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The Swiss advertising market and the emergence of digital – a revised two-sided model?

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Abstract

The Swiss media landscape is faced to huge changes in traditional media and to on line development. We propose to introduce a revised two-sided model which allows to understand the main evolution, especially in the press industry. Thus, we first recall the traditional two-sided model (TSM) and then we introduce the revised two-sided model, giving, at last, an application related to the main Swiss press group, Tamedia.

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The Swiss advertising market and the emergence of digital – a revised two-sided model? –

P.-Y. Badillo¹, P. Amez-Droz², D. Bourgeois³,

1. Introduction

The Swiss media sector is characterized by some difficulties in the Swiss press, as in many countries. The on line sector has an increasing share of the advertising market, in a context of a decreasing advertising market, when all media are observed. Even if data related to on line advertising are very difficult to obtain, we can compare the evolution of on line advertising and advertising in the press (paper press): the ratio (on line advertising/Swiss press advertising) was around 12% in 2008 and reached 40% in 2013 (estimates). The increase of on line advertising has been dramatic during the recent years while the Swiss press has been faced to a sharp decrease of its advertising resources. Our paper highlights the main trends of the Swiss advertising market. After examining briefly some methodological issues, we observe the recent dynamics of the media in Switzerland. Then we propose a detailed analysis of the evolution of advertising revenues in current and constant Swiss francs (CHF). We also compare the advertising revenue per inhabitant in Switzerland to the case of France. In the fourth part we introduce the main actors and we clarify some strategies. Finally we reconsider the two sided model and the development of digital business by analyzing the strategy of Tamedia, the main Swiss media company.

2. Methodological issues

We collected data on advertising revenues for the press, television, radio, cinema, Internet and other types of advertising in Switzerland on the longest possible period, i.e. since 1995. We collected data from the *Fondation Statistique Suisse en Publicité/Stiftung Werbestatistik Schweiz* and from the REMP/WEMF (Recherches et Etudes des Médias Publicitaires/Schweizer Medienforschung). Inevitably some series are not available on the long period and some data have to be interpreted with caution, particularly concerning estimates of Internet advertising revenues. For advertising revenues we use recent estimates given by the *Fondation Statistique Suisse en Publicité / Stiftung Werbestatistik Schweiz* in order to have coherent data coming from the same source; these estimates cover the period 2008-2013. Moreover, there were some changes of methodology during the decade and some series, particularly the series of global data, are not homogeneous, which induces some difficulties to analyze the global dynamics of advertising revenues. But, the collected series are the most coherent and the longest possible. When we make comparison with France, we use mainly data from the IREP (*Institut de Recherches et d'Etudes Publicitaires*) and sometimes we had to reconstitute some data. The same methodological issues as those indicated for Switzerland apply. For example, in the case of France, the data for Internet (display) was introduced only in

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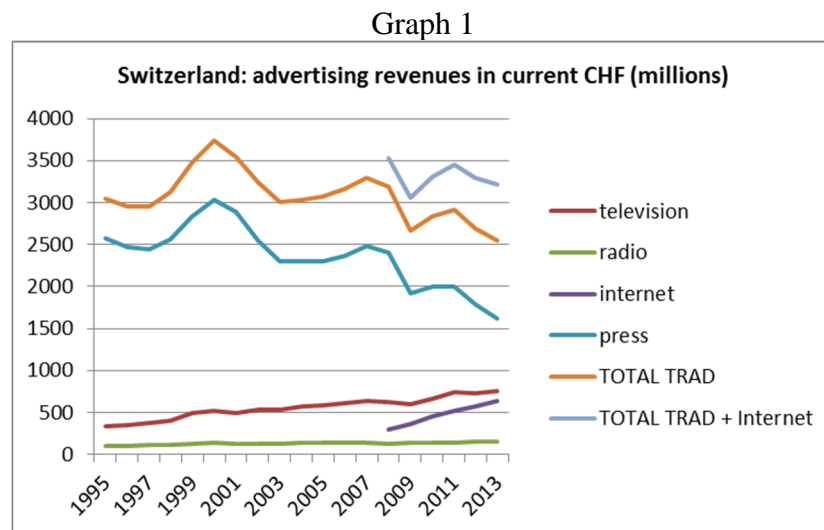
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2007 and data concerning advertising revenues coming from search only in 2013. Keeping these methodological remarks in mind, we analyze in this paper the evolution of the Swiss advertising market and the emergence of digital advertising, which leads us to propose a new media economic model by revising the well-known two sided model.

