

Mather Economics
Digital Audience Pricing Strategies
2012

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Digital Content Pricing

Key Questions:

- How will charging for content affect advertising revenue?
 - What number of Page Views will be at risk
 - Can CPM be increased due to higher engagement/less supply
- What is audience revenue potential?
- What digital pricing strategy maximizes total revenue?
- Does digital pricing improve print business?
 - Incremental print circulation from bundles
 - Improved print retention
 - Incremental revenue from print-only subscribers

Challenges

- Identifying best way to “monetize” digital audience
 - Audience categories vary in Advertiser Value
 - Portions of digital audience better monetized through advertising & others through audience revenue
- Maximizing adoption of new formats
 - “New Product Adoption”
 - Identifying and acquiring potential customers
- Competitive Landscape
 - Differentiation vs. commodity
- Effective Yield Management in Advertising & Audience Pricing

Digital Products

- E-Edition - Digital replica of print product
- Paid Web Site – Metered site or Pay wall
- Tablet or Smart Phone Application – “Apps”
 - Existing publication content
 - Target audience products, such as sports, hobbies, weather, traffic
- Mobile Access – Configured for smart phone screens
- “Complete Digital Access” – Bundle of all digital products

Tactics

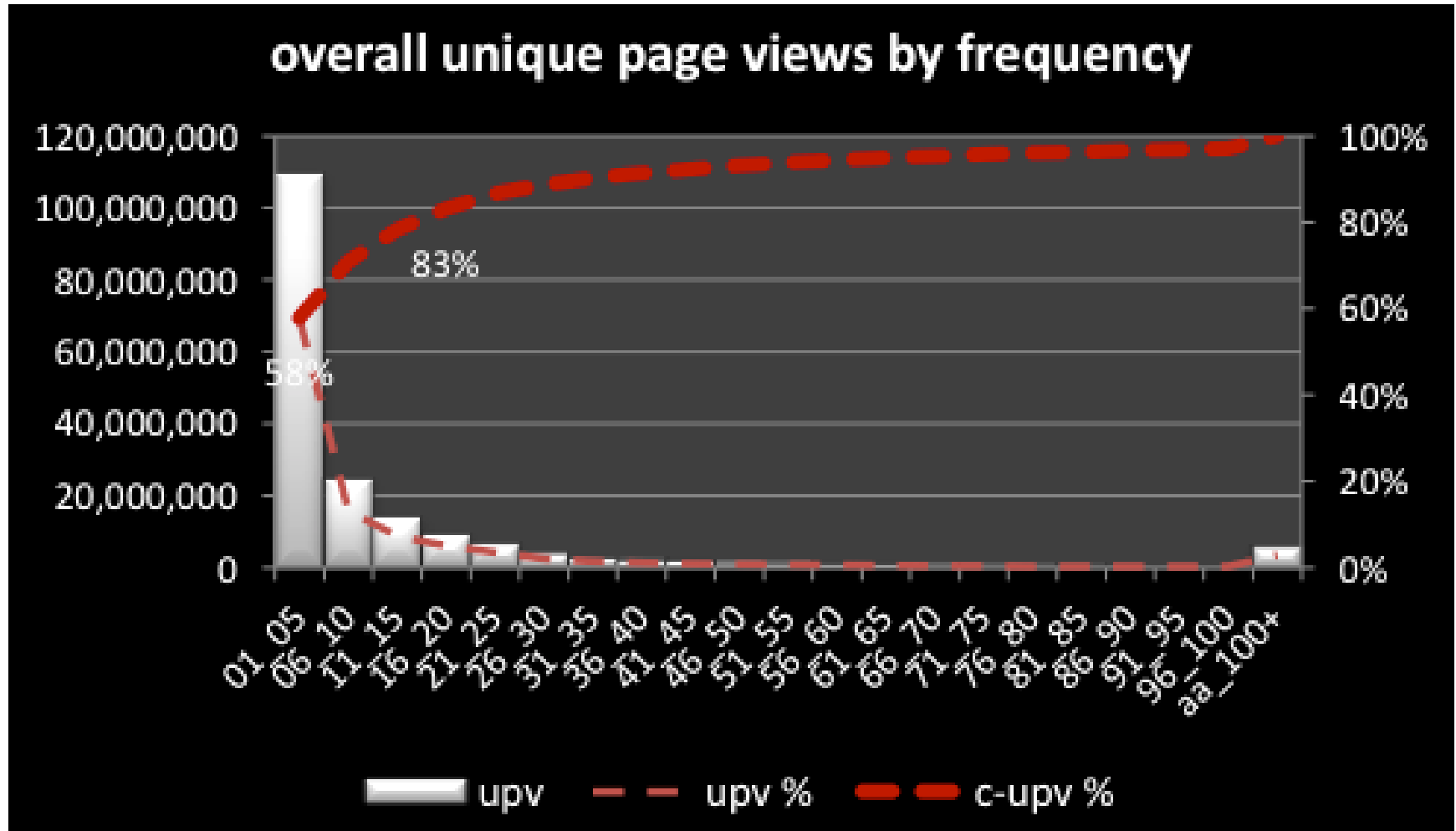
- Bundling Digital with Print products for new acquisition sales
- Introductory offers (\$0.99 for 4 weeks)
- Converting existing print subscribers to digital customers:
 - Opt-out – Adding digital to existing print subscribers prior to their requesting this change; both free or paid versions
 - Opt-in – Offering digital products to existing print subscribers; both free of paid
- Optimizing digital advertising & digital audience simultaneously
 - Variable meters
 - Dynamic advertising pricing (similar to broadcast models)

