An investigation into how Johnnic Communications can maximise its online presence and e-commerce potential

BY

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A research project submitted to the Business School of the Nelson Mandela Metropolitan University in partial fulfilment of the requirements for the degree of

Master of Business Administration

Treatise supervisor: Ms Margaret Cullen

Port Elizabeth
November 2006
Abstract

The exponential growth of the Internet and other new technologies globally continues to re-shape the South African consumer and business landscapes.

Media and entertainment group Johnnic Communications Limited has invested more than R1 billion in new technologies in the past 10 years alone. However, the company still has to realise the desired returns on this investment – a situation that is forcing management to review all its online activities.

This research project sought to determine what the key success factors are for the local and international online media industry, with a view to recommending potentially viable Internet strategies that could turn around operations such as Johnnic Communications’ online offerings from being nice-to-have cost centres, into exciting and key profit-generating streams.

The research found that while Internet offerings cannibalise the readership of printed newspapers in South Africa, new technologies also present media houses with the opportunity to tap into new and broader markets, and hence new revenue streams. To that extent, it concluded that continuing to invest in the Internet is an imperative for Johnnic Communications, rather than an option.

In addition to recommending new digital strategies, the research also concludes that developing critical mass and having a clear online strategy are crucial factors towards the company making money out of new technologies.
Declaration

I declare that this research report is my own, original work and that any other work incorporated herein is fully acknowledged and appropriately referenced. The project is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration offered by Nelson Mandela Metropolitan University's Faculty of Business and Economic Sciences, Port Elizabeth.

___________________________

Jethro Goko

November 2006
Dedications

To my dad, Solomon, who passed away, unexpectedly, on the 3rd of September 2005. An infinitely wise man and leader par excellence – I learnt a lot from you “Mutape” and will miss you lots;

To my mother, Joyce – the epitome of human grace, dignity and strength. Your charm, unassuming nature and quiet resolve continue to inspire me;

And to my wife Esther, and daughters Colleen and Charlene. I am truly blessed to have you three. You hold three-quarters of the sky in my life!

Thank you very much for your love, support and understanding.
Acknowledgments

I am very grateful to:

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My colleague and personal assistant, Mrs Mureedah Ismail, who faithfully and ever so efficiently helped, and continued to organise my work life, during the challenging research process;

All the media industry experts and other industry executives listed in Appendix C for their time and assistance with the treatise study.

Without the help of all these amazing people, this research would certainly not have been possible.
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CHAPTER 1
RESEARCH PROBLEM, RELEVANCE AND STRUCTURE OF TREATISE

1.1 Introduction

The growing importance of the Internet globally is captured well by Deise, Nowikow, King and Wright (2000:xvi) in the introduction to their book, where they state that “the question no longer is whether on-line business will survive, but, rather what will be left of the traditional business once e-business reaches its full potential”.

Similarly, Hanson (2000:4) describes the Internet as a phenomenon that is not just changing the way companies connect to their customers, but also one that is expanding the opportunities for branding, innovation, pricing and selling, and leading to new ways of thinking about time and distance, as well as opening up new distribution channels and markets.

Despite a slow start in South Africa, the appetite for, and use of information technology by both individual consumers and business in the country has grown phenomenally since the late 1990s. The Internet in particular has provided a popular and relatively accessible way to communicate and do business in the marketplace. According to the E-Business Handbook (2004:7), it is estimated that nearly four million South Africans now have access to the Internet, compared with a mere 300 000 users in 1996.

Media group Johnnic Communications Limited was one of the few South African companies that saw the potential of the Internet very early on. Indeed, interviews conducted with the company’s management in March 2006 confirmed that this media and entertainment conglomerate invested more than R1 billion in its online activities and new technologies in the past 10 years alone.
To illustrate the company’s quest to be a market leader in online media, it recently invested in, and introduced www.reporter.co.za – a groundbreaking citizen journalism site that empowers anyone with the interest and ability to become a reporter, and willing to publish their works for a global audience.

Yet, despite making these significant capital outlays in digital media, the company still has to realise tangible returns on the investments – a situation that has recently seen management coming under pressure from the board and some major shareholders about the wisdom and affordability of continuing to pursue these potential revenue streams.

1.2 Research problem

The E-Business Handbook (2003:126) summarises the media industry’s Internet conundrum succinctly by noting that although the Web truly came of age as a news medium in 2003, following the USA’s invasion of Iraq, there is still a general lack of a revenue model for the platform. It adds that “the surfeit of suppliers in the marketplace” is not helping matters.

Indeed, although all of South Africa’s major media houses have invested heavily in the Internet, they continue to derive most of their income from traditional sources – newspaper copy sales and display advertising revenues. The returns on investment coming from online activities, if any, are still very small.

To that extent, the core question that this research project sought to answer was: How can Johnnic Communications – and indeed, all other South African media houses grappling with the same problem – turn its online activities around from being cost centres into major revenue and profit generating streams?
In order to develop a research strategy to answer the main problem, the following sub-issues were identified and interrogated:

(i) The realities and scope of traditional media organisations vis-à-vis the potential of e-business;
(ii) The key online success factors for both the local and international media industries;
(iii) Johnnic Communications’ online strategy and how this impacts on the growth and flowering of its online activities.

1.3 Relevance of research study

There are several reasons why this research project is important to Johnnic Communications and the rest of the media industry.

The first is that newspapers remain the major source of revenue for the private media in South Africa, even though both newspaper circulation and readership have been declining steadily over the last 15 years. Newspaper circulation figures released in October 2006 by industry body the Audit Bureau of Circulations – for the period January to June 2006 – show that total industry sales figures declined by three per cent for daily titles and 0,7 per cent for weeklies when compared with the same period last year (See Appendix D).

South Africa’s declining newspaper circulation and readership figures are in line with international trends. The American Bureau of Circulations reported in October 2006 that the circulation of the USA’s daily newspapers plunged by an average of 2,8 per cent during the first six months of this year – the worst decline in 15 years (New York Times. Com: Accessed on 11 November 2006).
The second reason why this research is important is that the growing Internet use by high and middle-income groups in South Africa is leading to a boom in online advertising.

The latest web traffic figures from the South African Online Publishers’ Association (OPA) show a 48 per cent growth in the number of visitors to member websites in the second quarter of 2006 to 6.7 million, compared to the same period last year, while online advertising revenue for the same period jumped by 32 per cent to R183 million (http://www.opa.co.za: Accessed 17 November 2006).

While these figures are relatively low, with online advertising representing less than one percent of total advertising spend in the country, the trends are instructive – and they are a global phenomenon.

In the USA, online advertising now represents 6.5 per cent of total advertising spend, from 1.2 per cent five years ago, while in the UK it represents eight per cent of total advertising spend, from 1.5 per cent three years ago – according to the results of a research commissioned and released by media group World Wide Worx in August 2006 (http://www.theworx.biz: Accessed September 15, 2006).

The third reason why this research is important is that most major local media companies are either in the process of implementing, or are thinking of going for media convergence – a strategy that would enable them to offer the same content from various platforms like radio, the Internet and cellular telephones.

For example, broadcaster Primedia acquired mobile content provider eXactmobile as well as Merchint, a firm that develops software and hardware technology for narrowcast digital media in retail environments, in early 2006 (http://www.primedia.co.za: Accessed November 9, 2006).
Primedia owns radio stations 94.7 Highveld Stereo and Talk Radio 702 in Gauteng, and Cape Talk and Kfm in the Western Cape.

Similarly, Afrikaans newspaper publisher Naspers has recently raised its convergence quest, jacking up its Internet offering to complement its core services in pay television (MNet and Supersport) and print. Internationally, it has a 36 per cent interest in Tencent in China, which offers mobile content services (http://www.media24.com: Accessed 13 November 2006).

Interviewed for this project (September 29, 2006), Rajay Ambekar, a portfolio manager with African Harvest Fund Managers, said convergence was inevitable as more technological options offered faster access to news content.

“The distinction of services is going to be blurred between media, telecoms and IT companies,” he said.

Speaking at the 2005 conference of the American Society of Newspaper Editors, well-known media proprietor, Rupert Murdoch – who owns The Times of London newspaper and Sky News television network among a global basket of media products – echoed these sentiments and said most young people in the developed and middle-economy countries were now receiving their news digitally; and only when they wanted it (http://www.ft.com/home/europe: Accessed January 31, 2006).

He also highlighted the fact that while in 1964 four out of five Americans read a newspaper every day, today only half did.

Similarly, a recent study carried by The Financial Times of London said consumers between the ages of 18 and 34 in Europe and parts of Asia were increasingly using the web as their medium of choice for news (http://www.ft.com/home/europe: Accessed January 31, 2006).
It concluded that while television news remained the most accessed source of news globally, the Internet – and more specifically Internet portals – was becoming the favoured destination for news among young consumers.

More ominously, this study looked ahead to the next three years and concluded that 39 per cent of this age group expected to use the Internet more to learn about the news, versus only eight per cent who expected to use traditional newspapers (http://www.ft.com/home/europe: Accessed January 31, 2006).

Another well-known media commentator, Philip Meyer, boldly concluded in his book ‘The Vanishing Newspaper’ (2004:15) – which takes an in-depth look at declining global newspaper circulation and readership – that the last printed newspaper in the developed world would probably be published in April 2040.

While that conclusion is arguable, his view, read together with other studies and recent media trends, begs the question: Whither Johnnic Communications and the rest of the media industry?

The suggestion from the information cited above is that continuing to invest in the Internet and new technologies may be an imperative, rather than an option, for Johncom and other local media companies: The only issue that may be up for debate being how to make money out of digital media.

1.4 Structure of subsequent chapters

1.4.1 Chapter 2: Johncom overview and global media trends

This chapter looks at the structure and operations of Johnnic Communications Limited, and spotlights relevant local and global media trends – thereby providing a basic understanding of the company and the online media terrain.
1.4.2 Chapter 3: Internet approaches and emerging revenue models

This chapter analyses approaches to the Internet and uses this to set the scene for the build up to the options available to Johnnic communications Limited. It also discusses various online revenue strategies that companies around the world are using.

1.4.3 Chapter 4: Research methodology

The research procedures, questionnaire design, reliability and validity of approach, as well as the methods of analysis are discussed here.

1.4.4 Chapter 5: Findings

The findings of the research are presented here.

1.4.5 Chapter 6: Conclusion

The research project’s core problem and recommendations are summarised in this chapter. In addition, the lessons for Johnnic Communications Limited arising from the findings are pointed out, as well as the areas for possible further research that could shed more light on the subject.

1.5 Conclusion

This chapter introduced the research problem and its relevance to the local and global media industry. It also looked at the use and impact of new technologies in the media industry – thereby setting the scene for Chapter 2, which looked at the structure and operations of Johnnic Communications, as well as relevant local and global media trends.
CHAPTER 2
JOHNCOM STRUCTURE, SA AND WORLD MEDIA TRENDS

2.1 Introduction

In order to interrogate how Johnnic Communications and other media organisations could make money out of their online activities, this chapter sought to establish what the local and international e-commerce trends were and what the companies that are deemed to be successful media players are doing to have earned that winning reputation.

There are certain references and concepts that are contained in the research, and which come up frequently – of which a clear understanding is necessary:

2.1.1 E-commerce

Electronic commerce, or e-commerce, was taken in this research project to refer to all trade that is facilitated by the Web. Laudon and Laudon (2002:110) estimated that by the end of 2005, about 15 percent of the world population were active Internet users, with global e-commerce spending exceeding $10 trillion.

Laudon and Laudon (2002:110) defined three different types of electronic commerce:

(i) Business to Consumer (B2C): This involves retailing products and services from the business to individual shoppers;

(ii) Business-to-Business (B2B): This involves the sale of goods and services among businesses, like a retail outlet to smaller concern;

(iii) Customer-to-Customer (C2C): One consumer sells directly via the Web to another consumer.
Hanson (2001:361) stated that the most significant result of e-commerce is personalisation – that, its ability to give options to individuals to state their likes or dislikes, thus giving sites a personal touch.

