Business Challenges of News Media Companies on Digital Platforms

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Abstract
Prior research suggests that digital platforms, such as Facebook and Twitter, serve as a channel between news media companies and their customers. In this view, the role of digital platforms is to aggregate user-generated content in order to attract more users and advertisers to a platform. However, rapid growth of digital platforms and proliferation of platform-based content, such as Snapchat Discovery, Facebook Instant Articles and Youtube channels, challenge the status quo, between news media companies and digital platforms. In this qualitative study we focus on exploring the challenges of news media companies operating on digital platforms. By conducting semi-structured interviews with news media companies we derive three key themes and provide a conceptual model for explaining how digital platforms are becoming a marketplace for distributed contribution of news sourced from a wide array of contributing news media. We conclude with future research propositions.

Keywords: Multi-sided markets, digital platforms, newspapers, news media, social media, Facebook

Introduction
With the tremendous pool of professional- and amateur-created online news, digital platforms such as Facebook, Twitter and Google, play an increasingly important role in navigating consumers through the sea of media content. Already now, 61% of American Millennials read news on Facebook (Mitchell & Page, 2015). Many newspaper and digital-only news media companies have adjusted to this environment by first publishing news content on the media’s own website and then use digital platforms to amplify their message and spread the news around the World Wide Web to attract new readers (Bernoff & Li, 2010). Earlier research looked at this symbiotic relationship between news media companies and digital platforms. Existing knowledge suggests that the relationship is similar to a
producer-distributor relationship (Águila-Obra, Padilla-Meléndez, & Serarols-Tarrés, 2007), where digital platforms serve as a channel between news media and their customers. In this view, the role of digital platforms is to aggregate user-generated content in order to attract more users and advertisers to a platform. However, rapid growth of digital platforms and the proliferation of platform-based content, such as Snapchat Discovery, Facebook Instant Articles and Youtube channels, challenge the status quo between news media companies and digital platforms. As the audience of digital platforms grows, these platforms start to gain leverage on news media companies, expanding their roles beyond mere distribution channels.

Motivated by these changes in the newspaper industry, we will address the following questions in this article:

RQ1: What are the business challenges of news media companies on digital platforms?
RQ2: How should news media companies address these challenges?

To tackle these questions we conducted an exploratory study combining pre-existing academic knowledge with qualitative enquiry. Our results reveal three themes related to the challenges of news media companies operating on digital platforms.

Theoretical Background

Traditionally, news media companies relied on content created by professionals that was distributed through a conditional-access medium, such as newspapers and TV channels (Berman, Battino, & Feldman, 2011). This created high entry barriers for independent content creators and allowed established news media companies to keep a captive audience engaged with curated, professional content. The Internet, and mobile devices disrupted the status quo, transforming the way news are consumed and produced. The access to easy-to-use digital publishing platforms such as Wordpress and Tumblr empowered individuals to create their own content (Lublin, Efrati, & Ante, 2013). While concurrently, social media platforms such as Facebook enabled content creators to distribute their work to a larger audience at a relatively low cost. Thus, users of these platforms became simultaneously creators and consumers of media content. This challenged the media companies as their traditional customers now had a vast pool of professional- and user-generated content on their fingertips (Meraz, 2009).

In contrast to traditional news media business models, online news media business models are mainly built around the online news product (often freely distributed) funded by banner ads and native, or branded online advertising (Mitchell & Page, 2014). One of the earliest, digital publishing media success stories was the Huffington Post that started with non-paid bloggers aggregating other news sites’ content, with the goal of creating a large community (Bakker, 2012). Such a model differed from prior news publishing models in the sense that the company was able to safeguard the high quality of the content despite merely assuming the role of content-curator (Bakker, 2012).

Despite challenges, the Internet also offered media outlets new opportunities, from using web analytics to understanding the way readers interact with stories published online (Tandoc, 2014a, 2014b), to organizing large-scale, real-time interaction with an audience (Bivens, 2008). Moreover, digitalization brought a change in the news
medium. As a consequence of these changes, the print newspaper artifact has been partially or sometimes completely transformed into digital (Utesheva, Cecez-Kecmanovic, & Schlagwein, 2012).

News media companies possess the experience of using different systems, such as the web, TV and radio, as channels to improve the delivery of content (Veglis, 2008). However, there is no consensus with regards to how news media companies should manage social media activities and how these activities should be organized within the media companies (Godes, 2013). As more and more people turn to mobile devices and the Internet to consume news, one low-cost effort for traditional news media companies to reach their audiences has been to share their content on social media platforms. Many of the modern digital platforms are characterized by employing a multi-sided market model to run their business (Ghazawneh & Henfridsson, 2013). Platforms on multi-sided markets are characterized by network effects, generated by the presence of both sides of the market, which ultimately benefit the participants of the platform (Armstrong, 2006; Haucap & Heimeshoff, 2014; Rochet & Tirole, 2003).

