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Abstract

Google has developed very important innovations and has a comparative advantage through a very favorable market structure in Switzerland, as in many other countries. The Google model is so strong that it is now more and more adopted and integrated into the media model. Getting traffic, audience, data is becoming a dominant activity of media. We have proposed a new model (ATDM) which constitutes a great shift, a mutation for the media. Is the new press an industry dominated by the goal to produce information or to develop traffic and data?

Media “googlization”

The case of the Swiss media model and the press

The media landscape is faced to huge changes in traditional media, particularly in the press, and to on line development. By focusing on the example of the Swiss media we will analyze how the google model is changing the media model. First, we will measure and compare the market structures of the various media industries and their changes. The levels of concentration in traditional media such as the press and television are far below the levels observed for telecommunications or Internet search engines industries. The very high degree of concentration on the Internet search engines market is a main element to understand the Google model and its influence on media changes particularly through advertising. Then we propose a new media model: we revise the two-sided model by taking into account important characteristics of the Google model which explain the success of the Google model and which may be transferred to media. We will introduce what we call the “advertising-traffic-data” model which allows to understand the main changes of the media, especially in the press industry. Finally we will analyze the evolution of the Swiss media model: we will show that the “advertising-traffic-data” model is well adapted to understand the strategies of the main Swiss press groups.

Our extended abstract below is based on the following points:

- *Theoretical grounding* : market structure and concentration analysis, two-sided media model, multi-sided model
- *Specification and rationale for selected research methods*: evaluation of concentration through HHI indexes, and analysis of media strategies through their discourses and reports (case studies),
- *Description of data used (if used)*: we elaborate our data base through various sources to measure concentration, other data collected from financial reports of the companies
- *Clear summary of the main results*: we propose a new media economic model, far from the two-sided model. The new model is shaped by what we call the media “googlization”, that means a model inspired by the Google model and based on advertising, online traffic and data. This model is applied to the Swiss press case.
- *Implications and contributions to the field of theory*: a new media economic model is proposed in order to understand the digital strategies of media companies.
- *Practical implication*: new understanding of the strategies of media companies within the digital context

1. Market structures in the Swiss media industries : the Google “comparative advantage”

When we study the media, an important economic dimension is the market structure. Indeed, one of the main functions of the media is to insure quality information in a pluralistic way. If the issue of quality causes many debates because of an inevitable assumption of subjectivity, the issue of concentration can be studied on the basis of recent researches which allow accurate quantitative evaluations.

The methodology was defined in the framework of a large research on concentration of the media at the world level (Noam, 2015). We calculated data for the Swiss media (Badillo & Bourgeois, 2015a) and we updated data for the Swiss press in a recent work (Badillo & Bourgeois, 2015c). Concentration is estimated in particular through the well known Herfindahl Hirschman concentration index (HHI). The HHI is equal to the sum of the squares of the market shares of all market participants (in our calculations, we take into account all the companies

with the market shares above 1% of the total market). The HHI can range between zero – where the share of each firm is infinitely small – and 10,000, when a single firm accounts for 100% of the market (monopoly). The US Department of Justice’s antitrust enforcement guidelines classify market concentration levels as follows:

$HHI < 1,000$	Unconcentrated Market
$1,000 < HHI < 1,800$	Moderately Concentrated Market
$1,800 < HHI$	Highly Concentrated Market

Let us give some results for Switzerland.