In addition, Hanson argued, e-commerce encouraged companies to invest in site performance, thus creating a strong incentive to enhance their online use of personalisation. Hanson further stated that while this did not look very important at face value, personalisation and e-commerce acted in a virtuous cycle – with the one reinforcing the other.

2.1.2 E-business

Electronic business was considered as the multi-dimensionary fusion of business processes, enterprise applications and organisational structure necessary to create a high performance business model (Kalakota and Robinson, 2001:xx).

Kalakota and Robinson (2001:38) describe 20 major trends that are driving businesses to become e-business enterprises. The manager’s ability to comprehend these core trends is then supposed to improve the chances of grasping the online opportunities available to a company.

Deise, et al (2000:xvi) also stated that there were two types of executives – the ones who are technically savvy, and the ones who are technologically challenged.

They further said that the following were critical issues:

(i) E-business is no longer optional;
(ii) E-business is fundamental to business strategy.
2.2 Johncom overview

Johnnic Communications is one of South Africa's biggest firms, and the leading media and entertainment company in the country. It is listed on the Johannesburg Securities Exchange (http://www.johncom.co.za; Accessed 15 November 2006).

2.2.1 Johncom's vision

Johnnic Communications' vision is to be an integrated media and entertainment company that is globally competitive and dominant on the African continent (http://www.johncom.co.za; Accessed 15 November 2006).

2.2.2 The group's major brands include:

(i) The Sunday Times, South Africa's biggest newspaper by both circulation and revenue, Business Day, regional newspapers Sowetan, the Daily Dispatch, The Herald and Weekend Post, as well as locally and internationally-branded magazines such as the Financial Mail, Elle, Longevity and SA Home Owner;

(ii) Johncom Digital and Summit business television channel carried on the DSTV bouquet;

(iii) Gallo Music, Nu Metro, Exclusive Books and I-Net Bridge.

The vision, mission, values, goals and structure of the company are given in Appendices A and B.
Table 2.1: Johncom’s financial highlights (2004 – 2006)

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<th>Mar 2005</th>
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<td>Revenue (Rm)</td>
<td>4651</td>
<td>4 080</td>
<td>2 698</td>
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<tr>
<td>Profit from operations before</td>
<td>443</td>
<td>360</td>
<td>109</td>
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<td>exceptional items (Rm)</td>
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<td>Headline earnings per share</td>
<td>486</td>
<td>361</td>
<td>166</td>
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<td>(cents)</td>
<td></td>
<td></td>
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<td>Dividends per share (cents)</td>
<td>75</td>
<td>40</td>
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Source: http://www.johncom.co.za (June 2006)

2.3 South African and world media trends

2.3.1 Internet technology and the digital firm

Laudon and Laudon (2002:104) emphasised the benefits of integrating information across the enterprise so that this can flow seamlessly from one part of the business to another, and from within the organisation to all stakeholders.

They argued that this level of integration was required by the emerging digital firm in order to remain efficient and to have a competitive advantage.

The authors further said that the Internet was becoming the infrastructure of choice for e-commerce in the new business age – as it was not just easy to use, but also relatively cheap.
Universal easy-to-use technologies and technology standards could thus be easily adopted by all organisations, no matter what computer systems or technology platforms were in place (Laudon and Laudon, 2002:105).

O'Brien (1999:314) also concluded that the benefits of the Internet in the digital firm were numerous. These benefits included a reduction in transaction costs, accessibility and instantaneous transactions – as demonstrated in Figure 2.1 below.

Figure 2.1: The business value of the Internet:

2.3.2 Web business models

Hanson (2001:126) distinguished between two main types of web models: Those that have improvement-based benefits to firms and the ones that have revenue-based benefits to the firm. The latter created revenue for the firm by means of content sponsorship, retail alliances, and banner advertising and sales commission.

Improvement-based benefits from the Web led to internal savings, increased marketing effectiveness and changes in consumers’ attitudes.

Writing about the media industry’s seeming confusion over the impact of the Internet on the industry, Overholser (2003:60) said: “Versions of this what-shall-we-do-about-the-Net conversation are common in the newspaper world these days. It is not real journalism, someone will say. Maybe not, but they are about to eat our lunch, a colleague will reply.”

This research found out that what could be adding to the confusion about the impact and efficacy of the Internet was the fact that the print media has been going through a boom period in the last decade, at least in terms of revenue and profits – even as circulation and readership have been on a downward slide over this period.

Recent figures released by media watchdog Nielsen Media Research AIS/AdEx (October 2, 2006) showed that total advertising spend (excluding self promotion) on media was R17,1 billion in 2005. This was up from R8,1 billion in 2001 – a 110 per cent growth over the period (http://www.financialmail.co.za: Accessed October 6, 2006).
AIS/AdEx director Janet Proudfoot said print got a large chunk of this money – 39.7 per cent, followed closely by television with 36.9 per cent. In 2005, about R6.8 billion was spent on print, and R6.3 billion on television. Radio got the third biggest slice of the pie, with R2.36 billion (http://www.financialmail.co.za: Accessed October 6, 2006).

2.3.3 Who was advertising?

AIS/AdEx said 29.3 per cent of the media spend, in print, came from retail (R1.9 billion). The second biggest spender was business to business at 16 per cent or R1.09 billion. Banking contributed the third largest share, at 10.8 percent or R733 862 (http://www.financialmail.co.za: Accessed October 6, 2006).

The top 10 advertisers in print for 2005 were Pick ’n Pay, Shoprite Checkers, MTN, Spar, Vodacom, Standard Bank, Mass Stores, national Government, Cell C and Multichoice Africa. In total, they spent R1,126 billion (http://www.financialmail.co.za: Accessed October 6, 2006).

2.3.4 Major trends driving global online media

Until about 2003, online and other new media revenues received sceptical and even scornful treatment from many of the world’s newspaper publishers. Many media executives in South Africa and abroad would say, “new media takes too much investment”, “the audience is too small”, “online advertising doesn’t work”, or “advertisers will never buy it” (The E-Business Handbook: 2003:127).

But the World Association of Newspaper Publishers (WAN) reported in its June 2006 report to its members that many of these sceptics have shifted key, with more and more publishers beginning to believe in online performance.
It said that more than five per cent of global media revenues now came from the Web, and in some cases that number stands far higher, compared to less than one per cent in 2001.

Crucially too, WAN reported that media Web revenues internationally were growing at 10 times the rate of print revenues. For example, it said, U.S. print media houses saw print revenues grow about four per cent in 2005, compared to online growth of about 40 per cent.

In a discussion document that was presented at the 2005 World Editors’ Forum (WEF) meeting in Moscow, Russia (http://www.worldeditorsforum.org: Accessed December 14, 2005), the WEF said the psychology of media companies about the Web reflected a predictable two-to five-year cycle: First, publishers rejected the new idea, in this case, the development of a new media business. They then resisted developing online advertising strategies, but perhaps allowed some dabbling in them. Then, later convinced that a revenue stream could be found, publishers changed gears and accepted the new orientation, and finally became completely engaged in the new business when the medium proved itself as a moneymaker.

In researching this project, dozens of companies were profiled, in an endeavour to find out which media companies had successfully entered the engagement phase of new media.

It became apparent in the course of doing the research that many of the companies that were doing well online shared a number of common characteristics, which were (http://www.futureofthenewspaper.com: Accessed November 5, 2006):

(i) An internal focus on gaining revenue from a variety of streams;
(ii) A strategic focus on partnerships and acquisitions;
(iii) Leadership from business-minded individuals balancing today’s business with the development of new revenue channels;
(iv) A mindset of investing for the future;
(v) An objective of being at the top in their markets.

Some of the companies analysed between November 2005 and October 2006, and which exhibited these characteristics included Japan’s Asahi Shimbun, Denmark’s NordJyske Media, the USA’s New York Times and Washington Post, as well as Norway’s Schibsted ASA ([http://www.futureofthenewspaper.com](http://www.futureofthenewspaper.com): Accessed November 5, 2006).

As a result of reorganisations in 2005, Schibsted ASA reported that new initiatives online contributed to 37 per cent of its operating profit. New York Times Digital also accounted for 7.5 per cent of the company’s $3.3 billion in revenue in 2005, while the Washington Post garnered 11 per cent of its revenues from WashingtonPost.com ([http://www.futureofthenewspaper.com](http://www.futureofthenewspaper.com): Accessed November 5, 2006).

Global media monitors Borrell Associates estimated that about six per cent of American and Canadian newspaper revenues in 2006 would come from digital operations ([http://www.borrellassociates.com](http://www.borrellassociates.com): Accessed September 15 2006). This growth would be up from four per cent in 2004.

Similarly, the Newspaper Association of America says in its September 2006 monthly report that US revenue growth online has averaged 35 per cent a year since 2004 – with some major media companies far surpassing that average.

The E-Business Handbook (2003:127) says South African media executives are worried about the following issues when it comes to investing online:

(i) Is it worth investing in online activities?
(ii) When will my website be profitable?
(iii) When will online revenues be equal to or surpass, my print revenues?

Among the heavy local investors online that this treatise analysed was media group Naspers, which launched what it says is the biggest online portal in Africa in early September 2006 – following a merger between Media24’s digital arm and MWEB Studios (http://www.naspers.co.za: Accessed October 2006).

Arrie Rossouw, former editor of Die Burger newspaper and now editorial director of the new portal, 24.com said: “We consolidated MWEB, Media 24 and Kalahari.net. We are pulling all their users together and that represents some 60 percent of the online community in South Africa. There is very little overlap between the MWEB and Media24 users and so we are confident that we will attract huge traffic” (Interviewed September 22, 2006).

The 24.com portal carries content from all Naspers titles, including news24, fin24, careers24, health24, wheels24 and property24. Rossouw said it would also have a local search engine, free web-based email, instant messaging, photo albums, blogs and online shopping powered by Kalahari.net.

2.4 Conclusion

This chapter looked at the structure and operations of Johnnic Communications, as well as the relevant local and global media trends – thereby providing a basic understanding of the company and the global online media terrain.

Chapter 3 picked up from here and analysed the various approaches and online revenue strategies that are possible on the Internet, and used this to set the scene for the build-up to the options available to Johnnic Communications.
CHAPTER 3
INTERNET APPROACHES AND EMERGING REVENUE STRATEGIES

3.1 Introduction

While it is true that all forms of media have their limitations, including the Web, this Chapter sought to demonstrate that many Internet-based media operations are carving out new, appealing and viable online news platforms.

3.2 The Internet and emerging revenue models

According to a Pew Internet Project survey conducted in December 2005 (http://www.pewinternet.org: Accessed September 13, 2006), the media companies that are doing well online have diversified their revenue streams, including employing the Internet to:

(i) Compete against new market players like Google and Yahoo;
(ii) Reach new audiences and increase market penetration;
(iii) Hedge against downturns in traditional revenue such as advertising, as with the advertising downturn of 2001.

This report examined the various revenue streams being developed by some of these media companies worldwide, as well as how the companies are finding success beyond printed advertising alone.

3.2.1 Audience focus revenue strategies

This revenue strategy is hinged on the fact that the ever-expanding media landscape has spawned a significant change in the dynamic between media companies and the people who consume media companies’ content.
Before the dawn of the Internet – when healthy, but manageable competition among traditional newspaper publishers was the norm – it was assumed by analysts that media companies had little incentive to change their business models.

People read newspapers in the morning or afternoon, listened to the radio to and from work, and watched television after dinner (http://www.borrellassociates.com - Accessed September 12, 2006).

Today, that cycle has changed significantly. Media have given the audience options, and the audience has latched onto them. With Web and mobile channels available 24 hours a day, seven days a week, audiences are now in control of their news needs as indicated in Table 3.1 below.