3. Advertising revenues in Switzerland

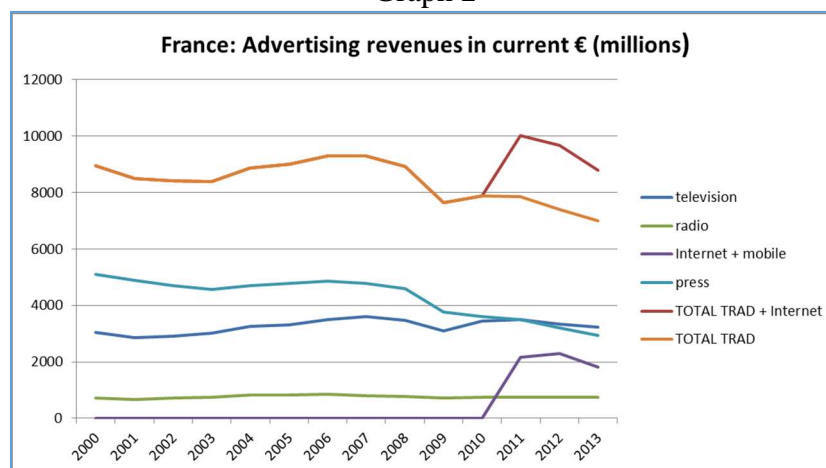
a. In current CHF

If one observes the evolution of advertising in Switzerland in current CHF, one can observe fluctuations. The total of net advertising revenues were around 3837 CHF in 1995, 5780 CHF in 2000, 5123 in 2003, 5870 CHF in 2007 (without any estimate of Internet revenues), while they reached only 4853 CHF in 2013, including Internet advertising revenues. Graph 1 gives advertising revenues for various media since 1995. The line called “TOTAL TRAD” indicates advertising revenues for traditional media including cinema. The advertising revenues in cinema are not indicated separately in the graph because they are very low: in 2013 they amounted at 26 million CHF, far below radio (157 million CHF). One can observe fluctuations, but around a decreasing trend which has characterized mainly the press. On the contrary, television and Internet have had increasing revenues. So the results are contrasted: from one hand we observe a crisis, as in many occidental countries, but this crisis do not affect television. At the same time new advertising revenues have appeared, while television has had a significant increase of its revenue. We have to mention that the traditional press has been considered to be a victim of an unfair competition, since public television has the main part of its revenues through a licence fee called billag. In order to protect the press, advertising on Web pages of the SSR SRG, the main Swiss TV company, has been prohibited until now.



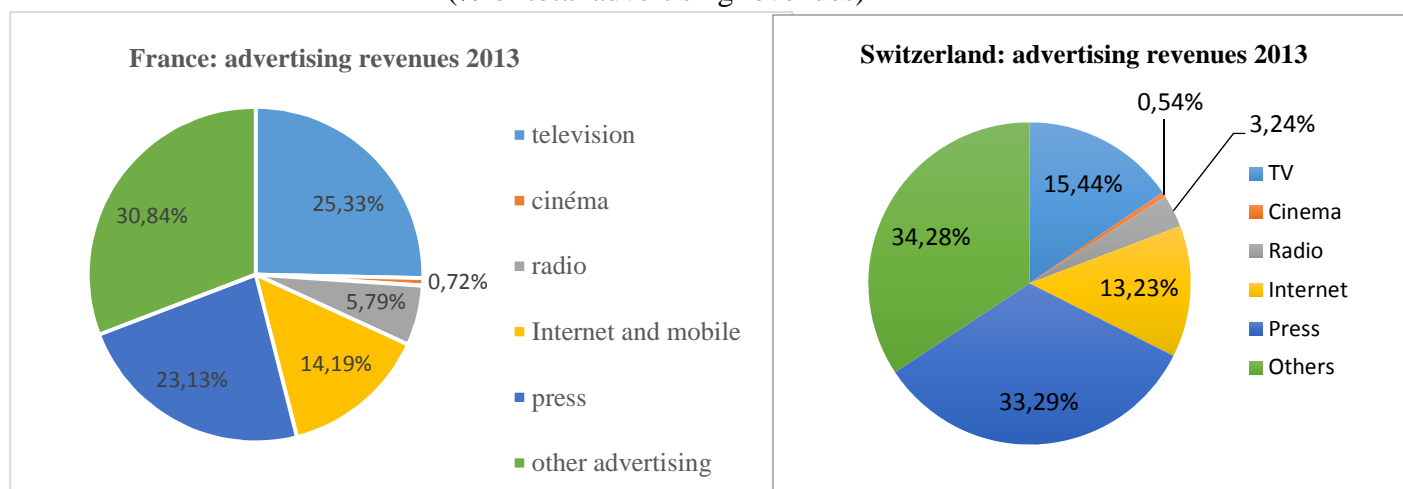
To have an external point of comparison, let us now compare the previous results with the French situation. The French situation shows decreasing advertising revenues for the press and a stagnation for television (Graph 2).