- Between 2004 and 2012, concentration increased and became strong for the Swiss daily press (paid-for and free daily newspapers): the HHI increased from 1,137 to 2,520. In other words, according to the criteria of the US Department of Justice, the Swiss daily press is characterized by a high level of concentration. In 2014 the HHI reached 2,583.
- Concentration is moderate and decreasing for the Swiss TV. Results are obtained for the three linguistic regions of Switzerland. For the French-speaking part, concentration fell from 2,784 in 2004 to 1,283 in 2012. For the German-speaking part, the HHI decreased from 1,671 to 1,253. These results are all the more remarkable that the Swiss market is very small (now only 8 million inhabitants) and we made calculations for every linguistic region, which tends to raise the concentration indicator. By comparison, concentration of the TV in France is much higher: the HHI was equal to 3,440 in 2011 (Badillo & Bourgeois, 2015b). In fact, the main Swiss TV company, which is the SSR-SRG, is directly and strongly in competition with various foreign companies because the Swiss can receive many TV channels.
- For wireline telecommunications, as well as for wireless telecommunications, the HHI is over 4, 000. That means a very strong concentration.
- The search engines market is dominated by Google, which is almost in a monopolistic situation: the HHI is upper to 8000!

Thus we can observe different levels of concentration in the Swiss media industries. If the Swiss TV market is very moderately concentrated, and if the market of the daily press is rather strongly concentrated, telecommunications operators and, above all, the main search engine company, i.e. Google, can take advantage of very favorable market structures. Telecommunications operators and Google are indeed the most powerful actors, from the point of view of their financial capacities.

2. Changes in the media economic model: from the two-sided model to the “advertising-traffic-data” model

As in many countries the Swiss media economic model is challenged by the development of online contents and services. In Switzerland the media model has long been based on the print press and on public television. But the press is losing advertising resources and the public TV company is faced to some pressures against TV licence fees. Now both the press and television are developing strategies towards a development onf online contents. The Swiss press has developed a new model, far from the two-sided model and more and more shaped by what we call the media “googlization”, that means a model inspired by the Google model and based on advertising, online traffic and data.

Let us consider in general the evolution of the press model.

a) The traditional two-sided model (TSM)

In the “two-sided” model (Rochet and Tirole, 2006) the revenue of the paid-for press is made up of the advertising revenue and of the revenue related to the payment by the readers. In this

traditional model the core of journalism is the capacity to define an editorial concept which interests an audience. So advertising revenues are a consequence of the success (or not) of the editorial concept (Badillo and Bourgeois 2010, see Diagram A).

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

Source: Badillo, Amez-Droz and Bourgeois (2014)



b) The “advertising-traffic-data” model (ATDM)

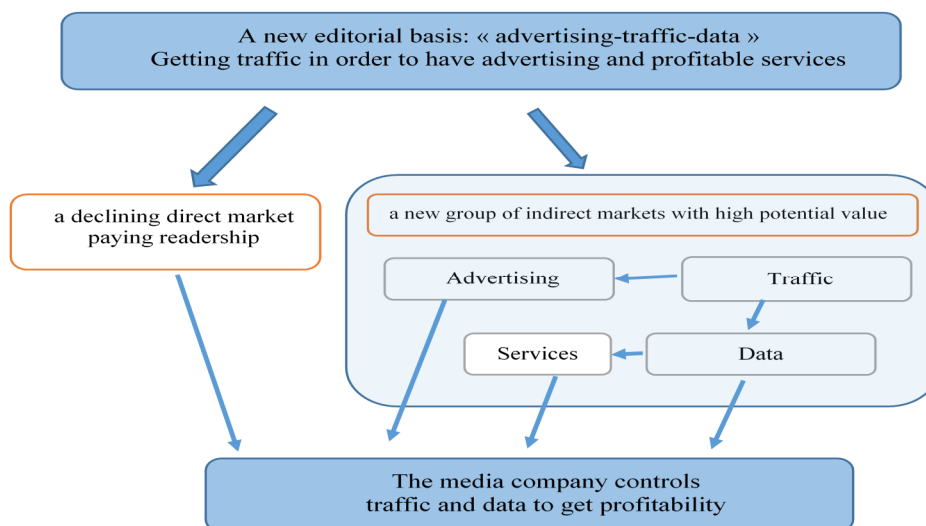
We propose now a new media economic model by going further the presentation we made in Badillo, Amez-Droz and Bourgeois (2014).

