CASE STUDY:
ACTIVE! NEWSPAPER

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It was April 2012 in Winnipeg, and Brian Downie, the Editor of the *Active!* newspaper, had already battled over a year with a new competitor who had begun to offer free advertising in local newspapers. Advertising revenue was Brian's only source of revenue. He knew he needed to make changes to his business model to succeed, but he wondered how best to proceed.

Canada's Newspaper Industry. In 2011 Canada's newspapers industry boasted an impressive readership of 5.2 million paid and 335,000 free subscribers. Toronto, Montreal, and Vancouver were the three largest markets, while smaller communities such as Edmonton, Calgary, Ottawa, and Halifax, were considered to be smaller niche markets for newspapers. Prior to 2000, publishers relied on paid subscriptions for their daily newspapers to generate revenue. Print papers have generated more revenue from advertising than from subscription income. However, the competitive landscape for the publication industry in Canada began to change significantly in 2000 when newspapers began to offer free daily subscriptions. Free subscriptions were possible because newspapers were able to generate enough advertising revenue to cover their expenses.

Metropolitan Canada was touted as being Canada's #1 free national daily newspaper because of its ability to distribute a diverse portfolio of newspapers across major and local markets. This free print paper was distributed through free newspaper kiosks and made available through high-traffic spots like malls or at restaurants. The company started off by targeting the largest metropolitan regions of Canada, but soon expanded its reach into the smaller local regions. The newspaper's targeted audience was youthful, active, metropolitans, and it reached more than 1.4 million readers daily and 2.9 million readers over the course of a week.

From Print To Digital. As of 2011, more than 96 percent of readers still read print copies of papers. In an attempt to attract a new set of additional, and younger, readers, newspapers made a huge movement to supplement their print subscriptions with online versions. However, newspaper companies realized that they needed to change many of their business models when they made their content available for free online. The primary challenge in the newspaper publishing industry has been to wean customers off of other free online news feeds.

The popularity of tablets and smartphones as the new medium for content distribution has offered a glimpse of hope to the publishing industry. Most experts in the industry anticipate that the key distinguishing factor for the success of going online will be the development of apps for these devices. However, the transition to publishing online has not been not an easy task.

The newspaper industry has constantly struggled to find a business model to balance online and print revenue. Over the last 15 years, the newspaper publishing industry has struggled with transforming the traditional subscription-based revenue model. Print newspapers have typically depended heavily on advertising revenue as their major source of income. It is commonly understood that a newspaper's digital gains in advertising revenue did not make up for print advertising losses. In fact, for every $1 gained in digital online advertising sales, $7 was lost in print revenue.

In 2009, when the newspaper industry first moved from print and web to web-only content, publishing companies reported losses of at least 75 percent of their revenue. However, recent data released in 2011 indicates that newspapers in major United States markets (i.e., New York, Los Angeles, and Washington DC) who moved their content online recognized anywhere between a 60 - 99 percent increase in readership traffic. Additionally, it was reported in 2012 that digital revenue grew 19 percent on average, as a result of advertisers being more comfortable placing ads on this digital media. Print ad revenues, which account for approximately 92 percent of a newspaper's overall advertising revenue, diminished by an average of 9 percent.

Active! Newspaper. *Active!* newspaper was launched in Winnipeg, Canada, on March 23, 1989, and is considered Winnipeg's most widely read free newspaper. *Active!* was established by an entrepreneur and local resident, Brian Downie. He had no corporate business experience in the industry, but he had a passion for starting a successful business in his hometown of Winnipeg. At that time, a one-family conglomerate had a monopoly on the majority of Winnipeg's media (TV / Radio / Print Publications). Winnipeg was recognized as the 11th largest metropolitan area in Canada, with a total population of almost a half a million people. Brian realized that there was still an opportunity in the local publication industry to introduce a new competitive newspaper. Quickly establishing a solid presence, reputation, and distribution would be his primary challenges.

Brian's primary goal for starting *Active!* was set out in the company's mission statement: *"to provide readers with a high quality newspaper that contains the best entertainment, arts, and news coverage.*" The decision was made to focus the newspaper's content on delivering current news, music, life, arts, movies and local music awards. Quickly, the newspaper was recognized as the key source of obtaining entertainment listings and information about the music scene.