Measuring Revenue Potential

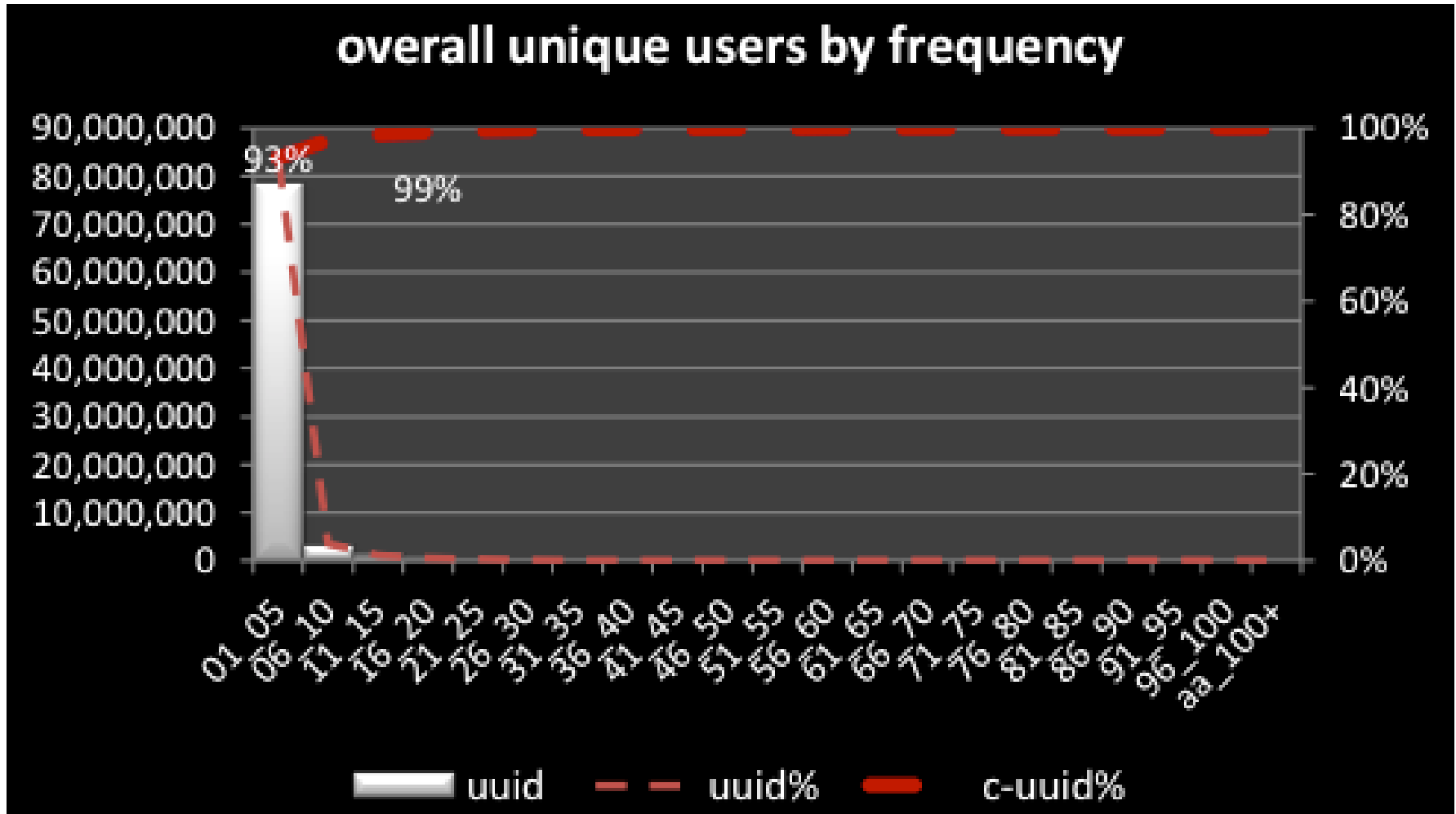
- **Digital Audience Analysis**
 - Measure Digital Audience traffic by section
 - Measure Meter Elasticity and Price Elasticity for Digital audience
 - Estimate conversion rates and meter hits on web site
 - Model print customer conversion
 - Model field sales volumes, retention, revenues
- **Digital Advertising Analysis**
 - Measure sell-through for guaranteed and targeted inventory by section
 - Measure Price Elasticity for advertiser segments
 - Model CPMs for digital audience inventory