Faced to an important crisis the press is seeking markets (or segments of a market) which are mainly interesting from their Internet audiences point of view. Advertising is not the unique goal; media now try to get more traffic and data related to the visitors of their on-line information platforms. Thus what we call the "advertising-traffic-data" model is emerging (ATDM, see Diagram B).

That means three differences with the traditional TSM.

- A company will offer various products which can attract advertising resources and specific audiences: various informational and non-informational services and commercial products (e-commerce of events, etc...).
- Advertising is almost the prerequisite of many editorial concepts; a company has to adapt its editorial concepts to what we call “advertising-traffic-data”. Thanks to digital flexibility, media are now able to define and change an editorial concept in order to get traffic.
- In this new framework, media activities have to be understood in a general perspective: the new Holy Grail is traffic and data. If you get a lot of traffic, not only you can probably obtain high advertising revenues, but also, in the near future, you will be able to propose new services and/or to sell data. New services will be especially linked to geolocalisation and information about visitors. Media could become a main way to know consumers preferences and uses for many kinds of commercial and non commercial fields of interest. For example, if you know the people interested by specific health questions, you can propose them specific services. In other words, information is a mean to create traffic; traffic allows not only to develop advertising but also to get high value data.

Diagram B: The “advertising-traffic-data” model (ATDM)



Of course this new model is shaped by “googlization”, such as what is developed through Google Search, Google AdWords, Google AdSense and so on. Let us recall that Google Search offers free online research to Internet users; Google AdWords sells to announcers online visibility on Search, thanks to keywords; Google AdSense offers to webmasters to earn money from their online contents by displaying advertisements on their Websites. The Google’s business model which is based on advertising resources is so successful that Google has become a competitor of national companies on online advertising national markets in many countries. As reported by the Think Tank “Futur Numérique” of the Institut Mines-Télécom / Fondation Télécom (2014, p. 17), “Google is an expert of multisided markets” (our translation). We add that the Google model is so strong, reinforced by a very favorable market structure, that the media companies have no choice. To maintain their activities they shift towards a model inspired by the Google model. This trend is more and more important. Moreover we observe that the press is now directly funded by Google: see for instance “Le Fonds Google–AIPG pour l’Innovation Numérique de la presse” in France which is now developed at the European level. Thus Google is dramatically changing the media model. We will clarify now how this “googlization” is being adopted in Switzerland, in the Swiss press.

3. Googlization: examples of the strategies of the main Swiss press companies

We will show how “googlization” is at work in Switzerland through the strategies of the two main press companies in Switzerland, Tamedia and Ringier and through an analysis of the evolution of the Swiss advertising market.

a) Case study 1: Tamedia digital strategy

This first case study is based on Badillo, Amez-Droz and Bourgeois (2014). In the traditional TSM, the press tries to get the greater audience through a high quality newspaper, for example. In the ATDM the first goal is to get segmented markets which are profitable thanks to on line revenues.

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 (*car4you*, *Homegate.ch*, *jobs.ch* and *karrier.ch*, *Fashionfriends*, *starticket*, *Olmero* and *renovero*, *zattoo*). Tamedia proposes also other horizontal platforms which are dedicated to

digital advertising and services and to news: *newsnet*. 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 ATDM model. Christoph Tonini, Chief Executive Officer of Tamedia, confirmed the importance of the digital strategy: “We see digitalisation as an opportunity and are duly making our online offerings the focus of our investments.”¹ We can observe some very positive results of this strategy:

- The revenue of the digital activities is increasing. It amounted to approximately 273 million CHF in 2014. Thus in 2014 digital offerings represented 24.5% of the total revenue of Tamedia and almost 1/3 of the EBITDA.
- The digital sector is highly profitable with an EBITDA margin equal to 27.6% in 2014. 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.