Social media platforms have allowed companies to create online communities around media brands (Weinberg & Pehlivan, 2011). Platforms can also be used to communicate directly with current and future potential customers, create word-of-mouth for content (Luo, Zhang, & Duan, 2013), and sometimes even to co-create content (Wikström & Ellonen, 2012) and/ or to share articles published on a media brand’s website. However, news media companies often invest resources into increasing article views on social media without a clear business model (Ju, Jeong, & Chyi, 2014). The combination of a widespread adoption of digital platforms and challenges news media companies face in transforming their business calls for a new research to investigate these issues.

As consumers are spending more and more time online, media companies need to establish a strategy on how to distribute news on digital platforms. More specifically social media platforms allow media companies to drive traffic to their websites (Holm, Günzel, & Ulhøi, 2013). The tremendous size of audience on social media platforms has gotten news media companies pushing their content to these platforms with the goal of attracting subscribers to their content (Ju et al., 2014) and growing their audiences. The relationship between the two parties is not yet however firmly established and as the influence of digital platforms grows, there is potential for tensions related to aspects such as revenue sharing, customer data and customer ownership (Smyrnaios, 2012). To the best of our knowledge – there is no prior research that would consider the ways with which multi-sided platforms are transforming the newspaper media ecosystem.

**Methods**

To learn how news media companies use digital platforms, we conducted 10 semi-structured interviews with employees from online news media companies during spring 2015 (see Table 1). To ensure that the companies had an online presence on one or more digital platforms, we performed a thorough background analysis of the companies online. The position of informants included journalists, editors, product
managers, as well as top management. All companies are based in the United States, however the majority operates worldwide. Each interview lasted from 30 to 65 minutes, with an average length of 40 minutes.

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<tr>
<th>Informant</th>
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<td>Informant 1</td>
<td>Sports media</td>
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<td>Informant 2</td>
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<td>Informant 9</td>
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<td>Informant 10</td>
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Table 1: Informant profiles.

We followed an inductive, exploratory approach with a high-level interview protocol – leaving room for the interviewees to interpret the questions (Karlsen & Stavelin, 2014). The interview protocol consisted of four sections. In the first section, informants were asked background questions, about their experience, their position in the company, and general company activities. In the second section, we made specific inquiries about the business operations of the company, the business model and the competitive landscape on the market. In the third section, we asked about the use of social media platforms in their operations and their impact on both editorial policies and their business model. In the fourth sections, we explored the interviewees’ vision on the future developments of the media industry and the role of technology.

We primarily used an inductive interpretive approach for our analysis as described by Walsham (2006), learning from the data, constantly recording and discussing interview impressions and observing emerging themes from the data. Using elements of analysis from grounded theory (Glaser & Strauss, 1967), we proceeded with creating an iterative coding procedure. To improve accuracy and to decrease bias, two authors conducted open coding (Karlsen & Stavelin, 2014; Utesheva et al., 2012). After the initial open coding stage, axial coding was applied to fit identified concepts into categories. We then compared the categories based on which we were able to derive final themes, which were observed by both authors.

Findings

1.1 Social media – a strategic digital platform for news companies

The informants are observing a trend where online news media companies are transitioning to the other side of the market from users. Digital platforms leverage their members by turning individual users into captive audience. In this setting users do not leave a platform in order to receive third-party media content. Instead users consume all content within a digital platform. A current understanding of social media implies user-generated content as a driving force for attracting an audience. However, our interviews reveal that social media platforms now look for professionally produced
media content to attract further users. News media companies are being increasingly prioritized, on the expense of them becoming revenue drivers for digital platforms.

“One of the things that people talk about a lot is how Facebook works for publishers [news media companies]. […] They’re interested in people hosting content on their platform within Facebook rather than on a separate, external website. So whatever moves Facebook makes make people pay attention to because of their referral power.” - Informant 3.

Our informants observe positive effects in terms of building and retaining audiences on social media platforms. Looking into the future, some media companies predict a completely distributed model without a website of the publication being the hub of all operations. Instead, informants envision a scenario where their content is present only on native applications within social platforms.

“you focus on building a Facebook audience and if you were a reporter covering a local neighborhood you probably wouldn’t want to build a website at all you would probably just want to start a Facebook page and cover the neighborhood on the Facebook page. Once you would reach a certain size, figure out some advertising and you could probably do it all from the platform.” - Informant 3.