Digital Audience Benchmark Data

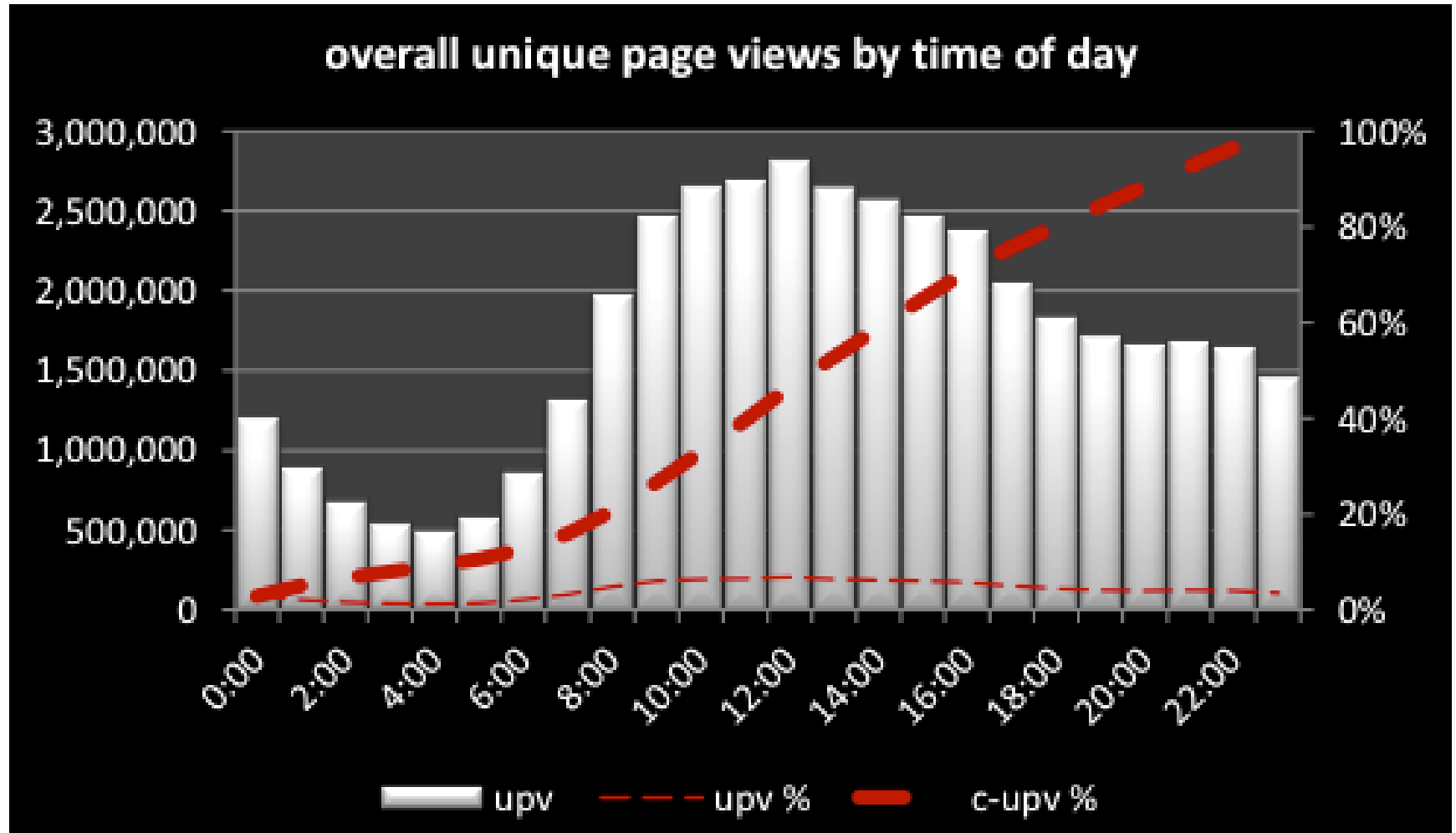
Typical Newspaper Website – 58% of Unique Page Views from Users with 1 to 5 Page Views Per Month ⁹