b) Case study 2: the strategy of the Ringier group

Marc Walder, the CEO of Ringier, begins his presentation of the Ringier 2014 annual report by recalling a recent sentence of the Executive Chairman of Google: “It was perhaps the most notable sentence uttered during the 2015 World Economic Forum in Davos. And it came, quite provocatively, right at the end of a panel discussion between the giants of the internet world, more or less as everyone was preparing to leave the room. “The internet”, said Eric Schmidt, the Executive Chairman of Google, lowering his voice, “the internet will disappear!” This prompted audible murmurings in the Congress Centre. After a well-timed pause, Schmidt drew the microphone a little closer and added, “The internet per se will disappear, because everything will be connected: the clock, the refrigerator, the car, the thermostat, the TV. Literally everything.”²

Indeed for the recent years the strategy of Ringier has been marked by a considerable development of digital activities. In 2014 digital revenues represented 32.1% of total revenues of Ringier, while it represented only 8.5% in 2008 and 18.3% in 2012. And in 2014, nearly 50 percent of the group EBITDA was generated by its digital operations. Digital activities included in 2014 the four following segments:

- online marketplaces: *alpha.ch, anibis.ch, autoscout24.ch, immoscout24.ch, jobscout24.ch, jobup.ch, jobs.ch, topjobs.ch*. In 2014 Ringier acquired a majority stake in the Scout24 Switzerland Group. By developing services offered in the automobile and real-estate sectors, Ringier has become a leader in the Swiss online classified-advertising market.
- E-commerce: *cash.ch, deindeal.ch, geschenkidee.ch, geschenkidee.de, geschenkidee.at, ideecadeau.ch, ideecadeau.fr, parfumidee.ch, qualipet.ch*
- Digital Marketing : *omnimedia.ch*
- Mobile Apps: MotoScout24, ALPHA, Anibis, AutoScout24, cash, DeinDeal, Geschenkidee, ImmoScout24, jobs.ch, JobScout24, jobup.ch.

¹ Christoph Tonini, Chief Executive Officer, in *Tamedia Annual report 2014*, p. 8.

http://www.tamedia.ch/fileadmin/files/documents/finanzberichte/2015/2014_geschaeftsbericht_en.pdf

² Marc Walder, the CEO of Ringier, in *Ringier Annual Report 2014*, p. 4.

http://www.ringier.com/sites/default/files/upload/field_publication_file_en_art/jahresbericht2014_en.pdf

The link between what is called “publishing” activities (including online newspapers platforms) and digital activities is clearly asserted: “Ringier Publishing is not only a key strategic pillar within the Ringier Group, it also provides additional growth impetus to many of the company’s digital businesses (...). Despite the challenges facing the Group’s core Publishing business, Ringier titles were not only able to uphold their leading market positions, they also successfully launched a range of innovative offerings. This is notably exemplified by the Blick am Abend digital platform, which, in its first year of operation, attracted more than one million unique client visits per month”³. The newspapers digital platforms with broad audiences, such as *blick.ch*, can be harnessed to market e-commerce offerings, such as those of *Blickshop* on *geschenkidee.ch*. Nevertheless the Ringier group claims that “A clear demarcation is however always maintained between these initiatives and the editorial content of the media concerned.”⁴ Of course, the strategy of Ringier in favor of digital activities is part of the general strategy which has been oriented towards diversification, both geographically and in terms of activities, since 2007/2008. Publishing remains an essential segment of activities but entertainment and digital activities have grown: in 2008, entertainment, which covers now activities in television, radio, events, and various online services, did not appear as a specific division in the Ringier annual report. Revenues coming from the “Print” in Switzerland (only printing business) decreased by more than 30% between 2012 and 2011, by about 24% between 2012 and 2013 and by 5.5% between 2013 and 2014. In 2014 the segment “Print Switzerland” represented about 11% of the Ringier turnover, while it represented 14% in 2012 and 28.8% in 2008.