Active! quickly gained popularity during the first three years of operation. It was distributed to over 300 locations throughout the city, with a circulation of over 20,000 copies every other week. *Active!* was a print-only newspaper which was distributed via street boxes that are strategically positioned across the city in shops and restaurants. Advertising revenue, which was generated almost entirely around printed display ads and classifieds, was the only source of revenue for *Active!* Brian determined that the newspaper needed to sell at least $5,000 in advertising each issue in order for the newspaper to remain profitable.

As of April 2012, there were over 33,000 readers for each edition of the newspaper, and advertisers were able to reach over 77,000 readers across each 5-week advertising cycle. *Active!* readers were distributed evenly across a broad age and income range, with the greatest concentration of readers in the 19-44 age group and, particularly among those who made up to $75,000 per annum. On average, *Active!* readers picked up the newspaper almost 8 times a year, and approximately 10% of the readers picked up every issue (Exhibit 1). The most popular places for picking up a copy of the newspaper was from street boxes (43%), shops or restaurants (30%), and other -- libraries / theaters, work/college/university/school (18%) (Exhibit 2).

EHIBIT 1: Frequency of Picking Up *Active!* Newspaper

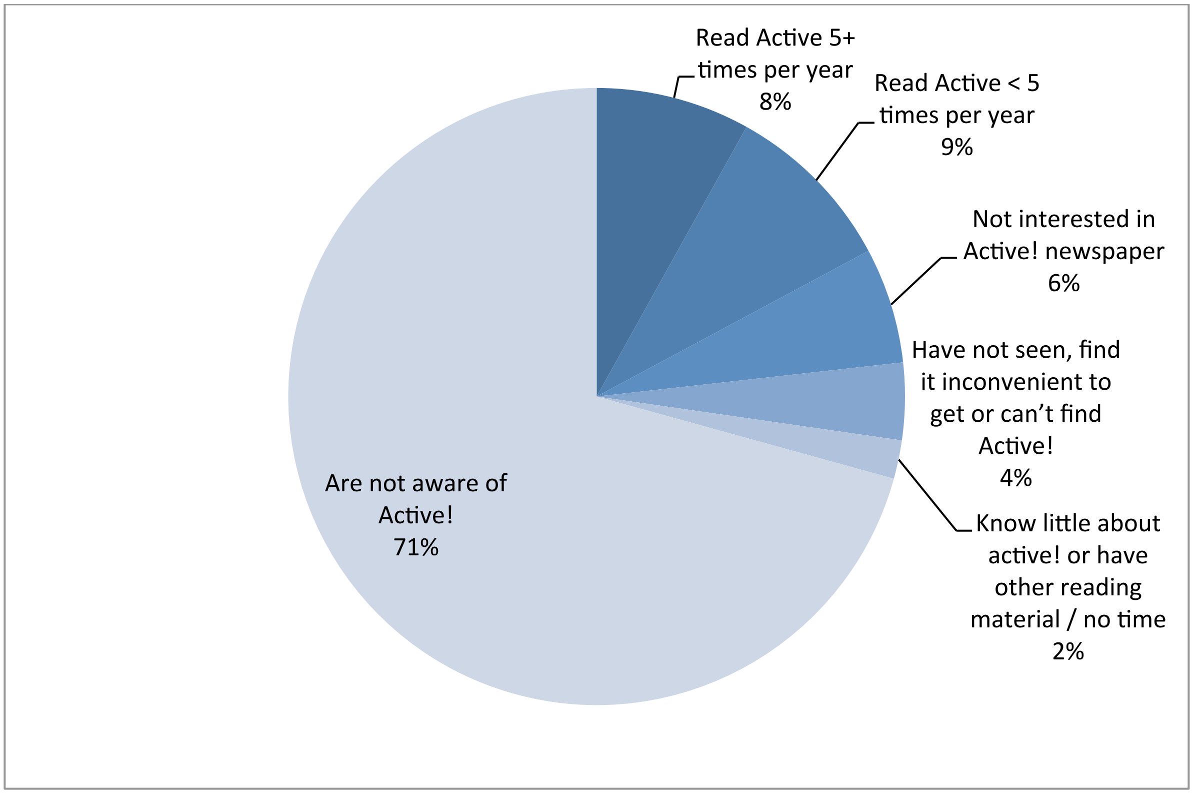
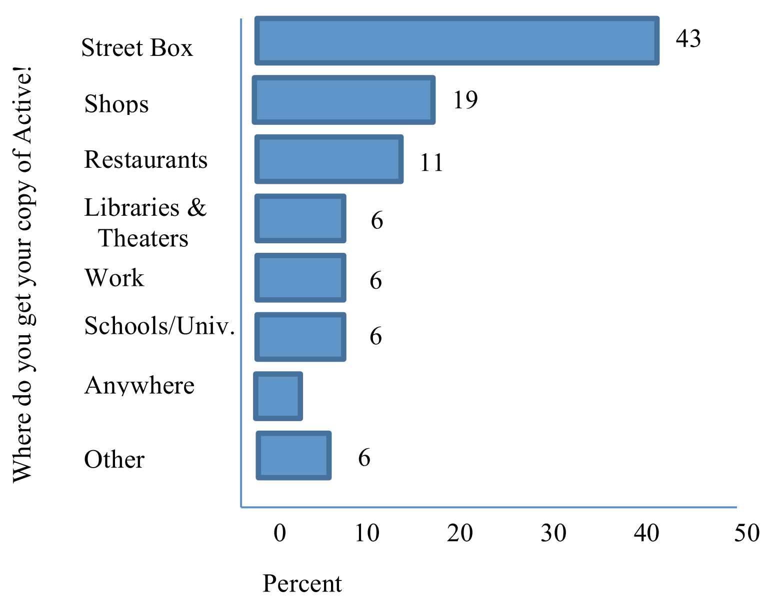