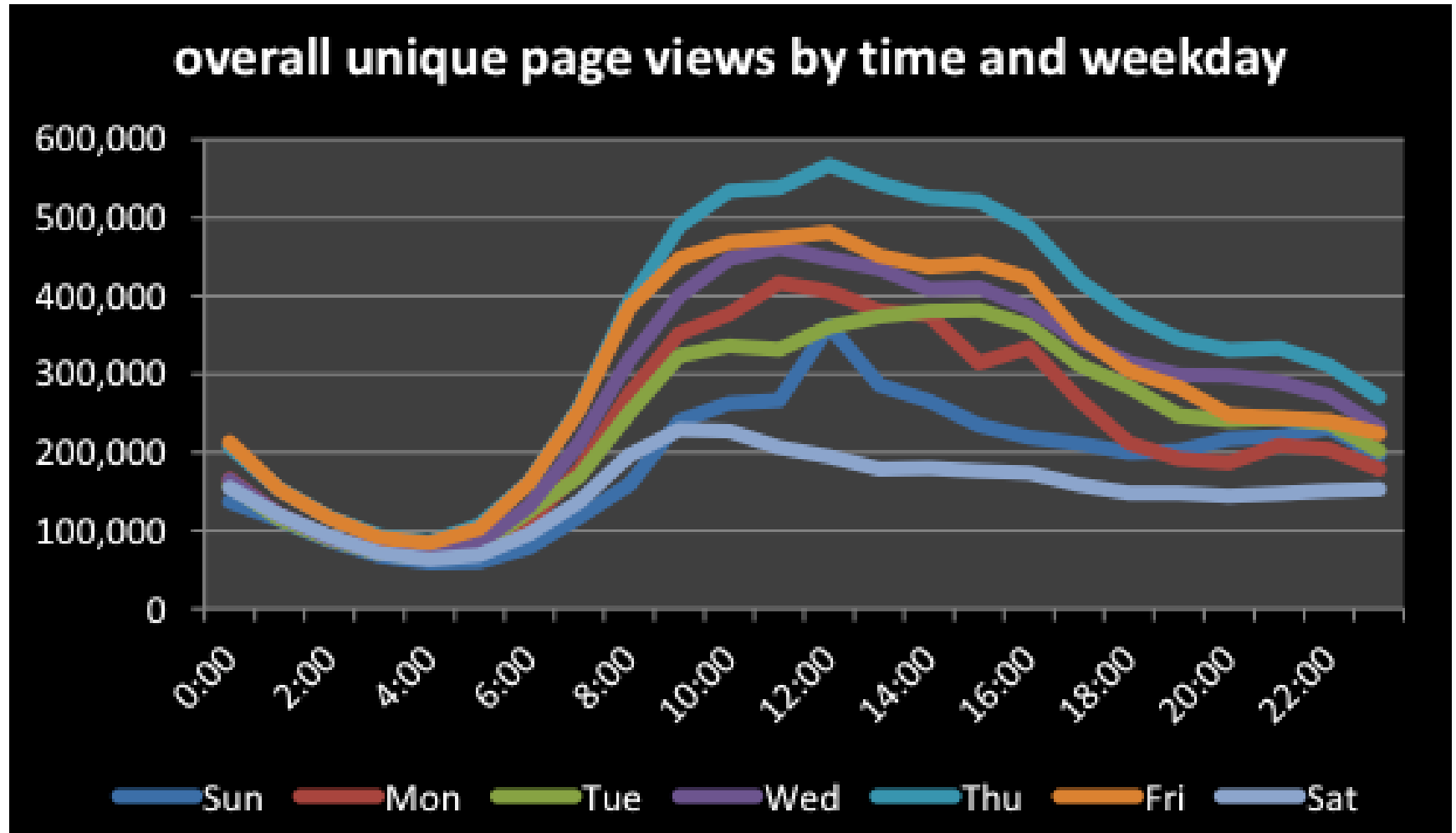
Typical Newspaper Website: 93% of Unique Users Consume 1 to 5 Page Views Per Month



