the intermediary space. Traders are themselves

struggling to maintain their customer base as transactors turn to low cost, easy to use internet solutions. They are building their own websites, and experimenting with different forms of communication. Unless your newspaper decides to pursue the private market only as a strategy, then it makes sense to work with your leading advertisers to ensure your strategies dovetail with theirs.

4.3.6 Keep it simple

A common criticism of many of the new classified sites is that they are complicated to use. Often in the desire to provide strong functionality, the interface becomes over-complex. Ease of use is essential. This does not mean that the site has to lack functionality.

A central competitive advantage has to be a newspaper's traditional hold which can be used to encourage many of its readers and advertisers over to its own classified site. It is likely that some of these people will be relatively new to the internet, and ease of use can be used as a competitive advantage.

4.3.7 Quality not quantity

Most private sellers of goods, and a host of commercial traders, are also only looking for one buyer, respondent, or appropriate job applicant. High levels of response are more of a hindrance than a benefit if none of them is suitable.

Sites in which it is free or nearly free to advertise will achieve a higher volume of ads and traffic, and as a consequence may deliver more responses to ads. Newspapers, however, need to shift the focus from the quantity to the quality of the applicants. "Compare the number of applicants shortlisted for an opening and we come out on top," says Alan Revell, commercial director of the Sydney Morning Herald and The Age in Australia. An advertisement in the competing site "may result in 50 applicants, but dealing with 49 of them will be a waste of time".

Some newspapers are claiming that they are seeing recruitment advertisers returning to newspapers because their experience of the internet has been that they found plenty of job applicants but they were not of as

good quality as those who apply through the newspaper. This is another virtue of a newspaper's relationship with its market, and is again an exploitable asset.

The Scotsman, the Scottish daily, has around one-tenth the number of online job ads of its digital-only competitor. "But on our site these are all real jobs," says Caroline Blyth, classified advertising director. The question the sales team needs to put to job advertisers is whether they want their company's advertising to be seen among serious and real advertising or online simply for the least possible amount, she explained.

4.3.8 In-house resources

It is not just the external factors of the newspaper's good customer relations and market presence that are exploitable. Many, particularly larger, newspapers are developing market-leading technology systems exploiting their core competence of content management systems and database architectures.

Conclusion

DESPITE increasing competition from print, then broadcast, and now digital competitors, newspapers continue to dominate the local and national media space. They retain extraordinary relationships and trust with their readers and advertisers.

These strengths can be utilised to establish the new forms of digital classified advertising and other forms of person-to-person transactions.

However, newspapers have to recognise that the way these new transactions take place will be radically different from the intermediary- and advertisement-based communications processes of the past.

They must create business models that reflect these new ways of doing business, confident that if they at least emulate these new digital entrants they can greatly enhance their competitive supremacy by exploiting the traditional core advantages of marketing and internal resources.

Newspapers in markets at the early stages of the migration process can prepare for the battle with free sites and begin educating

the market by assigning a value to internet advertisements. “We want the customers to feel that the internet delivers value, so it is something that has to be paid for,” said Rumiana Georgieva, advertising director at Bulgaria’s Capital, which has a 63 per cent share of the country’s recruitment market.

Mr Georgieva hopes that this strategy will make it harder for free sites to establish their credibility. “Does the [online] revenue matter for now? No. It’s education.”

They have the time to implement these new strategies in parallel with their traditional business activities, and can afford to do this, both financially and competitively, providing they move fast to meet these new competitors with equal capabilities and market opportunity.

If they wait or continue to defend the core business at all costs, they will experience the same declines in revenue and profits that some of the newspaper companies featured in this report have suffered, and damage their ability to sustain their revenue streams, and therefore the funding mechanism that currently exists.

The conundrum for newspapers is that advertisers are actually funding most of the newspaper's other activities. If newspapers do not move fast to increase the value and response that advertisers enjoy for their investment, whatever the channel, then they will find that the revenues that remain to fund their other activities will be diluted.

It is simply wrong to assume that there is no value in internet classifieds. If that was the case why would eBay, a now well established quoted company, have a value of 10 times turnover and be prepared to pay nearly double that ratio for a Dutch classified service?

The challenge for newspapers lies in defining where that value lies, and how to extract it.

In time there will be good revenues to extract from the digital world of buyers and sellers, but newspapers have to define a clear role for themselves relative to their private and trade customers, and take on a more interactive role as intermediaries. To merely publish an advertisement is not enough.

Traditional newspapers consider their words the content, and the readers of those words the market for advertising. In the digital classified world, the inventory is the content and the users of that inventory are the market for trade advertising. We have to utilise our content management skills to bring these advertisements alive and – as we outlined in last year's report – utilise a range of means such as search, notification, referral and alert to bring buyers and sellers closer together. If we can continue to bring traders to the front of consumers' minds then they will continue to pay us.

Newspapers have to align this new value proposition to their own local trade and consumer relationships, exploit their core competencies, but continue to build business models that have the cost mechanisms that are as low as their digital competitors. As one of the managers in our study said: "People are more aware now that if you are not doing this you are out of business in the long run. You have to destroy a little bit of your own business to make the new one."

But it seems when looking into newspaper companies from the outside, and speaking to the people across departments and hierarchies, that what is of greatest concern

is that what we have to "destroy" is as much about what we are, as what we are worth. We are having to not only redefine our business models and organisation, but also how our business pays for being what it is a newspaper business.

It is not the challenge of performing in the classified arena that is the issue, but how we continue to fund the rest of our activities through our classified revenues as we have done in the past.

Part of solving the classified conundrum therefore is examining in a similar vein how we remodel the rest of the newspaper to accommodate a different set of revenue streams in the future.

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