EXHIBIT 2: Distribution Locations for *Active!* Newspaper



Age played an important role in where the newspaper was obtained (Exhibit 3) and what types of information readers sought from *Active!* (Exhibit 4). Yet, despite the distribution of over 20,000 copies of his newspaper every other week, many readers in the Winnipeg area did not read, or even know of his newspaper. He knew that an untapped market still existed.

EXHIBIT 3: Places Respondents Usually Get *Active!* Newspaper by Age

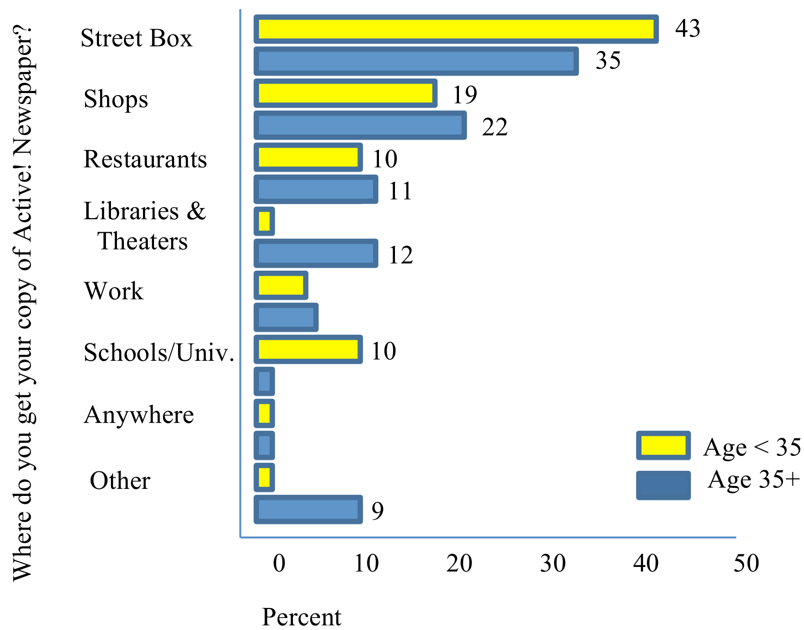
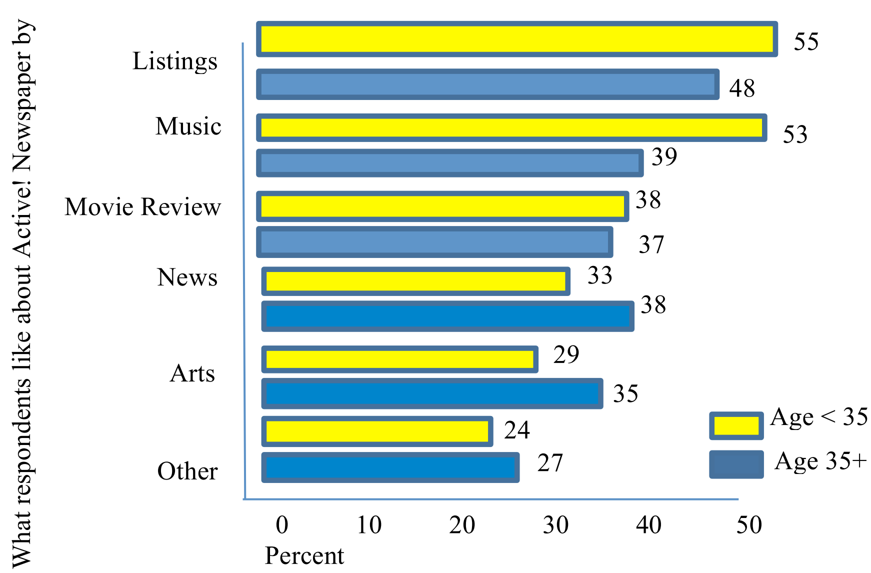