Table 3.1: Where people got news “yesterday:

<table>
<thead>
<tr>
<th>Source</th>
<th>All respondents</th>
<th>Non-Internet users</th>
<th>Dial-up users</th>
<th>Broadband users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local TV</td>
<td>58%</td>
<td>57%</td>
<td>65%</td>
<td>57%</td>
</tr>
<tr>
<td>National TV</td>
<td>47%</td>
<td>43%</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Radio</td>
<td>44%</td>
<td>34%</td>
<td>52%</td>
<td>49%</td>
</tr>
<tr>
<td>Local paper</td>
<td>38%</td>
<td>37%</td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td>Internet</td>
<td>23%</td>
<td>n/a</td>
<td>26%</td>
<td>43%</td>
</tr>
<tr>
<td>National paper</td>
<td>12%</td>
<td>8%</td>
<td>12%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: pew Internet project, December 2005 survey

The increase in the options available to audiences has also come at a time when individual freedoms, generally, have been rising – meaning that media companies now have to contend with individual media consumption preferences depending on interests, timing, and device usage patterns.
To respond to these twin challenges, the New York Times redesigned its website based on user patterns in April 2006 (New York Times.com: Accessed August 29, 2006).

The newspaper’s marketing department conducted ethnographic research with several New York Times.com users, to determine the types of content and what kind of experience users wanted from the website.

The research allowed product managers and designers to divide their web audience into six segments:

(i) Online news maven – news aficionado who reads stories on the section front or from an e-mail newsletter;
(ii) Researcher – task-driven visitor looking for specific content in the topics section or in the archives, who uses search or section navigation to find it;
(iii) Planner – seeker of information on actions, like going to a movie or buying a car;
(iv) Newspaper-style reader – wants to read the newspaper online, with the same layout approach;
(v) Latest thing – this person is interested in buzz, or the latest bit of info, like a news alert, or most popular list;
(vi) Break in the Day – makes frequent short trips involving no more than a few content links.

The Times then built functions for each segment. For example, the most blogged, searched and emailed stories were placed on the home page for the “latest thing” user. The newspaper uses the Web metrics software called Omniture to determine what content users are accessing, which informs designers how they can help users get the information they want (New York Times.com – Accessed August 29, 2006).
The New York Times reported (October 13, 2006), that they did all this to reach more consumers and keep them engaged in the website for longer periods, thus creating more “inventory” on which to serve up advertising.

User feedback received since the April redesign has been positive, although the Times does say that it will need more time before it can draw any conclusions.

Asahi Shimbun of Japan, which boasts the second largest circulation of any newspaper in the world, with about 12 million circulation for its morning and afternoon editions, has similarly had to adapt its modus operandi to survive the changing business environment (http://www.asahi.com/english: Accessed September 9, 2006).

The paper, like most newspapers around the world, has seen its readership among the young fall since 1995.

For example, 30-year-old males used to read an average of 20 minutes per day in 1995, and now only half as much do so – according to Takashi Ishioka, director of electronic publishing at the paper (http://www.asahi.com/english: Accessed September 9, 2006).

Asahi’s research into usage patterns also showed that print was favoured only by those in their late forties and older. Those in their thirties and forties preferred online to print, while those in their twenties and younger preferred cellphones, as indicated in Figure 3.1 below.
As a result, Asahi now focuses its audience development strategy on expanding its distribution across its Asahi Shimbun, Asahi.com and mobile operation centres. It aims to span age ranges and let its audiences consume content in print, online and on mobile text and video.

The company now also targets each age group and channel, and heavily promotes the newspaper to each segment (http://www.asahi.com/english: Accessed September 9, 2006).

Asahi Shimbun’s electronic edition earned about $35,53 million in 2005 – about one percent of the print company’s 2005 revenues. The company says the most promising revenue streams are tied to the customer focus strategy (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The newspaper’s research revealed its audience falls into three lifestyle categories – time (connected to media), place (where they are connected to media) and money (expenditures on IT devices).
What they found was that more time and money was being concentrated on mobile connectivity, and less time and money on newspapers. The researchers also looked at how media fitted into consumers’ lives, and realised that the middle of the day had holes that were void of media consumption – a situation that provided opportunities to promote the newspaper via mobile phones.

The research led to the development of a mobile content and subscription strategy aimed at young people in particular, which has paid off. Asahi now has the largest mobile phone subscription in Japan, with more than one million users. The functionality also allows users to subscribe to the newspaper through the phone, and pay for the subscription bill. More than 20 000 newspaper subscriptions have been made through mobile from 1999 to February 2006, with the subscriptions worth about $2,7 million (http://www.asahi.com/english: Accessed September 9, 2006).

Similarly, the Arizona Republic, an American newspaper published in Phoenix, Arizona, has successfully changed its media strategy to audience aggregation to increase its market share (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The newspaper organised the strategy into 11 product lines that were targeted at defined demographic groups that make up the Phoenix area, including some demographics that had never been targeted by the newspaper company before. Among its new targets were Hispanics, women and young people.

By adding a variety of websites, magazines and print publications, the company managed to expand its reach into the audience.

Where the newspaper had only a 55 per cent reach, the company now has 10 other products including online, magazines, Spanish-language publications and total market coverage products, with a combined reach of 81 per cent.
All of the products are locally focused, but methods of delivery range from direct mail, online, magazines and print. The local focus gives advertisers the ability to buy advertising in a new range of products that reach their intended audience.

The company says the flexibility extended to advertisers has paid off, with advertising growing considerably since the new strategy was launched, as indicated in Figure 3.2 below:

Figure 3.2: Arizona Republic audience aggregation

![Audience Aggregation Chart](image)

Source: Arizona Republic, 2005

This research found evidence that suggests that audience focus strategies work particularly well when media companies use technologies that allow them to better understand their audience behaviours and demographics.

For example, registration-based software, such as Tacoda (http://www.tacoda.com: Accessed September 20, 2006) and Revenue Science (http://www.revenuescience.com: Accessed September 23, 2006) use free registration data on news websites as the foundation for insights into visitor demographics and online news user behaviours.
Among Revenue Science’s customers are major news organisations such as Reuters and the Financial Times of London (http://www.revenuescience.com: Accessed September 23, 2006).

The software is mainly meant to ratchet up advertising prices because advertisers also want to target user demographics and user behaviour on websites.

3.2.2 Convergence and multi-media packaging strategies

Media fragmentation, sliding advertising revenues, as well as declining circulation and market penetration are features synonymous with today’s news organisations. As a result, many media companies around the world are creating cross-media sales packages for their advertisers, with the Internet at the hub of things, to overcome these problems.

In most cases, the packages are print and web advertising together, but in a growing number of instances, media companies are selling print, Web, magazine, television and radio as a multimedia package (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

According to a World Association of Newspapers (WAN) report released in June 2006, cross-media sales are one of the fastest growing sources of revenue for companies.

It says multimedia-advertising packages are allowing media companies to help advertisers reach target audiences, some of whom the media companies would have never targeted before.
For example, the report says:

(i) Brazil’s RBS is using multimedia packages, including public exhibitions and concerts, to reach women, youth, fashion buffs, and music lovers;

(ii) The USA’s Arizona Republic has developed new channels like magazines, newspapers and websites with multimedia content to expand their market penetration to women, Hispanics and youth markets;

(iii) The Vorarlberg Online (http://www.vol.at: Accessed September 15, 2006) of Austria has leveraged high penetration in print and Web by selling print-web packages. A growing customer target for these packages is small local advertisers who rarely, if ever, advertised before. The media company is finding success selling discounted print-Web packages focused on frequency in order to help advertisers reach the region with the advertising offers.

The WAN report (June 2006) also said that the Chicago-based Tribune Company was in its seventh year of cross-media advertising sales, and had, for example, earned more than $50 million in incremental sales by selling combinations of its multiple media advertising assets in 2004.

On the other side of the globe, the NordJyske Medier Company, based in Aalborg, Denmark, has been credited with the successful selling of all its advertising in cross-media packages – from simple print and web advertising packages to complex combinations of television, radio, Web and print (http://www.nordjyske.dk -- Accessed September 20, 2006).

NordJyske went this route because it was losing market share in the face of stiff competition. To survive, it changed its focus from a once-dominant print company to a multiple media company. It not only survived, it is now thriving.
Among the products in the NordJyske Media arm of NordJyske Holding are a daily newspaper, 17 weeklies, a free paper, magazines, two radio stations, cable television and Internet sites.

Faced with declining circulation and advertising sales in 2001, NordJyske decided to engage in cross-media sales. All salespeople were trained to sell across media, and today, all advertising sold has a multimedia component, including print and web together (http://www.nordjyske.dk: Accessed September 20, 2006).

Since the reorganisation, Nordjyske’s sales have risen steadily, despite a reduced staff – as indicated in Figure 3.3 below. From 2002 to 2005, advertising sales growth was 33 per cent.

Figure 3.3: New revenue structure for Nordjyske Medier

Source: Nordjyske Medier (2006)
In addition to increased revenue, other benefits have been providing added value to the audience and advertisers, building relationships with advertisers through consultative sales, one point of contact for advertisers, and more satisfied employees in the sales department.

The five-year reorganisation and the acquisition of new business – such as a very lucrative call centre – have changed income sources dramatically.

Whereas in 2001 the newspaper NordJyske Stiftstidende represented 65 per cent of the company’s revenues of 614 million Danish Kroner, in 2006 it is projected to make up a mere 35 per cent of revenues, which should hit 965 million Kroner (http://www.nordjyske.dk: Accessed September 20, 2006).

Another media organisation that has successfully gone the convergence route is the Tampa Tribune, the flagship newspaper of Media General, a large US media chain. Multimedia sales has been a focus for Media General for about five years, with millions of dollars in incremental sales revenue gained per year (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

In Tampa, as is the case at NordJyske, advertising packages are sold for television, print and Web together. Cross media sales can be strictly print and online classified or display advertisements, or can include many media.

As Media General owns newspapers, online, and several television stations, this provides the opportunity to create multimedia packages, particularly to lure non-advertisers. In fact, Media General approached non-advertisers first, to prevent it from cannibalising its existing advertising base.

The company did a study in Richmond, Virginia, working from business directories, and found that of 36 000 businesses, 16 000 dealt with the public, and a small fraction of them advertised in newspapers – about 3 500.
One of the company’s answers for such non-advertisers is Tampa’s Daytime programme, which is offered to advertisers as a television segment, one-page colour newspaper advertisement and a weeklong exposure to the TV video segment online. The Daytime packages are frequently sold out (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

In Brazil, RBS Group is addressing the issues of money share and market share slippage with a multimedia-advertising platform, supported by community events – including concerts, exhibitions, fairs and seminars.

RBS Group is a far-reaching multimedia company covering the South of Brazil with 21 television stations, several newspapers, 25 radio stations, Internet portal ClicRBS, and a transactional portal Hagah.com.br (http://www.hagah.com: Accessed 14 October 2006).

RBS has been selling advertising across media for several years, but has been adding events steadily since 2001 as part of the mix because they have a strong impact on the bottom line. Print, web, television and radio also serve as excellent cross promotions for the events, to drive thousands of people to the exhibitions and concerts.

The company says its multimedia packages have been received well as they get good results for advertisers. It is like a virtuous circle (http://www.rbs.com.br: Accessed 14 October 2006).

Not wanting to miss out on the opportunities offered by convergence, the New York Times integrated its 240-member print and 30-member Web sales departments in January 2006.

The sales staff was divided into teams like automotive, retail and technology, with each team including a former digital and print salesperson.
Each sales person was trained to learn about cross-media selling. The four-hour seminars included everything from seeing a digital presentation, a review of products sold online and the processes of checking and looking at inventory.

This was done after research determined that the value proposition for advertisers was greater with print and Web together.

To support the push for convergence by its members, the Newspaper Association of America (NAA) launched an initiative in 2005 with NADBase, Scarborough research and Nielsen NetRatings, to replace the newspaper counting metric from circulation to readership, and to fold in the element of website penetration (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The initiative sought to give media companies proper credit for the market penetration they get from print and Web together. More than 100 newspapers, representing most US markets, are involved with the project.