Graph 2



But we have to highlight the differences in the structures of the advertising markets in France and in Switzerland. In France, television is the first media ahead of the press to benefit from advertising revenues, while in Switzerland the press continues to be ahead of the other media (see Graphs 3).

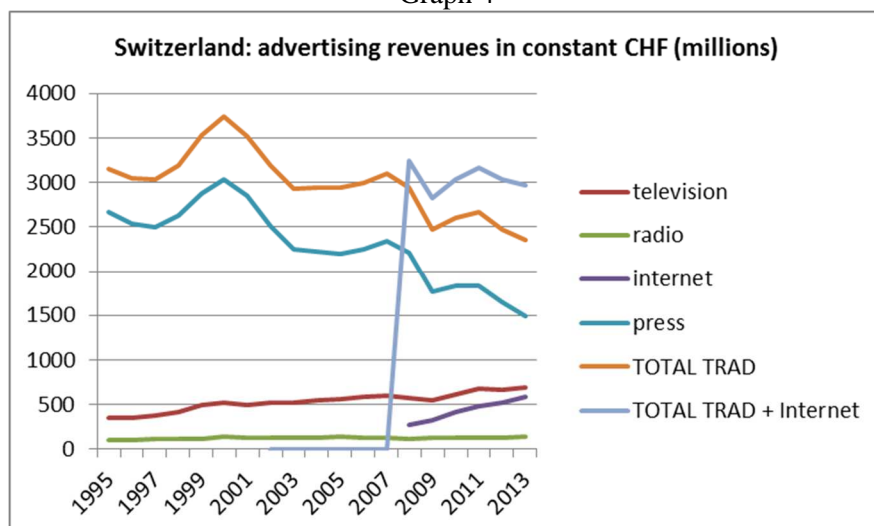
Graphs 3. Structures of advertising revenues in France and Switzerland in 2013
(% of total advertising revenues)



b. In constant CHF

The results hereafter are very interesting (Graph 4). The total advertising revenue of traditional media and Internet in 2013 is more or less at the same level as the advertising revenue of traditional media without Internet in 2003-2005. Clearly traditional media have lost advertising market shares for the benefit of Internet platforms. The total advertising revenue of traditional media (without Internet) has been indeed on a decreasing trend since 2000. But there have been different situations. The decline has been particularly strong for the press, while the advertising revenues of television have increased. In 2013, the press kept the first place ahead of television, while Internet advertising was approaching the level of television advertising.