Hourly Data Analysis shows 40% of Page Views occur between 10:00 AM and 3:00 PM

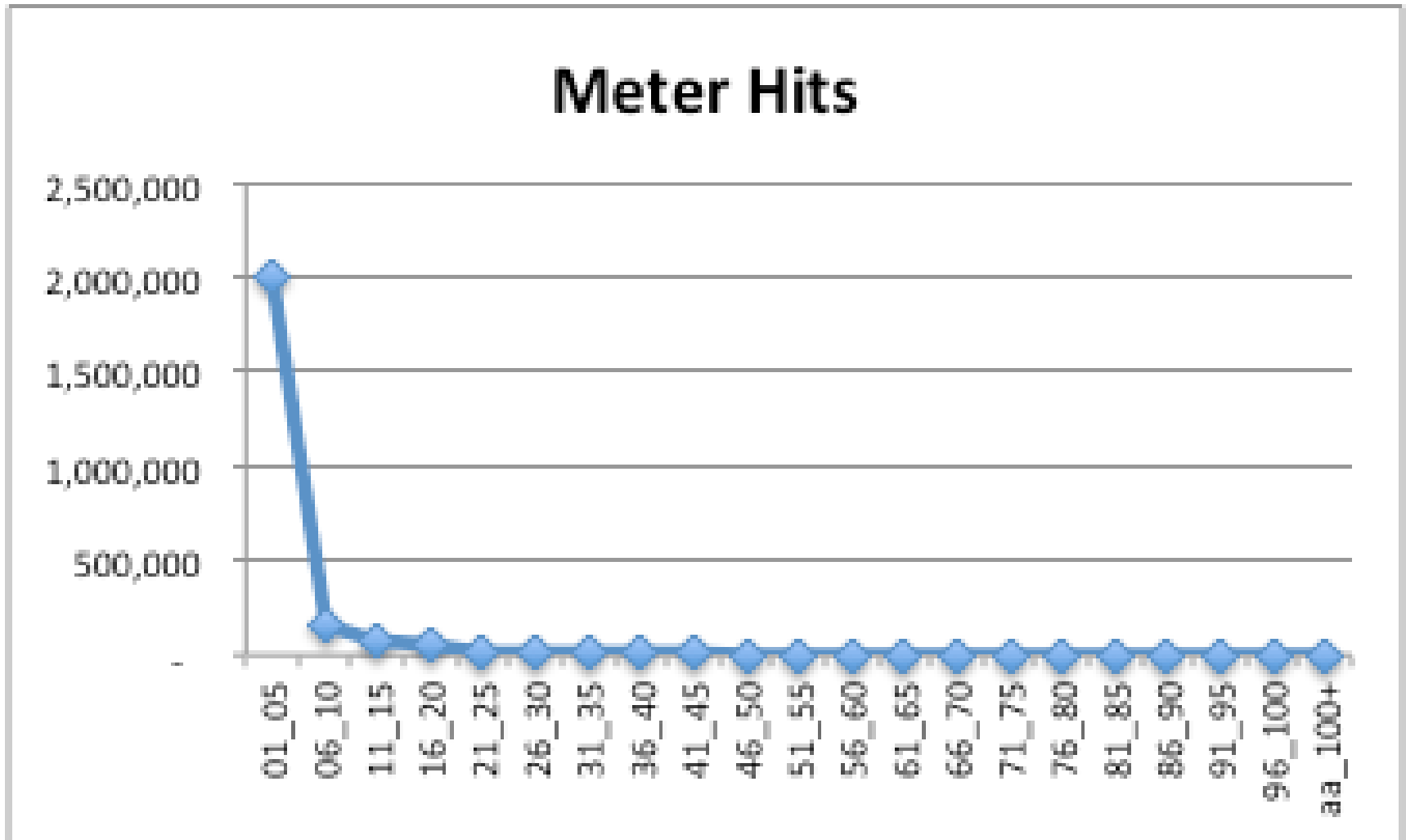


Hourly Data Patterns Are Consistent Across Days Of The Week (Page Views) 12



Digital Pricing Economics – Balancing Audience & Advertising

The Number of Unique Users to Hit A Meter By Number of Free Page Views Per Month ¹⁴