EXHIBIT 4: What Respondents Liked About Active! Newspaper by Age



A New Type of Competitor Enters The Winnipeg Market. In April 2011, the *Metropolitan Canada* newspaper announced that it had established a partnership with Toronto's largest news agency and was entering Winnipeg's local publishing market. The partnership immediately expanded its portfolio of newspaper offering by launching the *Metropolitan Winnipeg*. The newspaper had a daily circulation of 35,000 readers and aspired to reach a target demographic of adults aged 18-49. The newspaper leveraged distribution channels, such as promoters and in-street boxes across town. When launched, the company aimed to enhance its brand by reaching the important target market of youthful, active metropolitans in almost every major market across Canada. Across Canada, *Metropolitan Canada* publications were distributed in Halifax, Montreal, Ottawa, Toronto, Calgary, Winnipeg, London, Edmonton, and Vancouver.

Metropolitan Winnipeg posed a new threat to *Active!* because it produced and distributed a free newspaper in Winnipeg that directly competed with *Active!,* and the new magazine offered any company who advertised in any of its major newspaper markets (i.e., Toronto, Vancouver, and Montreal) free advertising in their smaller regional newspapers (e.g., London and Winnipeg).

In 2012 the two main local competitors of *Active!* were the *Metropolitan Winnipeg* (free newspaper, a subsidiary of Canada's largest paid daily newspapers) and *The Winnipeg Daily News* (a local paid-subscription daily newspaper). Both newspapers competed with significantly different business models: the *Metropolitan Winnipeg* made profits by selling advertising space in its major city publications, while *The Winnipeg Daily News* relied primarily on revenue generated by advertising revenue and paid subscription services.

Deciding How To Add Value. Brian realized that in order for *Active!* to better compete with *Metropolitan Winnipeg,* who offered free advertising to its clients, he needed to change his business model and add new and additional value to his existing format and attract new advertising clients. He considered pursuing three different options. First, he could continue to increase the saturation of the Winnipeg market by making *Active!* more available throughout the town. Secondly, he could discount advertising fees in hopes of retaining existing customers and attracting a new set of advertisers. Thirdly, he could open an additional distribution channel for his newspaper -- a digital online version of the newspaper. Brian knew that the targeted readership of *Active!* was the younger generation and that social media was the hottest tool available for attracting a new set of readers. However, he did not want to distribute *Active!* online because of the fear of having others easily replicate his content.

One of Brian's biggest concerns was the difficulty of tracking readership online, making it harder to convince advertisers about the effectiveness of this medium. He mentioned, "*Advertising clients want to know exactly how effective their ads are and the scale of distribution that can be achieved through their ads in my newspaper. ... Increasing advertising revenue by adding an online version of my newspaper would be difficult because it would require me to demonstrate added benefits for going online. I would have to measure additional or new readership and an increased reach of ad effectiveness for my clients.*"

Conclusions: What's next? As Brian walked through a local Shopping mall in Winnipeg, he quickly noticed that *Active!* and the *Metropolitan Winnipeg* newspapers had been displayed side-by-side at many of the retail stores and restaurants. He was reminded that the last year of business was challenging for *Active!* because new competitors had entered the market and upset the publishing industry by offering free advertising. Brian knew he needed to grow his advertising revenue stream, as it was the lifeline for his company's success. He also knew he needed to make some changes to his business model and operations, but he wondered how to proceed.