Each media company’s readership reflects print and web together, and those numbers are used to educate the media-buying community across the United States to think of newspapers as a package of print and Web together.

The NAA said as readership was the most comparable measure of the value of newspapers, it was critical that newspapers were able to report information on consumers of all ages and across the full portfolio of print and digital products that they distributed every day.

Six months after the initiative was launched, participating newspapers reported large increases in market reach, particularly for younger audiences (http://www.futureofthenewspaper.com: Accessed September 15, 2006).
The top newspapers that expanded their reach from 2005 to June 2006, according to the NADBase are shown in Table 3.2 below:

Table 3.2: How Print-Web readership drives youth readership

<table>
<thead>
<tr>
<th>Newspaper</th>
<th>Percent increase in 25-34 demographic</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Deseret Morning News (Salt Lake City)</td>
<td>48.9 %</td>
</tr>
<tr>
<td>Daily Herald (Arlington Heights, Ill.)</td>
<td>46.3 %</td>
</tr>
<tr>
<td>Tribune-Review (Pittsburgh)</td>
<td>42.8 %</td>
</tr>
<tr>
<td>The Tampa Tribune</td>
<td>36.7 %</td>
</tr>
<tr>
<td>The Boston Globe</td>
<td>30.8 %</td>
</tr>
<tr>
<td>The Hartford (Conn.) Courant</td>
<td>29.7 %</td>
</tr>
<tr>
<td>The Star-Ledger (Newark)</td>
<td>26.8 %</td>
</tr>
<tr>
<td>The San Diego Union-Tribune</td>
<td>26.0 %</td>
</tr>
<tr>
<td>The Salt Lake Tribune</td>
<td>25.6 %</td>
</tr>
<tr>
<td>The Seattle Times</td>
<td>25.1 %</td>
</tr>
</tbody>
</table>

Source: Newspaper Association of America, Scarborough (September 2006)

3.2.3 Pay for performance e-commerce strategies

Since the worldwide advertising drop-off in 2001, and its steady recovery starting in 2002, the world's online media publishers have been diversifying their revenue streams to go beyond classified advertising revenues and expand to retail advertising, search advertising and even e-commerce.

While "cost per thousand" (CPM) charging models carried over to online from print advertising, on the rise in the global internet advertising market is performance advertising – otherwise known as Cost Per Click (CPC) or Pay for Performance (PFP) (http://www.revenuescience.com: Accessed September 23, 2006).
Across all USA online publishers, CPC volume is almost equal with CPM volume for 2005. But among online news publishers, CPC is just starting to become a viable revenue stream as illustrated in Figure 3.4 below.

Figure 3.4: 2006 Revenue breakdowns for AOP members in the UK

Source: Association of Online Publishers 2006 Census, UK

PriceWaterhouseCoopers and the Interactive Advertising Bureau conducted studies for both IAB in the USA and IAB UK. PwC estimated 2005 Internet advertising revenue to be $12.5 billion in the USA and about £1 billion in the UK (http://www.revenuescience.com: Accessed September 23, 2006).

The IAB also estimated that the unit of sales was almost equal for CPM (46 per cent) and CPC (41 per cent) during the last quarter of 2005 (http://www.iab.net: Accessed October 13, 2006), with a growing percentage of hybrid CPC-CPM sales occurring, as indicated in Figure 3.5 below.
The World Association of Newspapers (WAN) says publishers are increasing their use of Cost Per Click advertising and e-commerce (http://wan-press.org: Accessed 16 September 2006). WAN says CPC works like this:

(i) Advertisers buy keyword search terms from say Google or Yahoo! to best describe their business – for example, “Sydney pizza”;
(ii) News publishers make business deal with Google or Yahoo for a cost-per-click arrangement, usually a 50/50 revenue share;
(iii) When online newsreaders look at a restaurant review page on a Sydney news page, they are served contextual advertisements from the search engine advertisers;
(iv) News publishers in turn receive a small payment each time users click on the contextual advertisement links;
(v) Price per click paid by advertisers share with Google and Yahoo can range from a few cents to several dollars.

In its June 2006 report, the WAN said many news publishers worldwide recognised the opportunity for CPC revenues.
In 2005, a number of top media companies bought high-priced online sites that focus on the lucrative CPC future, as indicated in Table 3.3 below – with many of these investments now paying off.

Table 3.3: Media company acquisitions, CPC model

<table>
<thead>
<tr>
<th>Media company buyer</th>
<th>CPC Acquisition/Date</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.W. Scripps</td>
<td>Shopzilla.com/June 2005</td>
<td>$525 million</td>
</tr>
<tr>
<td>Gannett, Knight Ridder and Tribune</td>
<td>Topix.net/March 2005</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Schibsted</td>
<td>Sesam.no/October 2005</td>
<td>NOK 33 million, or about $5.1 million</td>
</tr>
<tr>
<td>Sensis/Schibsted/FAST</td>
<td>Platefood/November 2005, London</td>
<td>Startup</td>
</tr>
<tr>
<td>News Corporation’s News Limited</td>
<td>Australian Local Search</td>
<td>Aus $10 million, estimated</td>
</tr>
</tbody>
</table>

Source: World Association of Newspapers research, 2006

The New York Times in February 2005 invested in About.com, a website packed with thousands of articles on a plethora of subjects. The model lends itself to CPC because users who come to About.com looking for information on specific topics are served contextual advertising, which frequently is clicked on.

For example, a camera store that wants to make sure that its advertising shows up in a digital camera (content) situation would pay say 10 cents a click, or 20 cents per click, all based on supply and demand (http://www.about.com: Accessed September 20, 2006).

More than 40 percent of About.com’s revenues from the first quarter of 2005 to early 2006 came from CPC.
Based on the context of an article, when someone clicks on an advertisement on About.com’s site, the camera company will pay the agreed-upon cost per click figure. The search company will then share revenue split, agreed upon in advance.

The New York Times reported (September 19, 2006) that About.com produced $18.8 million in revenues in the first quarter of 2006, a 98 per cent rise from the corresponding period last year. Profits were $7.6 million, with a 40 percent margin (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

In March 2006, About.com had 55 million unique visitors worldwide. The company has 100 employees, including 15 sales people who concentrate on display advertising. In addition, About.com has about 500 “guides” who write articles on a variety of topics of interest to visitors (http://www.about.com: Accessed September 20, 2006).

Similarly, Shopzilla is a search engine for shopping, pulling together research information about products, and where to buy them. The service is based in the USA, with new outposts in Europe. E.W. Scrippsnewspapers acquired Shopzilla in June 2005 (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Shopzilla reported in April 2006 that the site had seen revenues rise from $67 million in 2004 to $155 million in 2005, powered by the CPC revenue model. With this model, vendors bid on how much they will pay when a consumer clicks on products. It could be $1 or just 10 cents per click (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Listings are “stacked” on the site based on how much vendors are willing to pay per click.
Those that do not pay still get listed, but below those who have paid. This creates incentives to pay more per click, boosting Shopzilla’s revenues – and its profits, which hit $41 million in 2005. Other important elements in Shopzilla’s growth are a large index of stores, up-to-date inventory and accurate search technology. The business now employs 270 people.

The company sees Pay for Performance as the future and says PFP is better for advertisers because they can control how much they are willing to pay (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Table 3.4: CPM comparison for Internet advertising units

<table>
<thead>
<tr>
<th>Ad Unit</th>
<th>Network in U.S.</th>
<th>24/7/Real Media Network, UK</th>
<th>DeVolkskrant, Amsterdam</th>
<th>Signon San Diego, CA</th>
<th>TBO.com Tampa, FL</th>
<th>Internet Broadcast Systems Minneapolis, MN</th>
<th>MediaNews Group Interactive Denver, CO</th>
<th>MSNED.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email newsletters</td>
<td>$250 CPM for list rental</td>
<td>N/A</td>
<td>N/A</td>
<td>$10</td>
<td>N/A</td>
<td>$10-20</td>
<td>$25-550</td>
<td>$25-550</td>
</tr>
<tr>
<td>Banner ads</td>
<td>$15</td>
<td>$10-13</td>
<td>10-15 €</td>
<td>$6</td>
<td>$18-$25</td>
<td>$10-$20</td>
<td>$15-$25</td>
<td>$5-$15</td>
</tr>
<tr>
<td>Demographically targeted ads</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$12</td>
<td>N/A</td>
<td>$15-$20</td>
<td>$25-$50</td>
<td>$15-$20</td>
</tr>
<tr>
<td>Behaviorally targeted ads</td>
<td>$20</td>
<td>N/A</td>
<td>N/A</td>
<td>$15</td>
<td>N/A</td>
<td>$15-$20</td>
<td>$20-$40</td>
<td>$15-$50</td>
</tr>
<tr>
<td>Halfpage leaderboard</td>
<td>N/A</td>
<td>$10-13</td>
<td>25-35 €</td>
<td>N/A</td>
<td>$15-$22</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Popups Overlays</td>
<td>N/A</td>
<td>$15-$25</td>
<td>45-50 €</td>
<td>$20</td>
<td>$5-$10, sports only</td>
<td>$25</td>
<td>55 N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Surround sessions</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Skyscrapers</td>
<td>$15</td>
<td>N/A</td>
<td>14-20 €</td>
<td>$10</td>
<td>$14-$22</td>
<td>$10-$15</td>
<td>$25</td>
<td>N/A</td>
</tr>
<tr>
<td>Rich media</td>
<td>$40</td>
<td>N/A</td>
<td>Quoted individually</td>
<td>$13</td>
<td>$25-340</td>
<td>Add $5 to rate card</td>
<td>$30-$255</td>
<td>$25-555</td>
</tr>
</tbody>
</table>

Source: Shaping the Future of Newspapers research, 2006

Speurders has in two years become the e-commerce leader in the Netherlands, with more than 600 000 visits and 35 000 new advertisements on its site each day (http://www.revenuescience.com: Accessed September 23, 2006).
Its revenue model is a hybrid between classifieds and an auction. The site features classified advertising listings that can have auction functionality for the end user. Advertisers can also upload the adverts, add video, photos and other graphical details, making the site self-service and automated. To smooth transactions, the sales process includes buyers’ insurance, feedback ratings and verified sellers.

Businesses and consumer advertisers provide revenue streams. The advertiser pays a traditional product-listing fee, like a classified advertisement. It can also pay a “promotion” fee, or up-sell for highlighted listings, pictures and other up-sells. Businesses can also purchase display adverts through Google or Yahoo, or directly on the site, and a CPC revenue share is sent to Speurders.nl.

USA ShopLocal.com, owned by Gannett, Tribune and formerly Knight Ridder, is a website that helps consumers find the best price on items on sale in stores near them. The printed advertising content from circulars of about 100 national retailers, plus hundreds of local retailers running advertisements in Gannett, Tribune and the former Knight Ridder newspapers, are transformed into online advertisements (http://www.revenuescience.com: Accessed September 23, 2006).

This means the hundreds of items in the circulars become searchable, individual items for display. The printed newspaper advertisements in local newspapers are displayed as they are seen in the newspapers, and can be enlarged for viewing. No transactions take place on the site. The advertisements represent the research process for the consumer, encouraging them to visit the stores to buy.

Some of the value-added includes sales and coupons for local businesses in each of their markets across the USA. The website was launched in September 2004 with a CPM-based model of advertising for the print advertisers.
Reporting the success of ShopLocal at the company’s annual meeting last year, the company said it was important to remember that about 93 per cent of all purchases made around the world were in brick-and-mortar stores and service establishments; not online (http://www.revenuescience.com: Accessed September 23, 2006).

Topix.net, also owned by Gannett, Tribune and formerly, Knight Ridder, aggregates and distributes information on 32 000 USA cities, towns and neighbourhoods. Its offerings include sports, health, cars and much more. Topix uses a CPC model with sponsored links, local self-service advertisements and some distribution deals (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

While cost per click (CPC) shows strong growth, cost per thousand (CPM) continues to be the leading Internet advertising unit for news publishers. Banner advertisements also continue to be the most popular unit, although they are the least lucrative (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Success with CPC is contingent upon a critical mass of people accessing information. While Topix.net, Shopzilla and About.com all attract many users; smaller media companies have not been successful with the Google or Yahoo pay-per-click model because they are unable to draw enough traffic to the content portions of their sites.