Expected Page Views At Risk From Meter By Number Of Free Page Views By Month



Business Modeling – Audience Metrics By Meter Level

- Conversion Rates can be maximized through pricing strategy & tactics

3 month

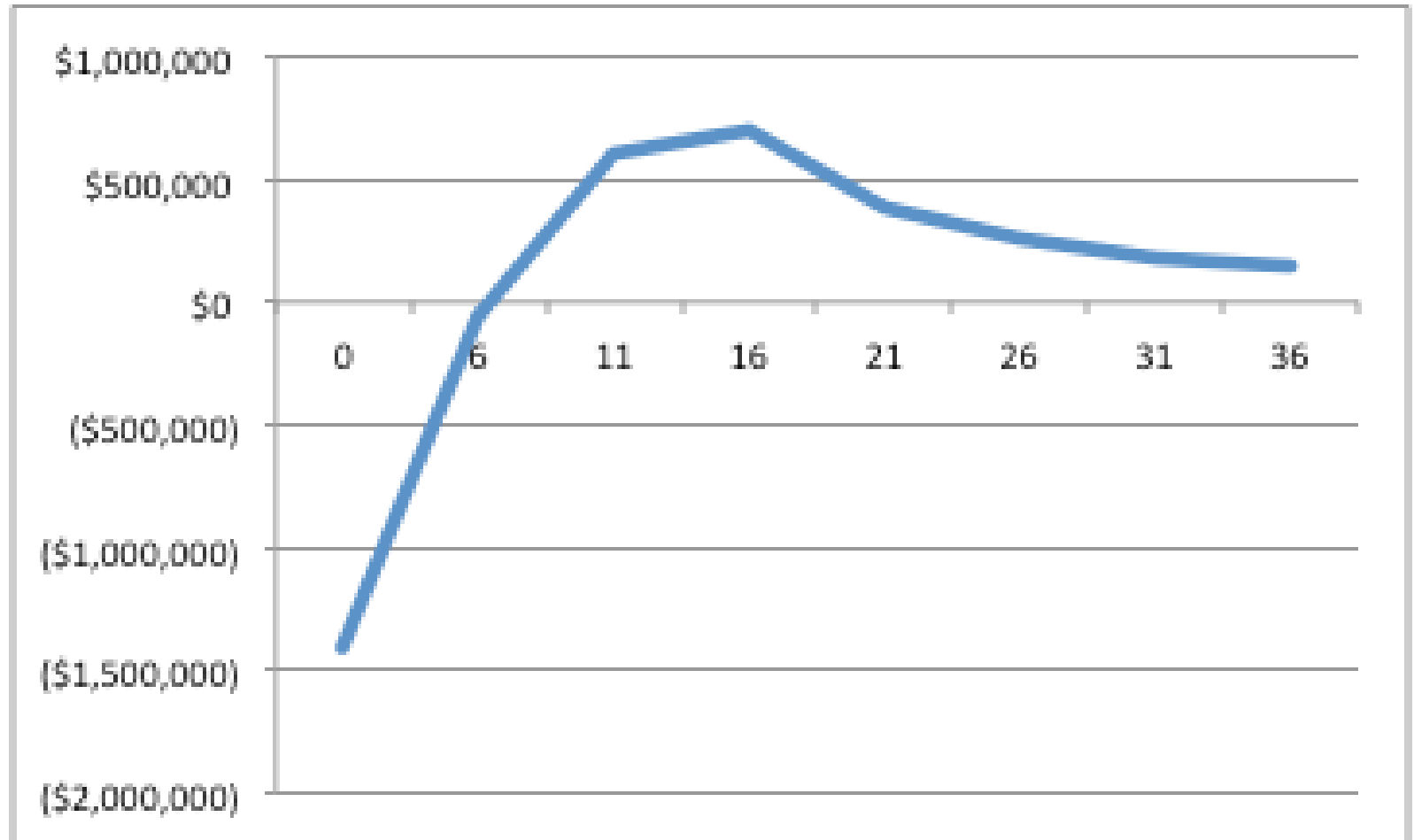
Meter Level	sales attempts	Conv rate	Subscribers	Revenue (annual)
0	6,029,853	0.94%	56,970	\$4,510,331
6	493,452	2.67%	13,198	\$1,044,885
11	230,370	4.12%	9,482	\$750,718
16	134,517	5.56%	7,476	\$591,875
21	48,054	7.00%	3,363	\$266,279
26	23,727	8.44%	2,003	\$158,556
31	15,519	9.88%	1,534	\$121,417
36	11,775	11.32%	1,333	\$105,563

Business Modeling – Audience Metrics By Meter Level

- Net CPM of Lost Page Views reflects potential for raising prices on digital advertisers and lowering remnant share