Graph 4



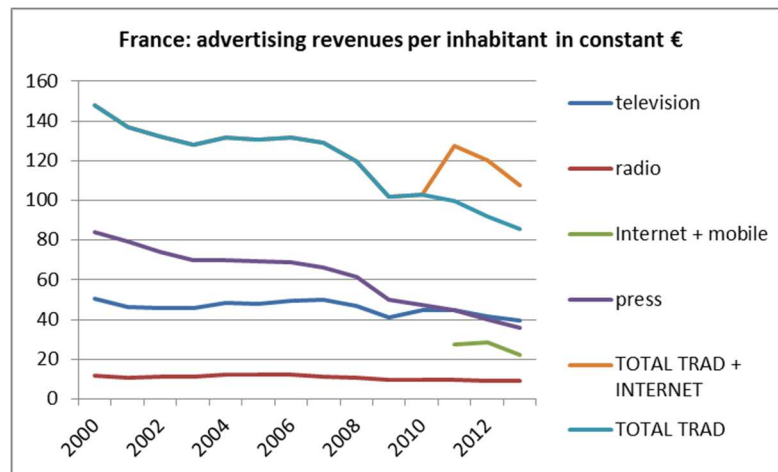
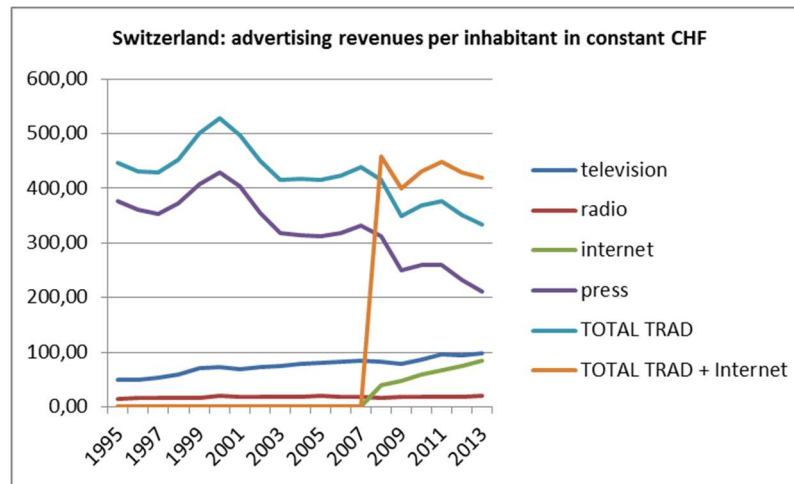
c. Advertising revenues per inhabitant: a comparison with France

To try to have a more precise understanding of the evolution of advertising revenues, we calculate now the revenues per inhabitant, and we propose a comparison with France. The graphs 5 hereafter illustrate our analysis.

One has to note that we have kept the data in CHF and € to avoid a biased analysis due to fluctuations in the exchange rate.

First of all, we see that the level of the whole advertising revenue (per inhabitant) of traditional media and Internet is, in Switzerland, more than three times larger than in France. The press advertising revenues are very high (compared to France): 200 CHF in Switzerland and less than 40 € in France in 2013 (let us recall that 1 € was approximately equivalent to 1.2 CHF in 2013). Television has a comparative low advertising revenue per inhabitant in Switzerland, although it is above the revenue per inhabitant in France: around 100 CHF in Switzerland and 40 € in France. Another result is the rapid progress of internet advertising in Switzerland: these revenues are almost at the same level as the television revenue (near 100 CHF) and four times larger than the internet advertising revenues in France (around 20 €) in 2013. Of course, we must be cautious and take into account the methodological problems (especially concerning the estimates of Internet advertising revenues) which exist and which make the analysis and particularly any comparison difficult. Nevertheless our results are relevant, given the order of magnitude.

Graphs 5
Advertising revenues per inhabitant in Switzerland and in France



4. Main press actors and their on line strategies in Switzerland

In the case of the Swiss press the trend of advertising revenues is decreasing, but the Swiss press remains a strong industry. Switzerland has a high per capita print circulation for newspapers: there were fourteen paid-subscription daily newspaper titles per one million inhabitants in 2008, twice as high as the figures for the US, Germany, France and Italy.⁴ Nevertheless the number of paid-content newspapers which are published at least 4 times a week in Switzerland declined by 40% between 1985 and 2006, falling from 124 to 76 titles.⁵ At first, this decline was associated with an increase in the circulation of the existing titles: the average circulation of a Swiss daily newspaper was about 10,000 copies in 1985, and 16,000 in

⁴ World Association of Newspapers and News Publishers (WAN-IFRA). *World Press Trends 2010*. WAN-IFRA/ZenithOptimedia, 2010. <http://www.wan-ifra.org/reports/2010/07/23/world-press-trends-2010-edition>. 28 Dec. 2012.