Even on large sites, only a fraction of visitors click on the advertisements, and only a handful of cents are earned per click. It thus takes a huge volume of clicks to make the CPC model lucrative.
3.2.4 Search revenue opportunities

Search engine advertising revenue represented 41 per cent of the $12.5 billion made online in 2005, according to the annual IAB and PricewaterhouseCoopers study on the state of the American online advertising industry (http://www.revenuescience.com: Accessed September 23, 2006).

However, for news publishers search engine revenues represent a very small percentage of their income. Nevertheless, some publishers are still developing search engine functionality to take advantage of this opportunity.

The Interactive Advertising Bureau and PricewaterhouseCoopers estimate that search engine revenues were the largest and fastest-growing segment of advertising in the United States last year.

They further estimate that search advertising will be more than a $30 billion industry worldwide by 2010, with roughly equal shares in the USA and the rest of the world (http://www.revenuescience.com: Accessed September 23, 2006).

At present, most of the revenues accrue to the top search engines, including Google, Yahoo and MSN as indicated in Figure 3.6 below.

Publishers around the world are creating strategies to build their search businesses for the future, with many companies partnering with Google and Yahoo through revenue-share schemes (http://www.revenuescience.com: Accessed September 23, 2006).

Search engine revenues work in the following ways:

(i) Advertisers can buy key words or combinations of key words describing their businesses through Google or Yahoo. For example, an advertiser may buy the keywords “Cape Town lap top computer”;

(ii) Publishers partner with the search companies. Publishers agree to serve contextual advertising to content on their sites. For example, when articles are written about lap top computers in Cape Town newspapers, the advertisements can be served to their web pages adjacent to the computer content;
(iii) When advertisements are clicked on, the publisher receives a share of the “Cost Per Click” revenue (http://www.revenuescience.com: Accessed September 23, 2006).

Although many publishers are deriving good profit from CPC advertising revenue share, they face a significant downside, because they do not own the relationship with the local advertisers – as the search engine does.

Borrell Associates released a study in March 2006 that showed impressive growth in local advertising business on international search engines. It reported that where only 5.5 per cent of all city-related keywords were purchased on Google and Yahoo in mid-2004, in March 2006 it was 36 per cent (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

It was reported in the New York Times of August 18, 2006 that some American publishers have chosen not to partner with Google and Yahoo and that others are renegotiating their contracts with the search engines.

These publishers see Google, Yahoo and other search engines as a threat, since all of them have declared their strategic focus to be now on local advertisers spanning hundreds of countries.

Schibsted of Norway has also projected a hefty increase in search revenues by 2009, which is the reason why the Oslo-based company has invested in an international search technology company that will power its search businesses for its individual newspaper operations and for its other online products – as illustrated in Figure 3.7 below (http://www.schibsted.no: Accessed 29 September 2006).
Within five weeks of Schibsted’s investment in its new search technology – the site grew 44 per cent to 248,900 unique visitors (http://www.schibsted.no: Accessed 29 September 2006).

A company that provides an alternative to Google and Yahoo is London-based Platefood, launched in October 2005. Platefood was formed by Australian directory company Sensis and Norwegian search technology developer FAST and Schibsted. The company has been negotiating with Asian, North American and European media companies and directories to build their search networks, which will include the Schibsted properties (http://www.platefood.com: Accessed 20 September 2006).

Platefood is a “white label” search technology that enables local search advertising to take place on publishers’ sites, without the intervention of Google and Yahoo.
It allows publishers to keep all the revenue, and not share with a search engine, or relinquish control over the relationship with the local advertiser.

Sensis uses FAST’s search technology on its Australian search site, an Australian Yellow Pages-style directory (http://www.sensis.com.au: Accessed 15 November 2006), which reported more than one million unique users in September 2006.

Sensis revenues were Aus$1,585 billion in 2005, with an estimated seven per cent coming from online business. About 68 per cent of its earnings in 2005 came from Yellow Pages.

In North America, several media groups are also creating their own local search businesses, with three media company giants joining forces to plan a US nationwide search business to take advantage of their local reach in dozens of USA marketplaces (http://www.futureofthenewspaper.com: Accessed September 15, 2006).


Mobile search is an emerging business that uses much of the same technology infrastructure as online search. But, in addition to returning search results and mapping for searchers online, the mobile searcher will also get geographically relevant results based on their location as identified by their GPS-enabled mobile phone (http://www.futureofthenewspaper.com: Accessed September 15, 2006).
While mobile search is in its infancy, some revenue models are already emerging. For example, Sensis is charging 55 Australian cents for mobile searches to their local directories.

The mobile service is able to identify the searcher and give results based on their position. For example, if a searcher wanted the closest pizza restaurants in Melbourne, the search would return the top pizza places within several hundred metres of his location (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

3.2.5 Paid content and emerging revenue streams

Podcasting, vodcasting and online content subscriptions are all new potential revenue streams for online news media companies worldwide. Several media companies are already blazing a trail for new revenues in these areas.

One of the most promising revenue streams is video content online, universally thought of as a hot new advertising platform, and which is much sought-after by advertisers and their agencies.

While international networks like MSN, Yahoo and America Online are each making lots of money in video advertising, news publishers are just starting to get traction in video revenue making. Online advertising network Advertising.com has created a new video advertising network, which will serve 61 million impressions worldwide per month with 30 advertisers (http://www.online-publishers.org: Accessed 13 June 2006).

According to an Online Publishers Association study of American online video users that was released in September 2006, growing portions of online users are watching video on a regular basis.
About 46 per cent of American online users watch online video at least once per month, and five per cent watch daily (http://www.online-publishers.org: Accessed 13 June 2006).

Users are also accessing video advertising online, and taking action after they see an advertisement online, such as checking out the advertiser’s website (31 per cent), or purchasing the item (8 per cent), as indicated in Figure 3.8 below.

Figure 3.8: How online video advertisements drive Web site visits

![Figure 3.8](image)


In April 2006, the New York Times created video advertising positions on their home page because they were getting so many requests from advertisers to sponsor “pre-roll”, or the video advertising position preceding an online video newscast or entertainment episode.

Many smaller Internet operations are said to be perfecting the science of multi-channel journalism, with reports saying that it is paying off – for example, at the highly converged Lawrence Journal World and at NaplesNews.com (http://www.naplesnews.com/studio55/: Accessed 20 September 2006).
NaplesNews.com, owned by E.W. Scripps, rolled out Studio 55, a download centre for streaming video online or vodcasting on video iPods and Sony PlayStation Portables (PSP), and audio online, iPods and PSPs, in April 2006.


The broadcast is also available to the 250 000 Comcast broadband cable subscribers in the Naples, Florida region, and for download via iTunes.com. In the first weeks, broadcasts were downloaded at a rate of 1 000 to 2 000 per day, with increased numbers expected over time.

So far, seven advertisers have signed up for the advertising, which consists of “pre-roll” advertising on the video, contextual advertising placed around the vodcast online, and promotional advertising in the newspaper, the Naples Daily News.

The company says the video advertising is projected to make between $350 000 and $400 000 in 2006 (http://www.naplesnews.com/studio55/: Accessed 20 September 2006).

AZCentral.com's webcast is called iCast, and it boasts more than 2 000 visitors per day. In 2005, the newly launched iCast fetched $250 000 in revenue, with significantly more projected for 2006 (http://www.azcentral.com: Accessed September 26, 2006).

The video advertisements play like television commercials, which are frequently produced by their Gannett-owned television station, KPNX Channel 12. AZCentral.com and KPNX split profits 50-50.
Advertising is played before the iCast and between each segment. Cross promotions from television and newspaper to Web are liberally used.

Coleman said the company is exploring expansion into “headline news” webcast content from KPNX – up to five hours of headline news. They think webcasts have large revenue potential, and they hope to launch headline news by the end of 2006 (http://www.azcentral.com: Accessed September 26, 2006).

Aftonbladet.se of Sweden has ratcheted up its WebTV operation. Reputed to be the most trafficked online newspaper in Europe, Aftonbladet.se employs 105 people, including 70 in editorial, mostly editors who either publish articles from the paper or produce content for the Web. Among these, eight are specialized reporters, two are audio reporters and 15 are working with Web television (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The numbers have grown significantly from just two years ago, when the entire staff numbered 70, including 46 editorial staff members – but only two Web TV staff. In early 2004, Web radio was a significant focus, with 10 reporters recording spots for Web radio every day (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Web TV is becoming increasingly important at Aftonbladet as the traffic for video online grows. Video content is displayed prominently on the Aftonbladet.se home page, including news, entertainment, lifestyle, music, sports news clips, as well as several three-minute video programmes including four daily news shows, one daily entertainment show and two weekly sports shows.

WebTV has been a huge success, attracting 400 000 unique weekly visitors in December 2005. Value has been added to the streamed video content, with advertising and sponsorship reported at several million Swedish kronas last year (http://www.futureofthenewspaper.com: Accessed September 15, 2006).
There are three advertising opportunities for video online: a television commercial-style advertisement preceding the video content, a fixed advertisement placement to the right of the video streaming position, and sponsored programmes, such as weather reports.

While audio programming does not get as much traffic as video, Aftonbladet continues to produce about three minutes of programming per day in the morning and afternoon for two major radio groups, which own a total of 49 radio stations nationwide (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The radio strategy has been focused on cross promoting Aftonbladet stories in radio in order to drive traffic to the newspaper and the Web from the radio. The emphasis of Web radio has also been reduced as cross promotion from radio to Web and print works better than Web radio to Web and print.

Then there is podcasting, which has become hugely popular in a short period of time. Within a few days after the iTunes Podcast Directory (http://www.itunes.com: Accessed September 25, 2006) launched in June 2005, more than one million podcast enthusiasts had subscribed to it.

Almost a year later, the number has grown exponentially, to more than 50,000 podcasts (http://www.itunes.com: Accessed September 25, 2006).

According to a March 2006 report by eMarketer, about $80 million will be spent on podcast advertising in 2006 and $300 million by 2010. In addition, this year 10 million people will listen to at least one podcast, which will grow to 50 million by 2010.
However, the numbers are far more modest for the news-publishing world, although more and more publishers are starting to experiment with podcasting around the globe.

For example, DenverPost.com hires student journalists to present daily entertainment and news podcasting. Best Buy, a national chain of US electronics stores bought a $30 000 monthly contract in late 2005. DenverPost.com reports that the various podcasts for news and entertainment get about 5 000 downloads a month (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

Still, some Internet analysts believe that it is too early to tell if podcasting is going to be a success. They say that it will take at least another 18 months to see what happens both with audience and advertising before podcasting can be called a success or failure (http://www.revenuescience.com: Accessed September 23, 2006).

Meanwhile, during the first half of 2005, almost $1 billion was spent on online content in the United States, according to a study from the Online Publishers Association. The largest and fastest growing categories in 2005 were entertainment and dating personals.

For the news industry, business content and investment information saw a slight gain in 2005, while general news subscriptions dropped from $45,6 million to $39,3 million (http://www.revenuescience.com:- Accessed September 23, 2006).

A United Kingdom’s Association of Online Publishers 2006 Census of their members has also noted a drop in reliance on online subscriptions, as shown in Figure 3.9 below.
3.3 Conclusion

This chapter analysed approaches to the Internet, as well as the various emerging online revenue models around the globe. The subsequent chapter, Chapter 4, looked at the research procedures, questionnaire design, the reliability and the validity of the research process.
CHAPTER 4
RESEARCH METHODOLOGY

4.1 Introduction

This chapter discusses the research procedures, questionnaire design, reliability and validity of approach used to analyse and answer the core research problem of how Johnnic Communications, and the rest of the South African media industry, can turn around its online activities from being cost centres into revenue and profit generating streams.