Further our informants observe negative network externalities, such as lock-in and high dependence on digital platform provider regulations. Social media platforms increasingly introduce new boundary resources in the form of rules to the news media companies and establish control over content and user data. This development has a dual meaning for operating on these platforms. Platforms promise to improve audience targeting, increase efficiency of social media efforts, and offer tools to acquire new audiences, which have definite benefits for news media companies. Despite that, media companies are losing control over their audience and content, which is disrupting the news media companies’ business models.

“But the bigger broader question that people are worried about is in terms of whether media companies are seeding too much control to Facebook or whether this is going to have a long term impact – whether all business is going to end up there. We are still at a point where companies can still pull out of it and say – we don’t need to do this anymore” - Informant 9.

An increasing power of digital platforms is to create challenges to an established mode of business for news media companies. The more conventional business model for news companies is to attract an audience to their website and generate income through subscriptions or advertisements present on the website. In this model, news media companies fully control their audience as well as revenue streams, and typically the income are not shared with third parties. In the new setting however, social media platforms offer a significantly bigger audience for news media companies, with the trade-off of losing control over the audience and the revenue streams.

“If we can create a really compelling video, say its an animation project, and we can reach 3 million people with that project in a relatively short time, reaching them through other platforms, versus 500 000 people watching that content specifically and only on [our website] – it is I think something that we really have to embrace if we want to get our brand out there.” - Informant 2.
While concrete revenue models between content creating news media companies and social media platforms are not obvious, our informants expect some type of profit sharing between the two parties. It is also notable to point out that despite the uncertainties related to and impacts of a mode of co-operation on the companies’ bottom-line, the informants were eager to experiment with the new model, even if sometimes mainly due to the competitive pressure.

“Facebook will start natively hosting news stories on Facebook. So you will read a story from lets say the New York Times on Facebook without ever visiting the New York Times. And then the New York Times will probably get some cut of that revenue. If Facebook does that, I imagine we will at least explore the possibility of doing that as well” - Informant 4.

1.2 A competition within and between digital platforms

The transition to be a part of a digital platform, rather than creating content on a news media’s own website is changing the competitive landscape for news media companies. When discussing competition, most of the informants mentioned the variety of e-services and sources of entertainment, such as mobile games and mobile applications (e.g. Snapchat, Facebook, Instagram). Informants did not limit their competitors to what one could traditionally perceive as direct competitors in the news media industry. Moreover, news media companies find that in essence, they are competing for people’s time on all digital platforms.

“...When it comes to platforms its not so much that you are competing for brand recognition or audience –you’re competing for just time that people have during the day. [...] We are just trying to fight to move up the prioritization scale when they wake up every morning or they are waiting for a bus or they’re bored at work. What [content] are they going to look at their phone?” – Informant 2.

The informants expressed a clear understanding of their audience’s limited attention and time to spend on any media, whether it is news or entertainment, giving examples of competition such as online games and blogs. Moreover, news companies tend to also see social networks and mobile applications as their competitors, as these have content, which diverts the audience from their media’s websites.

“We compete against Facebook, we compete against Twitter, we compete against Candy Crush. We compete against any other thing anybody could be doing with their smartphone at any time. [...] But more broadly speaking, any social network and almost any app on your phone in some way could be considered as competitor to a news publication. Because people have limited time.” - Informant 4.

Users are not so much exposed to the Internet as they are to social, mobile applications. The shift of audience to smartphones for content consumption intensifies the competition for attention. Media companies strive to find a place within a social media platform with a mobile application in addition to which, informants felt that the prevalence of mobile applications also required customizing content for these social media platforms’ mobile applications.

“The stuff that people spend time on, particularly on their phones. That could be media, but, I think it is games, or other forms of entertainment, blogs and that sort.” – Informant 5.
“Journalism companies are going to increasingly look to tools, technology, because they can’t be everywhere at once but their audience can be everywhere at once on their phones or wherever they have the technology to interact with and shape the media that they have.” - Informant 8.

News media companies face a challenge when trying to reach a mobile audience. “There’s a very large audience on Facebook that is specifically on mobile. That’s an area where publishers have had a lot of trouble reaching people and not just reaching people but actually reaching people in the same size and scope as Facebook.” - Informant 9.

News companies are concerned with capturing an audience’s attention and delivering it in a suitable form to audiences across a variety of devices and digital platforms. Informants are increasingly concerned about the way digital platforms distribute news media content within and across digital platforms. In particular, informants highlighted a loss of control over the process.

“There is part of me, which is protective over “our children” [content produced by the company], but after they grow up, they go on their own, so we will let our stories go. And you always have to test an environment.” - Informant 6.