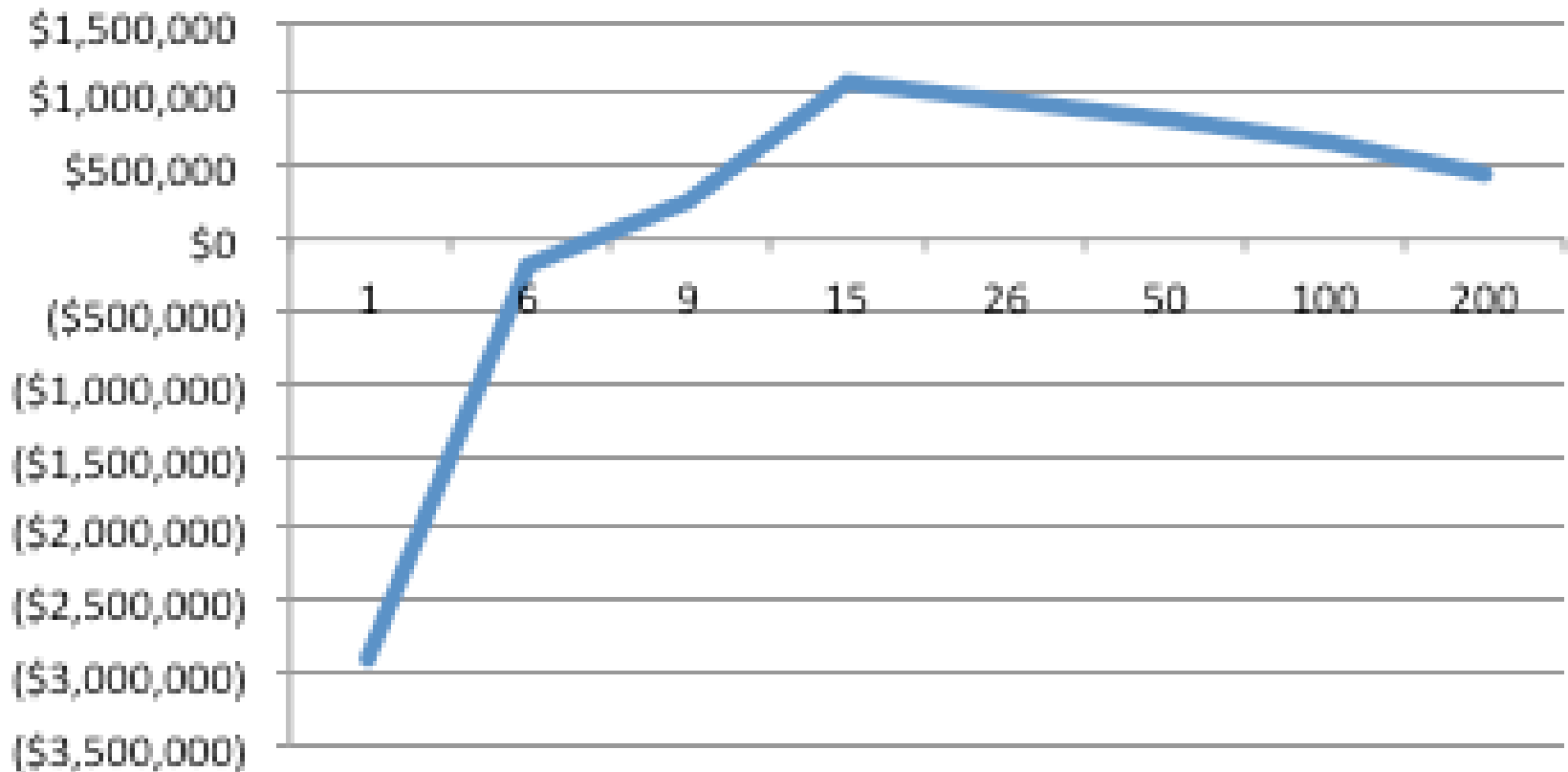
Monthly PV at risk	Monthly PV lost	% PV Lost	Net CPM of PV Lost	Adv Rev Lost (annual)*	Net Revenue (annual)
41,493,000	41,100,973	99.1%	\$6.00	(\$8,877,810)	(\$4,367,479)
18,939,541	18,432,980	44.4%	\$3.00	(\$1,990,762)	(\$945,877)
13,213,150	12,669,278	30.5%	\$0.50	(\$228,047)	\$522,671
9,644,648	9,108,631	22.0%	\$0.00	\$0	\$591,875
5,169,737	4,807,898	11.6%	\$0.00	\$0	\$266,279
3,557,659	3,257,368	7.9%	\$0.00	\$0	\$158,556
2,889,575	2,604,021	6.3%	\$0.00	\$0	\$121,417
2,528,482	2,242,163	5.4%	\$0.00	\$0	\$105,563

Expected Change in Annual Revenue by Meter Level – Sample Analysis Indicates Optimal Meter About 15 Page Views per Month ¹⁸