According to Cooper and Schindler (1998:14), as well as Davis (2000:10), business research is a systematic, controlled and critical investigation of phenomena of interest to managerial decision makers.

Goddard and Melville (2001:2) say research is about answering unanswered questions or creating that which does not exist – and not merely a process of collecting data.

Leedy (1997: 5) describes research as a process by which the researcher attempts to find systematically the answer to a question or the resolution of a problem.

4.2 Research design

According to Aaker, Kumar and Day (2004:73), research design is the “blue print” used to guide the implementation of a research study towards the realisation of its objectives.
Therefore, the research study requires careful preparation as it represents the procedure that needs to be followed when conducting the research – trying all the time to avoid and overcome the difficulties that would distort the findings.

4.2.1 Different research methodologies

Experts have generally divided research into qualitative and quantitative research, or interventionist and non-interventionist methodologies.

Hague (1993:10) identified the following six principal research methodologies:

(i) Philosophical research – which primarily focuses on language, its interpretations, structure and meaning;

(ii) Historical research – which begins when an event, development or experience in the past is questioned;

(iii) Descriptive research – which sets out to get accurate and adequate descriptions of activities, objects and processes;

(iv) Experimental research – which focuses on identifying causal connections;

(v) Phenomenological research – which begins with the proposition that any situation, circumstance or event offers in itself potential for enquiry;

(vi) Practical research – which describes an area of research which results in a product such as a painting, which then constitutes the main evidence of the research process.
Goddard and Melville (2001:8) categorised the following four research methodologies:

(i) Creative research – which entails the development of new theories, new procedures and new inventions;

(ii) Ex post facto research – which means “after the fact”. It looks back at effects, while trying to figure out the causes from the effects;

(iii) Action research – which is premised on good theories and a practical approach to research;

(iv) Expository research – which is based on existing information and primarily focuses on reviewing that information.

Leedy (1997:172-229) identified the following four methodologies:

(i) The experimental method – which attempts to account for the influences that condition a specific situation;

(ii) The historical method – which can be applied to data that are in a literary form or documentary in nature;

(iii) The descriptive survey method – which measures the characteristics of a sample at specific points in time, and then describes these observations in words;

(iv) The analytical survey method – which is used for analysing quantitative data that needs statistical measures to extract meaning.
4.3 Applied survey method

The nature of this study, coupled with the difficulties that were encountered relating to getting detailed statistics on the operations of South African media houses – particularly the unlisted companies such as the Independent Group owned by Irish businessman Tony O’Riley – meant that this research was qualitative in the main. It incorporated a number of different methodologies.

Leedy (1997:94) says qualitative researchers often start with general research questions, collect an extensive amount of verbal data from a small number of participants, organise that data into a form that gives them coherence, and use verbal descriptions to portray the situation they have studied.

Leedy (1997:95) further states that qualitative researchers seek a better understanding of complex situations, with their work often exploratory in nature and their research processes mostly emergent, that is – the specific focus of their work, the design of their research, measurement instruments and interpretations often develop and change along the way.

Leedy (1997:96) also writes that qualitative researchers operate under the assumption that reality is not always easily divided into discrete, measurable variables.

To that extent, qualitative researchers make considerable use of inductive reasoning by making many specific observations and then drawing inferences about larger and more general phenomena. In that regard too, their data analysis is more subjective in nature.
Allison, Owen, Rothwell, O’Sullivan, Sauners and Rice (1996:70) stated that qualitative research is sometimes sufficient to give all the information needed where a convincing study might be made without any laborious numerical analysis.

4.4 Population, sample and sampling method

According to Melville and Goddard (1996:41), the most common techniques used to collect data from people are tests, interviews and questionnaires.

Allison, Owen, Rothwell, O’Sullivan, Sauners and Rice (1996:30) defined a sample as referring to a group of subjects from whom there is an actual intent to collect information by means of interviewing and measuring.

Allison et al (1996:30) also described the population as the larger collection of all the subjects from whom the researcher’s sample is drawn, and to which the researcher wishes to apply his conclusion.

Melville and Goddard (2001:34) described a population as any group that is the subject of research. Since it is often not practical, or necessary to study the entire population, general findings are made on a subset of the population, called a sample, which is studied.

This research study took the form of an experience survey, in an attempt to understand the knowledge and experience of some of South Africa’s leading media executives (Appendix C).
Participants chosen for the study encompassed a wide cross-section of the local media industry and were deemed to be experienced, knowledgeable about the subject matter, and sufficiently representative of the industry and the required demographic strata.

The objectives of this part of the study were to gauge the feasibility of the study, to confirm that the constructs highlighted in the literature review were relevant, and to consider additional constructs that could be deemed important.

A discussion on the local media and information technology, key online success factors, as well as the scope to make money online, were the primary discussion points of that section of the study.

This part of the study took the form of in-depth, face-to-face interviews with those interviewees who made themselves available, as well as HTML-formatted research questionnaires, with the results of both these interactions qualitative in nature.

Later, the study focused on the analysis of available information on the subject and to what extent Johnnic Communications Limited and other South African media organisations could put into place online revenue models, vis-à-vis international trends and practice.

Due note was taken of the external online environments, for example, how competitors compared with each other – with the process geared towards ensuring that the temptation to use gut feel and personal opinion did not assume the guise of investigation or analysis.
4.5 Questionnaire design

According to Hague (1993:21), researchers recognise three different kinds of interviews, which in turn require three different kinds of questionnaires.

The three kinds of interviews are:

(i) Structured – where the questionnaires set out the exact wording of the questions and the order in which they would be asked;

(ii) Semi-structured – which use questionnaires with a mixture of questions with pre-defined answers, as well as those where the respondents are free to comment as they like;

(iii) Unstructured – where a checklist of questions is used, rather than a formal questionnaire. This is also referred to as an informal or depth interview.

A combination of Structured and Unstructured techniques were used in this research because of the nature of the study.

The questionnaire design was also modelled on that used by the World Association of Newspapers in its February 2005 Synergise for Success study, with modification for relevance to the South African context.

Additional questions were included from information gained from the literature review and insights gained from expert opinion in the early stages of the study.

Melville and Goddard (1996:44) provide the following guidelines for constructing a questionnaire:

(i) A questionnaire is complete if it gets all the data one needs;

(ii) A questionnaire should be short, and should not abuse the time and concentration of respondents;

(iii) Only relevant questions are asked;

(iv) Clear instructions are given;
(v) The questions are precise and understandable;
(vi) The questions are objective and do not suggest answers.

Leedy (1997:192) suggests that a questionnaire should be pre-tested on a small population to ensure that it complies with the above guidelines.

In this study, two CEOs (Connie Molusi and Reinher Berhens), a general manager (Andrew Gill), as well as five other participants tested the questionnaire before it was used to gather information – and were satisfied that it would achieve its objectives. A copy of the research questionnaire is presented in Appendix E.

4.6 Reliability

Zikmund (1997) described reliability as the degree to which measures are free from error and therefore yield consistent results.

Leedy (1997:34) said reliability was the consistency with which a measuring instrument performed.

Melville and Goddard (2001:46) stated the following two methods that are used to establish reliability:

(i) The equivalent forms approach – where each question on the original questionnaire is rephrased so that the researcher ends up with two questionnaires that look different but actually ask the same questions.
(ii) The split-half approach – which is a modification of the equivalent forms method. Here, the two questionnaires are combined into one document.
The split-half approach was used in this study to test and establish reliability. The questionnaire consisted of the same questions phrased differently, and at different positions.

As another measure of reliability, a consistency matrix was used, which linked research propositions to references from the literature review.

### 4.7 Validity

Cooper et al (1998:134) described validity as the extent to which a test measures what actually is intended to be measured.

Cooper et al (1998:167) also stated, "If the measuring instrument contains a representative sample of the universe of subject matter of interest, then content validity is good".

Leedy (1997:99) argued that the external validity of a research study was the extent to which its results applied to situations beyond the study itself – in other words, the extent to which the conclusions drawn could be generalized to other contexts.

Leedy (1997:100) cited five qualitative strategies, in addition to a representative sample, which researchers could employ to support the validity of their findings:

1. Extensive time in the field – where researchers spent a long time studying a particular phenomenon, continually looking for evidence that supported their tentative hypotheses;
2. Negative case analysis – where researchers looked for cases that contradicted existing hypotheses, and then continually revised their theories;
3. Thick description – where situations were described in rich detail that allowed readers to draw their own conclusions;
(iv) Feedback from others – where researchers sought the opinion of colleagues in the field to determine whether they agreed or disagreed that the researchers had made appropriate interpretations and drawn valid conclusions from data;

(v) Respondent validation – where the researchers took their conclusions back to participants in the study and asked them whether they agreed with the conclusions.

It was concluded that the sampling methodology for this research would yield a representative sample.

The findings and conclusions of this study were also taken back to respondents who participated in the research for validation, and 92 percent of the respondents agreed with the conclusions. This was deemed as an indication that the validity of the research.

4.8 Conclusion

This chapter attempted to document the research methodology that was used during the study. Special attention was given to the population, the selection of the sample and the method of analysis.

The research designs mentioned in this chapter enabled the researcher to develop a survey plan and the management of the treatise as a whole.

The research made a number of assumptions, that the experiences of online players internationally, as well as the findings of overseas researchers in both related and unrelated industries were applicable to South Africa generally, and to Johnnic Communications in particular.
Another assumption that was made was that Johnnic Communications’ quest to make money out of its investment on the Internet would happen simultaneously with its other key corporate battles – such as competition with other different media-delivery platforms and content offerings like rival newspapers, as well as radio and television media, which all have a bearing on its online strategy. It was therefore assumed that the search for a winning online strategy would not distract the company from focusing on its other business imperatives.

The next chapter, Chapter 5, presented the research findings.
CHAPTER 5
ANALYSIS AND INTERPRETATION OF FINDINGS

5.1 Introduction

This chapter found evidence that there are, broadly, two main approaches to how South African and global media companies are employing the Internet and other new technologies in their businesses (Interviews with media experts, literature review and http://www.futureofthenewspaper.com: Accessed November 2006).

5.1.1 Approach one (the Internet is a fad)

The research found evidence that the thought still exists within many sections of the media, including at Johnnic Communications, that for all the hype, the Internet is a fad and that it will never truly impact on or cannibalise newspapers (Interviews, literature review and http://www.futureofthenewspaper.com: Accessed November 2006).

This kind of thinking is exemplified by Andy Sutcliffe, president of Telepublishing Inc., who described online users in a report by McKenzie (2001: 8) as “a fundamentally different group of people” than readers of print. He went further to say, “That demographic difference may actually increase print readership by introducing the product to people who otherwise would never have read it”.

Ingalls (2001: 1) put this view this way, “The truth is paper and digital documents differ considerably in how they are used and in the systems and processes that generate the documents. Paper documents will not wither away – quite the contrary. Enterprises should plan to support a rapid increase in both kinds of documents by understanding their different natures and roles”.
Similarly, Newing (2000: 6) stated, “In an age of information overload, business readers, for example, often trust editors, with all the benefits of computer-assisted journalism, to select the reports that really matter, along with authoritative analysis, all packed in a handy newsprint format”.

Commenting on the advantages of printed newspapers over online versions, Hughes (2004) stated, “You can browse through your newspaper in a much more leisurely manner than the more structured format of the Web page permits. The genius of a well-edited and compellingly designed newspaper is that it lures you into reading informative and entertaining stories and features that you would never have told your computer you wanted to read. Then there is credibility”.

At the World Association of Newspaper’s annual meeting held in Moscow, Russia in 2005, a small, but powerful lobby of publishers pushed the idea that the printed newspaper had nothing to fear from the Internet – and that the two media forms would, at worst, simply become complimentary.

This echoed the words of Newspaper Association of America Chief Executive, John Sturm, who said in 2004: “The Internet provides a perfect partnership to traditional newspapers. It’s a natural extension of our business, giving newspapers the space, immediacy and expanded audience that flow so nicely from the printed product” (http://www.worldeditorsforum.org: Accessed September 20, 2006).