The way content is distributed to the readers online is changing. Before digital platforms would be used to deliver news from the providers to the users (Águila-Obra et al., 2007), leading the latter back to the original source, now content can have a life of its own on various digital platforms. Informant 6 above shares a concern about its “children leaving home”, referring to the content produced by the media company being designed for various social media platforms as opposed to their own website. Platforms are becoming a destination for users, instead of being a gateway to the Internet.

“Facebook especially is playing around with content experiences that are native to Facebook from other publishers. Whether that’s video that’s played in the Facebook feed or the full article or content experience that takes place within Facebook newsfeed. That’s not going to lead back [to our website] necessarily.” - Informant 2.

Today it is more important to ensure that news appear on readers’ Facebook News Feed for news to be consumed there, than using digital platforms as a simple news distribution engine funneling readers to the website.

“We set out to do and provide a real substitute news but in today’s distribution environment. [...] With the change in medium you also have a big change in how distribution occurs. You also have a big change in how stories are produced, how resources are going to them. [...] but there’s much fewer companies that are producing something that you want to click on your Facebook feed and that is also substantive and informative [...] that’s our mission - what we’re going for.” - Informant 3.

“We have to stay open to all the platforms and we should have this mindset, because you do not know unless you try it. So we are open to try it. I came from the meeting this morning with another major platform who wants to take our content and put it into their platform and so we will try, because you can’t stay stuck to old models.” - Informant 6.

As a response to this new distribution environment some of our informants are experimenting with posting tailored content to various platforms, trying to appeal to
the demographics of the platform. Simultaneously they try to bring this tailored experience to other parts of their publishing activities. Instead of having a conversion with a reader on the website and getting direct feedback to the news media company, the companies now rely on the feedback spread across different platforms, to learn about particular demographics.

“When you take something like Instagram, we look at the number of likes, we look at the number of comments and we see how our followings grow. It’s more about a hub to just experiment with new types of content that are aimed to the young audience. And for things that might resonate on Instagram – we think how we can replicate this same mentality directly on [our website] where the audience is young as well. It’s an enormous testing ground and a great opportunity for us to just try new things” – Informant 2.

1.3 Coping with the change initiated by digital platforms

Increasing the role of digital platforms, especially social media platforms, in news publishing business causes changes in how news media companies are building their business. According to our informants there is a shift in the measurements of success, from traffic on their webpages to the level of brand awareness.

“...it’s not so much about traffic anymore – audience doesn’t always mean visitors or unique visitors. Audience means brand awareness essentially. [...] [Our website] doesn’t see direct traffic from them [digital platforms] but we see them as good investments because it is an opportunity to reach an audience for our content, even if that doesn’t bring them back to [the company’s website].” –Informant 2.

On the other hand Facebook can also be used as a platform to build a community. This view is more in line with prior research (see e.g. (Kaplan & Haenlein, 2010)).

“Shares are what allow us to reach a larger platform – particularly on Facebook. It is very important to us, it’s a metric that I look at really closely.” –Informant 4.

“Our focus has been Facebook. You know I think now we’re to almost a million followers on Facebook which is great and we’re always looking to reach for the audience we’re looking to reach- which is the 40 million, American millennials. So when we’re creating demand – it’s really more creating the kind of stuff that people love and that will give them a great perspective on the world.” –Informant 3.

A digital platform can even be seen as a partner with whom the news media company has a relationship with as the platform drives traffic to the media’s website.

“In the particular case of Facebook, we could publish our stories to Facebook and they’ll be seen by a large number of readers there. And Facebook actually drives a lot of traffic our way.” -Informant 4.

One of the mechanisms to cope with the diminishing direct website traffic and lower click-through rate on advertisements is native advertising. Increasingly, news media companies are offering specially created content to advertisers, which is integrated into the regular content stream. Such an approach allows companies to sell the content, regardless of its location, as opposed to the traffic on one particular page.

“We basically sell what you might call native advertising, which is where most of the money comes from. The studies show that most of the millennial generation, want to see its purchasing decision as a moral decision. They care that company they buy from
should have the same values that they do, and because [our company] has got very
strong set of values that people associate it with, if brands want to sell products to
people who care about values of the company” - Informant 5.

1.4 Summary and interpretation

News media companies reshape their content creation and distribution strategy to
accommodate digital platforms, specifically social media platforms. Companies are
moving from a centralized to a distributed content creation model (see Figure 1). While
content is created on and for a digital platform, it is still created by the news
media companies. Unlike web-content aggregators, digital platforms still brand the
content by the news media producing it. The emergence of the new model has an
implication on how news media companies build their business on digital platforms.
In order to be successful and relevant on each platform separately, a news media
company has to have a strategy designed specifically for each platform. In this model,
the content may exclusively reside on a digital platform and does not lead to the native
content developed on and for a news media’s website, which is the case in a
distributor model. Such a setting creates a captive audience based on the digital
platform, which is not easily transferrable to the news media company’s own platform,
e.g. website.