⁵ Edi Kradolfer. *La diversité de la presse en Suisse, Un aperçu*. Neuchâtel: Office fédéral de la statistique (OFS), 2007. p 8.

2006. But, with the emergence of free dailies since 2000, the situation has deteriorated for paid-content newspapers. Only the Sunday paid-content press has developed: “A model of paid newspaper which has not stopped gaining ground these last twenty years is the supra-regional Sunday newspaper, published as a seventh edition.”⁶

But, of course, recent evolutions are related to the rise of the digital sector. According to a survey⁷ of Publisuisse (July 2014) which tried to forecast the evolution of media consumption until 2020, mobility will be a main issue. 85% of the Swiss population (15-59 years old) will have a smartphone in 2015. This new context driven by Internet, mobile and smartphone draws the main elements of the new media map. In this context some important recent events have to be mentioned. PubliGroupe SA, the incumbent actor in the Swiss advertising market, has been bought by the incumbent operator in telecommunication, Swisscom, by the end of August 2014. The amount of the transaction reached 475 million CHF. Swisscom bought Publigroupe in order to control *Local.ch*, one of the more visited website in Switzerland. The goal is to merge this website with *Search.ch*, and to be able to compete with Google.

On line strategies are part of more general growth strategies in a context of new media, new behaviors of consumers and the extension of global competition. Thus, the attractiveness of e-commerce and the new instruments for measuring the “advertising presence” of brands on a given market are important elements in new marketing strategies driven by the digital economy, as summarized by François Moreau, following the analysis of Varian (2004): “the digitization and more broadly information technology, through the drastic reduction in the marginal cost but also through the ability to refine the knowledge of consumers behavior, allow the implementation of marketing strategies which were previously difficult to use and especially to generalize.”⁸ Urs Schaeppi, CEO of Swisscom, considers that the strategic direction for his enterprise may be described by the term “TIME”, which he defines as “T for telecommunications, I like “Informatique” (computers), M for Media and E for Entertainment.”

In fact, the increase of television advertising in Switzerland (+ 3.1% for the period 2013/2012) reflects a rebalancing by comparison with the declining segment of printed newspapers. However, this increase remains lower than the growth in online advertising (12.1% for the same period) and even less than advertising on new media such as Adscreen (outdoor digital advertising or Digital Out of Home), which grew by more than 19%.

Companies are trying to integrate consumer behavioral changes with the development of new digital content (music, texts, images, videos) on new supports, such as smartphones, tablets, and soon digital wristwatches. Under the effect of dematerialization and the decline of paper, advertising continues its migration to new media, but not necessarily those deployed by incumbent media companies. Traditional media companies are thus forced to compensate their losses by more and more sophisticated paying business models which exclude a substantial number of consumers who are accustomed to free or to a mixed model (freemium).

One can better understand changes in the Swiss advertising market and changes in the digital marketing strategies by looking at the acquisition of the reference daily newspaper *Le Temps*, in July 2014, by the publisher Ringier to its co-owner Tamedia. It is useful to recall that revenues of the Ringier group coming from the “Print” in Switzerland decreased by more than

⁶ Ibid., p 7 (translation).

⁷ “Mobilité et utilisation média”.

⁸ Moreau, François. 2008. “Numérisation, économie numérique et mise en réseau des produits de contenu” in Greffe, Xavier and Sonnac, Nathalie (Eds.), *Culture Web*, Dalloz, Paris, 2008, pp. 94. Our translation

30% between 2012 and 2011 and by about 25% between 2012 and 2013.⁹ The synergies that Ringier intends to realize thanks to the creation of a common newsroom for the daily *Le Temps*, *L'Hebdo*, which is considered as a quality information magazine, and *Edelweiss*, a women's magazine, concern also advertising.

Moreover, even if publishing remains a very important segment of the activities of Ringier, the company is looking for a development of its digital business. In July 2014, the agreement between Ringier Digital and the American investment company KKR (102 billion dollars of assets) was characteristic of the acceleration of a process which can be called “insourcing of externalities” (Bomsel, 2010). The two companies will work together to develop Ringier's Swiss digital businesses in the fields of online classifieds and marketing.