5.1.2 Approach two (the Internet is the future)

This proposition was hinged on companies operating from the premise that the Internet is here to stay, and that the fragmentation of media markets and revenue streams, that marked the coming of the technology, need not spell doom for newspapers – but that it represents a new and major opportunity.
An analysis of converged media companies in the USA, South America, Australia, Northern Europe and Asia (see Chapter 3 of this report) suggested that companies could successfully integrate their print, Web and other forms of media to create diversified revenue streams that hedge against downturns in traditional revenue streams such as print advertising.

For example, Borrell & Associates' fourth annual survey of media website earnings released in April 2006, shows that news websites in the USA and Canada raked in 41 percent of local online spending in the first four months of this year – as indicated in Figure 3.10 below.

Figure 3.10: North American media website earnings

Elaborating on the paradigm shift in publishing companies’ embrace of digital media, the Shaping the Future of the Newspaper report for October 2006 (http://www.futureofthenewspaper.com/) highlighted the fact that traditional media businesses had in the last five years clambered into the online space, setting up expensive e-business divisions that leveraged their traditional content and offerings.
However, it said, the problem had been one of making online businesses a paying proposition: the irony being that while media products were eminently suited to the Internet platform, the kaleidoscope of free choices made the consumer reluctant to pay – which raised the question of how, then, media companies could turn the online space into profitable business.

5.2 Johncom’s digital strategies

When journalists at newspapers such as The Herald, Sunday Times and Business Day were asked how their stories got onto their newspapers’ websites the typical response was: “I don’t know” (Interviews with news editors on various newspaper titles, June 2006).

To that extent, the transfer of print content to websites within the group was found to be a mechanical technology function, not an editorial one. Similarly, the various titles’ portals don’t “talk” to each other, while the websites trade solely on the good reputation, integrity and charity of the printed products.

The result of this is that Johncom Digital, which houses the company’s online activities, largely duplicates the news and information content of the print titles. In addition, as all websites delay the release of their online content until after the publication of the print products, they effectively serve as online distribution channels for the print titles – and not as fully-fledged businesses that tailor-make content for online consumer requirements.

According to company executives, part of the reluctance to exploit the speed of delivery and immediacy offered by online is the fear of cannibalising the successful print titles (Interviews with Connie Molusi and Andrew Gill, May 2006).
All the gaps apparent in Johncom’s online dynamics were also identified in other local media companies that were analysed in the course of compiling this report. Although not much was being done about this state of affairs, virtually all media respondents to this research identified these gaps as both strategic and structural weaknesses (Interviews with captains of media industry, June 2006 – See Appendices C and E).

A further problem that affects Johncom Digital is that just like most of the other local media operations, the company does not have a stated or explicit online vision and strategy. A consequence of this situation was the decision that was made on the 12th September 2001; the day after the World Trade Centre was destroyed in a terrorist attack (Interviews with Molusi and Gill, May 2006).

The Financial Mail closed access to its website to non-subscribers of its printed version on that day, and while the intention was to drive print circulation figures higher by denying free access to the same content online, this happened at a time when readers were scrambling to source information about the attack.

So upset were the markets that subscriptions to the printed magazine that were offered at a 40 percent discount, with online access “bundled in” to this discounted rate, had very few takers. The bundling in of online access in the example cited above perhaps also indicated a conventional method of thinking in the value of content across different platforms (Interview with Molusi, May 2006).

Lourens Botha, managing director of McCarthy Online (the online initiative of McCarthy Holdings and one of South Africa’s largest retail outlets by market capitalisation) made an interesting observation about this way of approaching online operations: “Organisations which think they can survive without any value proposition to the customer – such as a value added retail opportunity – are missing the point of the Internet economy” (Interviewed on May 3, 2006).
Another strategic challenge for Johnnic Communications is that while the idea of setting up Johncom Digital was to integrate all online activities, this only exists at a management level (Interviews with Molusi and Gill, May 2006).

In reality, Johncom Digital employs a ‘mix-and-match’ approach in its structures. This has seen some of the online advertising staff who fall under the Business Day online unit being paid by Johncom Digital head office, while the newspaper’s traditional national sales department pays others.

Not only does this create confusion for the staffers concerned, it also makes it nearly impossible to get any accurate reflection of operating costs. Similarly, measuring revenues and attributing them to specific elements of online initiatives suffer too as a result (Interviews with Molusi and Gill, May 2006).

The lack of true integration in Johncom Digital is also reflected in the operating systems used by each business unit, which impacts on the value offered to customers. For example, Summit TV has a different editorial production system to that of its print counterparts such as Business Day and The Herald (Interview with Gill, May 2006).

Summit uses a system called ENPS, or the Electronic News Production System, while the print titles use a system called GN3 (GoodNews version 3). ENPS does not ‘talk’ to the GN3 system, which has serious implications for current and future strategies, including the exploitation of linkages and synergies between the businesses units (Interviews with Gill, May 2006).

Johnnic Communications recently established project teams to take an in-depth look at its multi-media platforms, including online. It is hoped that these task teams, together with the recommendations in this treatise, will help in the forging of shared online values between the different units, as well as the establishment of a stated group Internet strategy (Interviews with Gill, May 2006).
5.3 Conclusion

This chapter found evidence to suggest that although Johnnic Communications has invested a lot of money in its online activities it, in effect, still operates from the paradigm shift that says that the Internet is a fad (Interviews with Molusi and Gill; literature survey, November 2006).

While senior management has been working for 10 years (Interview with Molusi, 2006) to put into place a proper multi-media company, this has not been communicated and effected properly – a situation that has resulted in the company paying mostly lip service to its convergence quest.

Chapter 6 summarised the research project’s core problem and went on to offer some recommendations that Johnnic Communications could try to follow in order to generate a revenue-generating model online (Interviews with media experts and literature review, November 2006).
CHAPTER 6
SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

This Chapter paints a clear picture of what Johnnic Communications could do to begin to maximise on its online presence and e-commerce potential (Interviews with media experts and literature review, November 2006).

It draws on what has been highlighted in the previous five chapters, including the challenges that the company faces in its quest to become a truly multi-media and converged entity.

One of the most significant weaknesses identified inside the company is the lack of a stated and shared strategic vision for its online business (Molusi and Gill, May 2006). The knock-on effect of this lack of overriding strategy has been:

(i) An inappropriate structure that has manifested as a ‘gap’ between the group’s traditional businesses and online activities;

(ii) Non-consolidated systems and operational processes that are not cost-effective and which do not support streamlined revenue-generating opportunities and operations;

(iii) The total lack of a culture of sharing of information, tacit or otherwise, across the group, which in turn has led to each website pursuing its own interests at the expense of the overall Johncom Digital goals;

(iv) An emphasis on product (content duplication) rather than value-offering for customers;
(v) A reluctance to adopt a multimedia approach in terms of strategy and revenue streams, which inhibits the group from exploiting the full potential of online opportunities (Interviews with Molusi and Gill, May 2006).

6.2. Recommendations – new Internet model for Johncom

The fact that Johncom has consciously avoided creating major online brands in the consumer space, such as Naspers’ News24 portal, has been criticised by some analysts as a mistake. The company has up to now deliberately followed the path of investing more in its brick and mortar media consumer brands – its successful print titles such as Business Day, Sunday Times and The Herald (Interviews with media experts, May 2006).

Part of the reasoning behind this has been that these titles are such established and strong brands, each with a set of values and readers who associated themselves with those values, that to change this at earlier stages would have been foolhardy and costly (Interviews with Molusi and Gill, May 2006).

“While this might have served the company’s interest to date, this model is not sustainable. No company can afford to continue looking at the Internet as an option, because it is the future. In addition there are abundant opportunities online, which only require solid strategies to take advantage of them,” said Andy Gill, GM of Business Development at Johncom (Interviewed May 2006).

There are some strategies that appear to be working for many publishers around the world, providing a basis for recommendations and given Johnnic Communications’ circumstances, this treatise proposes a hybrid Internet revenue model for the company, as this model plays to the strengths of the diversified group (Interviews with media experts and literature survey, 2006).
The research has indicated that the favoured overarching global strategy is revenue diversification. No publishers can afford to continue to rely on the ‘Big Three’ traditional revenue streams – print retail advertising, classifieds and subscriptions (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

To that extent, the foundation of Johnnic Communications’ revenue strategy should start with audience focus, which would allow the company to discover its various audiences’ appetite for new publishing products – by researching the way they access which media channels and when. This would, in turn allow Johnnic Communications to target consumers with new advertising based on their media consumptions habits.

Having done that, the convergence or multimedia revenue strategy would suit Johnnic Communications very well, as the company is already a large and diverse organisation with multiple media assets. It has print, Web, television and mobile operations – and has small investments in radio and events (http://www.revenuescience.com: Accessed September 23, 2006).

In that regard, integrating the sales efforts of its various media channels represents a major opportunity for incremental sales revenue – but only if new advertisers are targeted, or its existing advertisers are motivated to buy more than their previous advertising purchases.

As this research has tried to illustrate, many media companies across the world, that have had multimedia advertising strategies for years, agree that concentrating on non-advertisers for selling cross-media is a good place to start.

The more advanced companies, like Denmark’s NordJyske Media, whose offices the author visited in March 2006, now sell cross-media packages to almost all advertisers (http://www.nordjyske.dk: Accessed 29 July 2006).
A crowded media marketplace with a fragmented audience, such as South Africa’s, particularly lends itself to the multimedia revenue model (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

While engaging in the above could also be viewed as a short-term objective, there is no reason why Johncom cannot also invest in future revenue streams now, by building content such as podcasts, video shows online and new subscription models for non-commoditised content like high-end business and investment information.

It is to Johncom’s advantage, as it seeks a viable online revenue model, that while the company has many brands at a consumer level, the trade industry in particular knows and understands the company’s mega corporate brand.

This could see, and allow all communication to the trade industry being based on the network approach. An example of this would be Standard Bank taking advertising on say soccer across all platforms (Interview with Gill, May 2006).

This research further proposes that Johncom therefore specifically creates multiple branded websites off a single infrastructure.

Such a platform would still allow its rich network of sites to report traffic statistics jointly, rather than on a title basis. This would boost traffic growth and offer advertisers a massive advertising platform, which would increase the scope for more advertising revenue (Interview with Gill, May 2006).

Traditionally, Johncom has merely dumped print content online, believing that its individual brands could be all things to everyone (Interview with Gill, May 2006). This has not worked. It should, instead, look at creating more tailored offerings with greater value-ads, greater depth and more rich experience.
The hybrid portal strategy that this treatise is recommending, is based on the literature review as well as the interview findings that came out of the research process.

This strategy would not only aim to cater for differentiation (unique selling point) in an environment that recognises that readers associate with a specific brand for specific reasons, but would also result in Johncom capitalising on the gravitas and advantages associated with a ‘single/multiple’ portal for the group (http://www.futureofthenewspaper.com: Accessed September 15, 2006).

The structure that this research is proposing is also meant to allow readers to enter the aggregated portal from any business unit, the idea being not to destroy the identity of the individual products, as illustrated in Figure 6.1 below.

The entry portals would align themselves strongly with their respective print brand strengths and content strategies.

Thus, a reader entering the aggregated portal through Business Day would be able to access all Business Day print content (that specific portal’s unique web offering) and also be able to access the shared content services.

The key distinction is to maintain the branded experience for the reader regardless of entry point (http://www.futureofthenewspaper.com: Accessed September 15, 2006) – as illustrated below in Figure 6.1 (Proposed group Web portal for Johnnic Communications) and Figure 6.2 (A montage of Johncom’s aggregated portal).
Reader cross-pollination would be one of the benefits of a hybrid portal model if it is done successfully. By promoting all brands and their content Johncom can keep readers in its portal environment, thereby maximising traffic and advertising revenue.