Figure 1: Content creation and distribution on digital platforms

The ecosystem of digital platforms is now seen as a market place for content as
opposed to the traditional notion of using social media platforms as mere marketing
channels (Leeflang, Verhoef, Dahlström, & Freundt, 2014). We propose that media
companies are becoming a sponsoring side in the two-sided marketplace, in which
they act as contributors of content on digital platforms. This leads the platforms having
a distributed contribution of content sourced from a wide array of contributors. In
order to accommodate the new distributed content creation model, we put forward
two propositions.

Proposition 1: News media companies will need to re-organize their business to
accommodate the boundary resources of digital platforms before creating and
distributing content on the digital platforms.
Our first proposition stems from the differences in the power roles between the digital platforms and the news media (Eaton, 2015). The publishing and distribution model is changing from the news media website being the primary publishing and distribution platform to a multi-platform distribution model. As content contributors, news media need to recognize the boundary resources of digital platforms and the consequent change in the power structure (Ghazawneh & Henfridsson, 2013). News media companies want to be on digital platforms for the positive network externalities. However, as the publishers rely heavily on platforms for publishing and sharing their content they will also encounter negative network externalities, such as lock-in and high platform provider dependency. Platforms such as Facebook have a high level of authority and leverage due to the tremendously large user base. Therefore they are able to impose their boundary resources to news publishers interested in publishing on the platforms.

When a news media distributes content to a platform that is not owned by the news media company, it has to assess the implications of not having access to or ownership of the platform’s user database (Eaton, Elaluf-Calderwood, Sørensen, & Yoo, 2015). However, the relationship between news media and digital platforms is still at the beginning. The interviewed media companies were mainly trying to frame and understand the actions of digital platforms. It is only during and after the process of active framing of each other’s actions that the boundary resources, rules and capabilities are established (Eaton, 2015).

**Proposition 2 In order to remain competitive on digital platforms, news media companies need to put greater emphasis on the hedonic component of news**

News media companies want to provide more than news and information. They want to be the online users’ service of choice. With increasing availability of smartphones and fast Internet connection, media companies compete with a wide range of media content (e.g. games, social media) available to a user at any given moment. Therefore there is a shift from mere utilitarian, informative news delivery to providing a hedonic experience. When developing news, media companies should include hedonic elements such as animated images, sounds and a user-friendly layout (Heijden, 2004). The main goal of designing such content is to maximize the time a user spends with it (Heijden, 2004). Platforms often have the upper hand when negotiating with contributors and therefore when wanting to be successful, contributors need to continuously be able to provide added value to the digital platform (Cusumano & Gawer, 2002).

The basic premise of social media is a prevalence of user-generated content created outside of professional routines and provision of democratized access to all participants (Kaplan & Haenlein, 2010). Literature on social media has emphasized using social media platforms for analytics, brand building, and customer acquisition (Hoffman & Fodor, 2010). With social media platforms gaining significant power over the value chain of content creation and distribution of news media, these principles may be jeopardized. As digital platforms are striving for higher quality media content in order to lock-in audience, they set up closer partnerships with professional news media companies. In exchange, digital platforms enable disproportionate reach to
news media companies and hence disproportionate influence, undermining the contribution from users, which has a priori been the core of the business model of social media platforms (Grossman, 2014).

Conclusion

In the future, news media companies will need to focus on cross-platform brand building. For practitioners, this change means that they will need to invest resources in not only publishing on multiple digital platforms, but also creating content that is specific to any individual platform. Further, the content needs to resonate with the platform’s user otherwise the content will be shortly abandoned. Creating content for other platforms, especially social media platforms, also requires accepting that not all content published or shared outside a news media’s website will direct the traffic back to a media’s own platform. To support a native advertising business model, news media companies will need skilled employees who are able to work explicitly with advertisers to create native content.

Whilst this conceptual research provides an explanation for the way social media platforms are used for professional content distribution, we acknowledge some limitations. One limitation is our sample. When selecting the interviewees for the study, our main criterion was to learn about online news media companies. Hence there is variation between the interviewed employees’ positions in their company. Future studies could take the users’ perspective and test the extent to which they require hedonic experiences when consuming news on digital platforms.

Acknowledgement

The authors wish to acknowledge the Media Industry Research Foundation of Finland for supporting this research.

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