More generally digital marketing is developing in Switzerland, as shown by recent agreements concerning the *Affiliate Marketing* segment and *Display* advertising (mainly banners). Companies like Ringier, Tamedia or Swisscom want to propose to announcers and consumers diversified platforms with attractive information, entertainment and services. Simultaneously, the publishing groups try to rationalize their activities by diminishing their costs and developing new forms of journalism. The creation of integrated newsrooms induces a new work organization, coherent with this strategy.

5. Conclusion: A revised two-sided market to clarify the digital strategies of the main Swiss press groups

The Swiss media landscape is faced to huge changes in traditional media and to on line development. We propose to conclude by introducing a revised two-sided model which allows to understand the main evolution, especially in the press industry. Thus, we first recall the traditional two-sided model (TSM) and then we introduce the revised two-sided model, giving, at last, an application related to the main press group, Tamedia.

a. The traditional two-sided model (TSM)

The main characteristics of the press have largely been presented through the “two-sided” model. The revenue of the paid press (noted below RP) is made up of the advertising revenue (noted RP) and of the revenue related to the payment by the readers (noted RPL). We will propose a revised two-sided model starting from the traditional presentation we made in Badillo and Bourgeois (2010):

$$RP = RPP + RPL$$

(revenue of the paid press = advertising revenue + revenue related to the readership).

In this traditional model the core of the journalism is the capacity to define an editorial concept which interests an audience, a large or a specific audience. Then, the advertising revenues are a consequence of the success (or not) of this concept.

⁹ RINGIER, 2013 annual report, on line: http://www.ringier.com/fr/a_propos_ringier/faits_et_chiffres, Web page visited on 27th September, 2014.

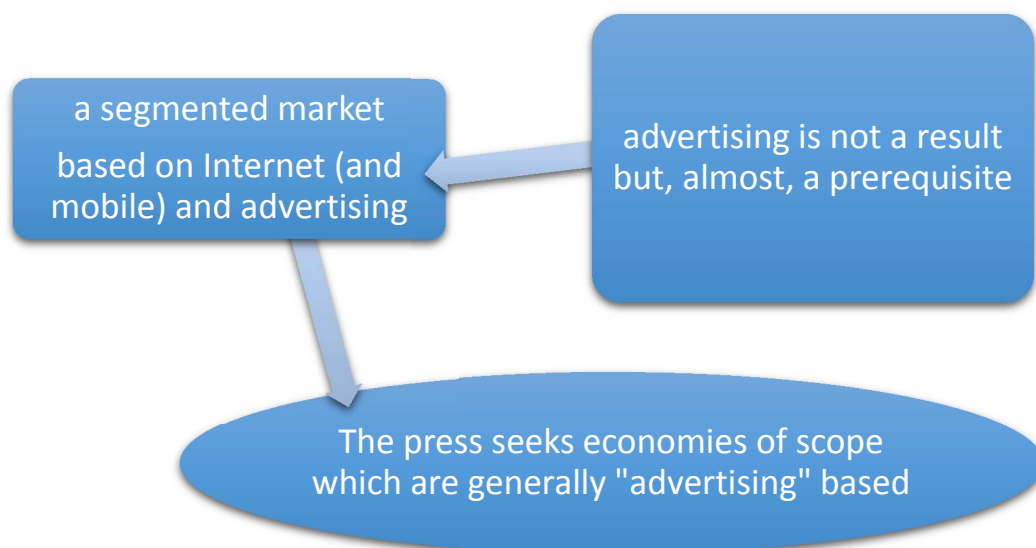
Diagram A: the traditional model of the press and the TSM



b. The revised two-sided model (RSM)

Nowadays, the press is faced to an important crisis with a strong decline of the advertising revenue. So, if we except the case when the press is able to define an on line paid model, we observe that the press is seeking a specialised market which is mainly interesting from its internet audience point of view; i.e the editorial concept takes into account this perspective: advertising is not a result but, almost, a prerequisite. The press seeks economies of scope which are generally "advertising" based.

Diagram B: the revised two-sided model (RSM)



c. Tamedia strategy and its results in the digital sector

In the traditional TSM, the press tries to get the greater audience through a high quality newspaper, for example. In the RSM the first goal is to get segmented markets which are profitable thanks to on line revenues.