Figure 6.2: A montage of how Johncom’s aggregated portal could look
6.3 Suggestions for further research

There is scope for Johnnic Communications to devise a specific research strategy to better understand its diverse audience members’ media needs. This would then be parlayed into well-planned editorial products devised to reach important segments of its readership on multiple channels.

The company should also research the scope for the development or acquisition of promising new online media businesses that are generating impressive revenues, particularly those in the Cost Per Thousand (CPM) and Cost Per Click (CPC) advertising sectors.

6.4 Conclusion
Typically, South African news portals compete over who can get breaking news up first, with very little additional value added (The E-Business Handbook (2003:126).

The Internet strategy and the aggregated web portal that this treatise recommended for Johnnic Communications are not just meant to allow Johncom to exploit this gap in the market, but to also add value to news content by, for example, weighting its stories, providing analysis and digital value adds (video, audio, PDF documents, rich media, flash etc.).

The interviews with media experts, as well as the literature review contained in this treatise, suggested that the exponential growth of digital media globally would continue to impact on and re-shape the South African consumer and business landscapes – including the media.

To that extent, and even though Johnnic Communications still has to realise the desired returns on its significant online investments – the treatise concludes that continuing to invest in digital media is not an option for the company, but an imperative.

While the treatise found evidence to suggest that Internet offerings cannibalise the readership of printed newspapers in South Africa, there was also evidence to suggest that new technologies present media houses such as Johnnic Communications with the opportunity to tap into new and broader markets, and hence new revenue streams.

In addition to recommending new digital strategies, the treatise also concluded that developing critical mass and having a clear online strategy are crucial factors towards the company making money out of new technologies.

**Source of References**


http://opa.co.za [Accessed 17 November 2006]


http://www.aop.co.uk [Accessed 20 October 2006]


http://www.financialmail.co.za: [Accessed October 6, 2006]


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Overholser, G. 2000. *Newspapers are languishing as the net speeds up*. Columbia Journalism Review, March.


APPENDIX A: JOHNCOM’s VISION, MISSION, VALUES AND GOALS’

<table>
<thead>
<tr>
<th>JOHNCOM COMMUNICATIONS</th>
<th>STRATEGY 2004-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3.1 Vision</strong></td>
<td>ONGOING OPERATIONS</td>
</tr>
<tr>
<td>To be an integrated Entertainment and Media Group that is globally competitive and dominant in the African continent.</td>
<td>• Grow media assets</td>
</tr>
<tr>
<td></td>
<td>• Fix or close under performing businesses</td>
</tr>
<tr>
<td><strong>3.2 Mission</strong></td>
<td>EXPANSION &amp; INVESTMENT STRATEGY</td>
</tr>
<tr>
<td>To be a profitable, ethical, African knowledge Management Company, owned and operated by Africans</td>
<td>• Focus on Africa</td>
</tr>
<tr>
<td></td>
<td>• Partner with local (African) players</td>
</tr>
<tr>
<td></td>
<td>HUMAN RESOURCES</td>
</tr>
<tr>
<td></td>
<td>• Attract, motivate, develop and retain key talent</td>
</tr>
<tr>
<td></td>
<td>• Enhance skills through multi-skilling</td>
</tr>
<tr>
<td><strong>3.3 Goal:</strong></td>
<td>SUSTAINED PROFITABILITY &amp; GROWTH</td>
</tr>
<tr>
<td>A world-class supplier of media, including national newspapers, magazines, books and digital services inclusive of production and distribution of local and international music, film and video.</td>
<td></td>
</tr>
</tbody>
</table>

**3.4. Organisational Values**

- Provide knowledge to enrich people’s lives by publishing quality newspapers, the finest books, magazines and maps in Africa,
- **Transformation and Employment Equity**
- **Respect for human dignity and equality.**
- **A transparent approach, within the appropriate legal confines.**
- **Uphold the principles of broad participation.**
- **Application of fair labour practices.**
- **Sensitivity to broad societal issues as a corporate citizen.**

Source: Collated from http://www.johncom.co.za (November 21, 2006)
APPENDIX B: JOHNCOM’s GROUP STRUCTURE

Source: http://www.johncom.co.za (November 21, 2006)
APPENDIX C: RESPONDENTS TO THE RESEARCH PROJECT

The following media industry leaders in South Africa participated in the pilot study:

(i) Mr Andrew Gill, GM of Business Development, Johnnic Media Investments;

(ii) Mr Arrie Rossouw, Editorial Director of 24.com (which houses all of Naspers’ Internet activities);

(iii) Mr Claude Chibaya, Chief Financial Officer, BDFM Publishers (a joint venture between The Financial Times of the UK and Johnnic Communications;

(iv) Mr Connie Molusi, CEO of Johnnic Communications Limited. (Left the company at the end of July 2006);

(v) Mr Elliot Schwartz, Chief Executive Officer, Acuity Group;

(vi) Mr Graham Langmead, Executive Director, Print Media Association – South Africa (PMA);

(vii) Mr Jovial Rantao, the editor of the Sunday Independent;

(viii) Mr Lourens Botha, MD, McCarthy Online;

(ix) Mr Peter Bruce, Editor, Business Day;
APPENDIX C: RESPONDENTS TO THE RESEARCH PROJECT (continued)

(x) Mr Rajay Ambekar, Portfolio Manager, African Harvest Fund Managers;

(xi) Mr Rheiner Berhens, Group Managing Director, Leo Burnet Communications;

(xii) Mr Steven Laing, Chairman of the Online Publishers’ Association;

(xiii) Mrs Anastacia Martins, Commercial Director, Primedia Broadcasting;

(xiv) Ms Astrid Ascar, Managing Editor, Summit Television, a BDFM company (she has since left the company);

(xv) Ms Christine Qunta, Deputy Chairperson, South African Broadcasting Corporation

(xvi) Ms Janet Watermeyer, Chairman, Media Director’s Circle – South Africa;

(xvii) Ms Jenny Mckinnel, Director, Webchek;

(xviii) Ms Paddi Clay, Head of Training, Johncom Media Investments;
**APPENDIX D: SA NEWSPAPER CIRCULATION FIGURES**

<table>
<thead>
<tr>
<th>Newspaper</th>
<th>Ave Current (Jan-June 2006)</th>
<th>Ave Previous (Jan-June 2005)</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beeld</td>
<td>98,912</td>
<td>104,165</td>
<td>-5.0</td>
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<tr>
<td>Beeld Saterdag</td>
<td>85,075</td>
<td>90,220</td>
<td>-5.7</td>
</tr>
<tr>
<td>Die Burger</td>
<td>109,728</td>
<td>111,576</td>
<td>-1.7</td>
</tr>
<tr>
<td>Burger Saterdag</td>
<td>120,222</td>
<td>122,112</td>
<td>-1.5</td>
</tr>
<tr>
<td>Business Day</td>
<td>43,686</td>
<td>45,050</td>
<td>-3.0</td>
</tr>
<tr>
<td>Cape Argus</td>
<td>77,418</td>
<td>79,243</td>
<td>-2.3</td>
</tr>
<tr>
<td>Weekend Argus</td>
<td>108,474</td>
<td>115,493</td>
<td>-6.1</td>
</tr>
<tr>
<td>Cape Times</td>
<td>48,690</td>
<td>51,126</td>
<td>-4.8</td>
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<tr>
<td>The Citizen</td>
<td>106,120</td>
<td>113,863</td>
<td>-6.8</td>
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<tr>
<td>Citizen Saturday</td>
<td>88,962</td>
<td>96,874</td>
<td>-8.2</td>
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<td>City Press</td>
<td>220,559</td>
<td>246,604</td>
<td>-10.6</td>
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<tr>
<td>Daily Dispatch</td>
<td>36,233</td>
<td>37,371</td>
<td>-3.0</td>
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<tr>
<td>Dispatch (Sat)</td>
<td>29,675</td>
<td>30,968</td>
<td>-4.2</td>
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<tr>
<td>Daily News</td>
<td>65,476</td>
<td>68,532</td>
<td>-4.5</td>
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<tr>
<td>Diamond Fields</td>
<td>8,256</td>
<td>8,264</td>
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<tr>
<td>Weekend Post</td>
<td>35,212</td>
<td>35,874</td>
<td>-1.8</td>
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<td>The Herald</td>
<td>33,422</td>
<td>35,838</td>
<td>-6.7</td>
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<td>Ilanga</td>
<td>111,252</td>
<td>109,787</td>
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<td>Sat Independent</td>
<td>73,668</td>
<td>75,896</td>
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<td>Mail &amp; Guardian</td>
<td>37,456</td>
<td>37,240</td>
<td>-0.6</td>
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<td>The Mercury</td>
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<td>40,292</td>
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<td>Mmegi/Reporter</td>
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<td>25,987</td>
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<td>Post</td>
<td>44,752</td>
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<td>Pretoria News</td>
<td>25,240</td>
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<td>Rapport</td>
<td>332,138</td>
<td>340,023</td>
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**APPENDIX D: SA NEWSPAPER CIRCULATION FIGURES (continued)**

<table>
<thead>
<tr>
<th>Newspaper</th>
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<th>Ave Previous (Jan-June 2005)</th>
<th>% Variance</th>
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<tr>
<td>Saturday Star</td>
<td>135,936</td>
<td>141,754</td>
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<td>Soccer Laduma</td>
<td>197,316</td>
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<td>Sowetan</td>
<td>203,352</td>
<td>192,006</td>
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<td>Sunday World</td>
<td>65,391</td>
<td>43,873</td>
<td>-49.0</td>
</tr>
<tr>
<td>The Star</td>
<td>163,746</td>
<td>168,013</td>
<td>-2.5</td>
</tr>
<tr>
<td>Sun Independent</td>
<td>40,875</td>
<td>42,653</td>
<td>-4.2</td>
</tr>
<tr>
<td>Sunday Times</td>
<td>506,474</td>
<td>504,845</td>
<td>0.3</td>
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<tr>
<td>Sunday Tribune</td>
<td>108,339</td>
<td>112,440</td>
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<tr>
<td>Volksblad</td>
<td>32,788</td>
<td>33,948</td>
<td>-3.4</td>
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Adapted from the Audit Bureau of Circulation (ABC) audited circulation figures (January 2005 – July 2006)
APPENDIX E: UNSTRUCTURED TREATISE DISCUSSION QUESTIONS

(i) What are the major factors that will influence the consumption of traditional and digital media in South Africa in future?

(ii) To what extent, if any, is the Internet influencing traditional media consumption in South Africa and internationally?

(iii) Is the Internet a fad or the future in the South African and global media industry?

(iv) To what extent are online offerings cannibalising newspapers in South Africa and overseas?

(v) What is the potential of the Internet to grow consumption of traditional news media?

(vi) What is the scope for viable revenue generating online strategies in South Africa?

(vii) What is the major force driving innovation in the media industry here and abroad?

(viii) To what extent are new technologies such as the cellular telephone influencing the South African media scene?

(ix) What and why are the media business trends in South Africa and abroad?

(x) What informs South African companies’ investments online?
APPENDIX E: UNSTRUCTURED TREATISE DISCUSSION QUESTIONS
(continued)

(xi) Are any South African or global media companies making money online or with new technologies?

(xii) If there are, what are they doing that is allowing them to make money?

(xiii) What informs your company’s online and new technologies strategies?

(xiv) Are there any media companies’ locally and overseas whose digital strategies you think are working, and why?

(xv) Convergence or multimedia approaches to digital publishing appears to have been embraced by all of South Africa’s major media companies. Is this strategy working?

(xvi) Why is this strategy working or not working?
APPENDIX F: PERSONAL INFORMATION GUIDE TAKEN INTO CONSIDERATION FOR TREATISE PARTICIPATION

The following are some of the demographic and personal details that were taken into account when the decision was made about whom to invite as participants in the research project:

(i) Employment status, title and position in their company;

(ii) Education and qualifications held;

(iii) Years spent in the media;

(iv) Age;

(v) Gender;

(vi) Race;

(vii) The company they work for;

(viii) The sector of their industry;

(ix) Geographical location they work from;

(x) Knowledge of media industry and trends.