Besides, a joint venture with Axel Springer Switzerland (to create “Ringier Axel Springer Medien Schweiz”) has just been approved in August 2015 by the COMCO- the Swiss Federal Competition Commission. The new company would bring together all Ringier Switzerland’s magazine titles as well as *Le Temps* and the magazine titles published by Axel Springer Switzerland. The 2014 annual report indicates the goal of such a joint venture: “This planned joint venture would provide an ideal way of driving the development of these strong brands forward – particularly in the digital arena – to face growing international competition.”⁵ The focus on digital business is also the main reason of the agreement between Ringier Digital and the American investment company KKR (near 100 billion dollars of assets in March 2015) which took 44-percent stakes in Scout24 Switzerland AG and Omnimedia AG in August 2014. The two companies will work together to develop Ringier’s Swiss digital businesses in the fields of online classifieds and marketing.

c) The Swiss advertising market: Google-Facebook and Swiss groups

The Swiss advertising market is changing because of the development of online advertising. In a recent study we estimate the new trends of the Swiss advertising market linked to the impact of digital tools. Graphs 1 below show that the market structure can be expected to change drastically from mainly an offline market today to mainly an online market (estimated trend based on a survey).

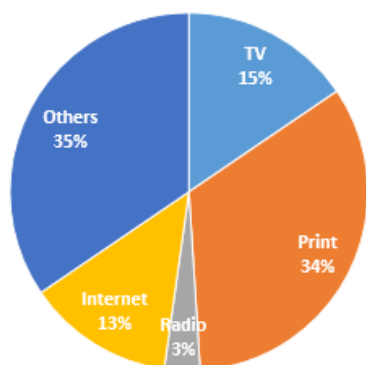
³ Michael Voss, Ringier Publishing and Entertainment CEO, in *Ringier Annual Report 2014*, op. cit., p. 13. Michael Voss left the company by mutual agreement in April 2015.

⁴ Thomas Kaiser, Ringier Digital CEO, in *Ringier Annual Report 2014*, op. cit., p. 19.

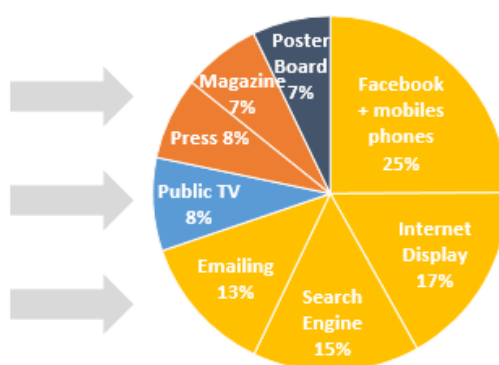
⁵ Michael Voss, Ringier Publishing and Entertainment CEO, in *Ringier Annual Report 2014*, op. cit., p. 13.

NATIONAL SURVEY OF SWISS ADVERTISING MARKET

THE ADVERTISING MARKET
STRUCTURE IN 2013



THE ADVERTISING MARKET
STRUCTURE TREND



Source: Badillo, Amez-Droz, Bourgeois, & Kempeneers. 2015, p. 3 (our translation)..

For media Swiss companies, which are quite small at the world level, it may be difficult to compete with large firms like Google and Facebook on the online advertising market. It is estimated that Google and Facebook represent now about 50% of the online advertising market in Switzerland. A new strategy has just appeared in Switzerland: in August 2015 the three groups Ringier, Swisscom (the main Swiss telecommunication operator) and the SSR (the Swiss public TV company) created a common online advertising platform (subject to approval by the regulatory authorities). The objective is to create a tool which could attract announcers and thus to compete with Google and Facebook for advertising resources.

4. Conclusion

Finally, we consider that Google has developed very important innovations and has a comparative advantage through a very favorable market structure in Switzerland, as in many other countries. The Google model is so strong that it is now more and more adopted and integrated into the media model. Getting traffic, audience, data is becoming a dominant activity of media. We have proposed a new model (ATDM) which constitutes a great shift, a mutation for the media. Is the new press an industry dominated by the goal to produce information or to develop traffic and data? We hope our contribution will allow to open the debate. If our analysis has a relevant base, then it will be interesting to go further with the ATDM to develop, for example, international comparisons.

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