For example, the first press group in Switzerland has a high profitable digital sector. Of course, Tamedia has horizontal on line platforms with three great platforms: *Search.ch*, *Tutti.ch* and *Doodle*. Tamedia has also a portfolio of vertical digital platforms which concern various segmented markets:

- In automobile: *car4you*,
- In realestate: *Homegate.ch*,
- In job market : *jobs.ch* and *karrier.ch*,
- In fashion e commerce: *Fashionfriends*,
- In ticketing: *starticket*,
- In construction: *Olmero* and *renovero*,
- In video: *zattoo*.

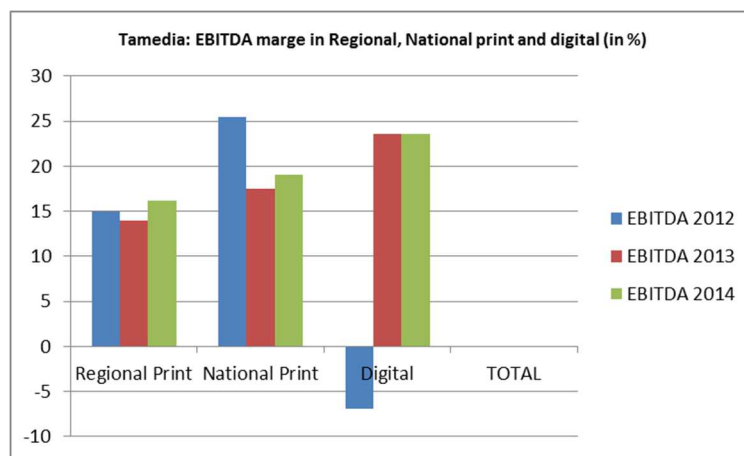
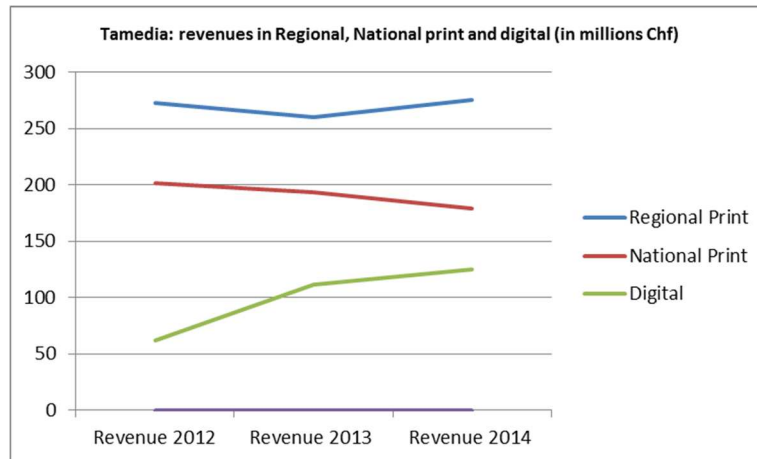
Tamedia proposes also other horizontal platforms which are dedicated to digital advertising and services and to news: *newsnet*.

So, the new strategy of Tamedia is no longer a strategy focused mainly on print activities. Of course, Tamedia has always an important activity related to production of news and information. Especially, we have to note that Tamedia is successful in the sector of the free press thanks to its title *20 minutes* (in French and German) which is very profitable. But, for several years the diversification of Tamedia has been based on the new uses of Internet and thus has led to a digital strategy, which we can understand clearly through the RSM model. We can observe some very positive results of this strategy:

- The revenue of the digital activities is increasing and has overpassed 120 million CHF in the first semester of the year 2014 (first graph 6 below).
- Moreover the digital sector is highly profitable with an EBITDA marge equal to 23,6%. The digital sector, after its important difficulties in 2012 (with a negative EBITDA margin) is now one of the motors of development of Tamedia.

The new on line model is radically changing the production of news. Scale and scope economies are at the heart of the system. The core of the business is not only to produce news and information, but, more and more, to offer digital contents, highly profitable through Internet. Without any doubt the development of the mobile will reinforce this tendency.

Graphs 6: Tamedia revenues and EBITDA



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