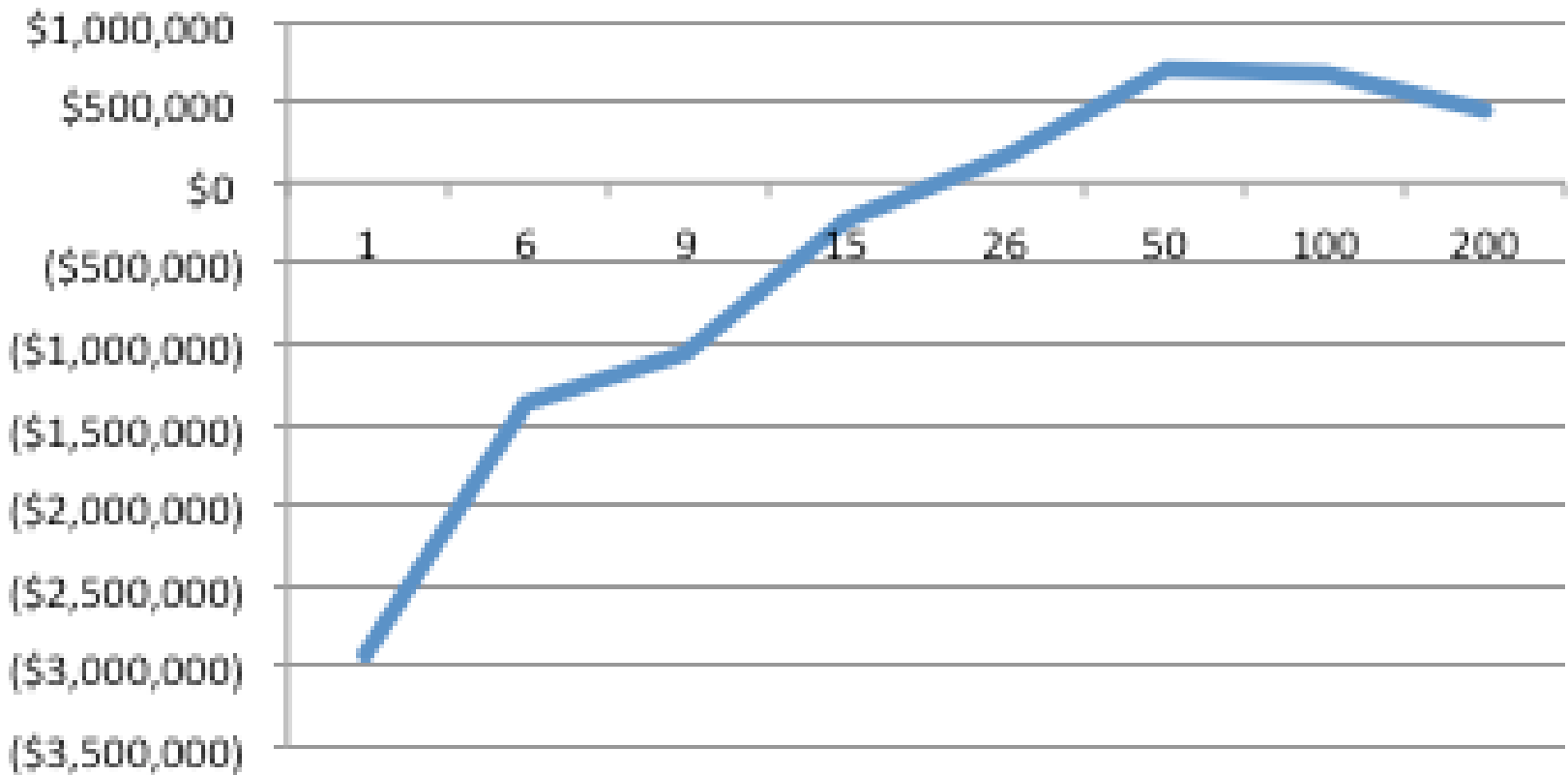
Seasonal Market Case Study – During Low Season 50% of Ad Inventory Sold As Remnant; Optimal Meter at 15 Page Views

Expected Net Revenue by Meter



Seasonal Market Case Study – During High Season 30% of Ad Inventory Sold As Remnant Space; Optimal Meter Very High

Expected Net Revenue by Meter



Print Digital Bundling

Digital Bundle Price Test – Raising Relative Price of Digital Only to Bundle Increases Adoption at Same Monthly Price ²²

Set	N	Online Only		Print Only		Bundle	
Set One	48	\$5.95	71%	\$19.00	23%	\$24.95	6%
Set Two	38	\$5.95	63%	\$19.00	21%	\$22.95	15%
Set Three	57	\$5.95	63%	\$19.00	19%	\$20.95	18%
Set Four	57	\$10.95	65%	\$19.00	35%	\$29.95	0%
Set Five	38	\$10.95	50%	\$19.00	32%	\$24.95	18%
Set Six	59	\$10.95	37%	\$19.00	39%	\$21.95	24%
Set Seven	47	\$19.00	49%	\$19.00	45%	\$38.00	6%
Set Eight	40	\$19.00	40%	\$19.00	42%	\$27.95	18%
Set Nine	56	\$19.00	29%	\$19.00	29%	\$21.00	43%

Sources: Mather Economics LLC analysis & ITZ Publishing

Digital Content – Pricing Recommendations

- Digital content pricing strategy needs to reflect digital advertising revenue & inventory at risk
- Include all digital content formats in your digital offer – bundle Apps, Digital Replica, and the Web Site
- Consider low-cost introductory offers, such as \$0.99 for 4 weeks
- Create incentives for subscribers to select bundles that yield incremental print subscriptions from digital customers
- Test everything: Meters, Pricing, Messaging

- **Pricing Strategy & Revenue Management Provide Big Revenue Opportunity For Publishers**
 - Audience / Circulation
 - Advertising
- **Pricing Tactics Apply to Print & Digital Products**
- **Bundling, New Product Development, Changing Term can all be elements of Revenue Management**

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