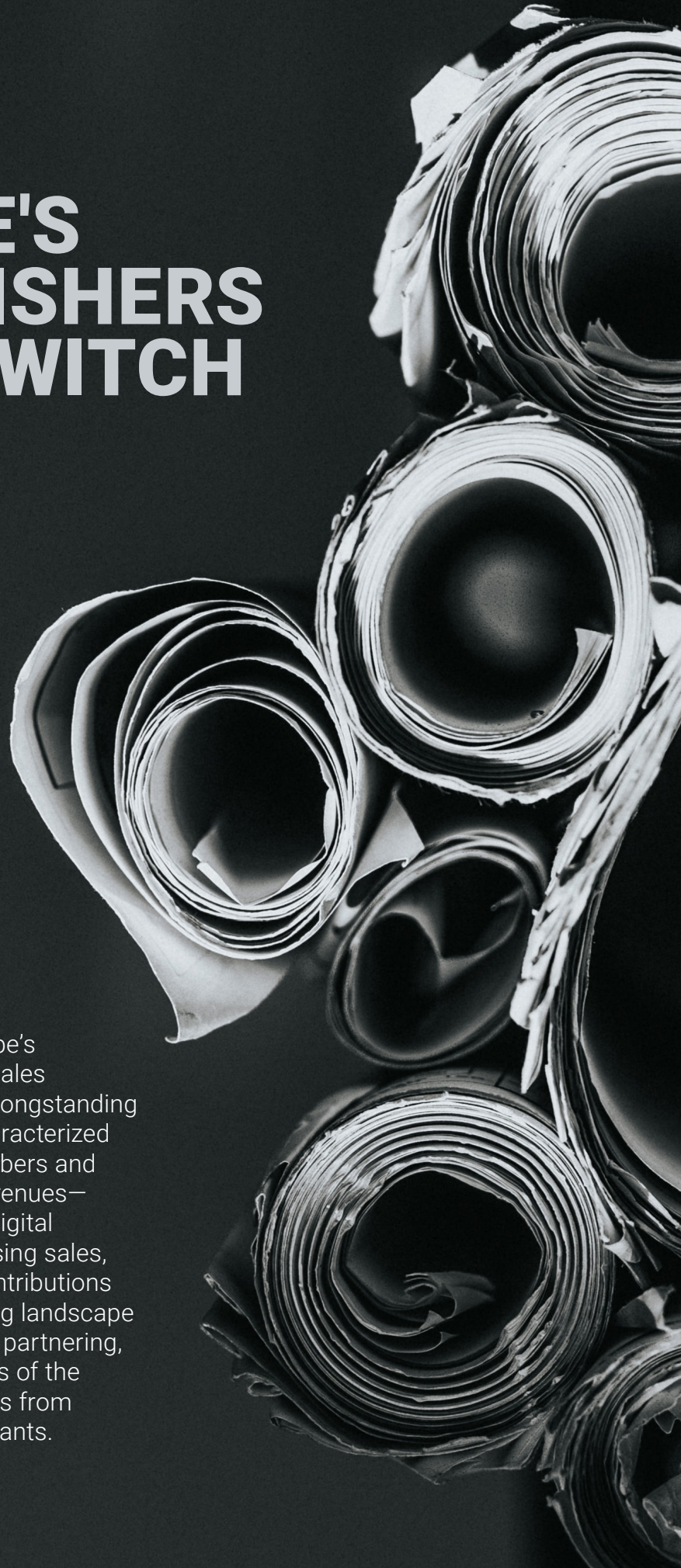


CAN EUROPE'S PRINT PUBLISHERS MAKE THE SWITCH TO DIGITAL BEFORE IT'S TOO LATE?

The once-gradual erosion of value in Europe's traditional publishing industry and media sales declines have accelerated their pace. The longstanding business model for print publications—characterized by stable circulation and subscription numbers and a reliance on advertising for the bulk of revenues—is under constant attack. Revenues from digital operations, skewed heavily toward advertising sales, have so far failed to offset plummeting contributions from print. The once-fragmented publishing landscape is undergoing a wave of consolidation and partnering, while the legacy assets and cost structures of the survivors leave them fending off challenges from well-funded, digital-native new market entrants.



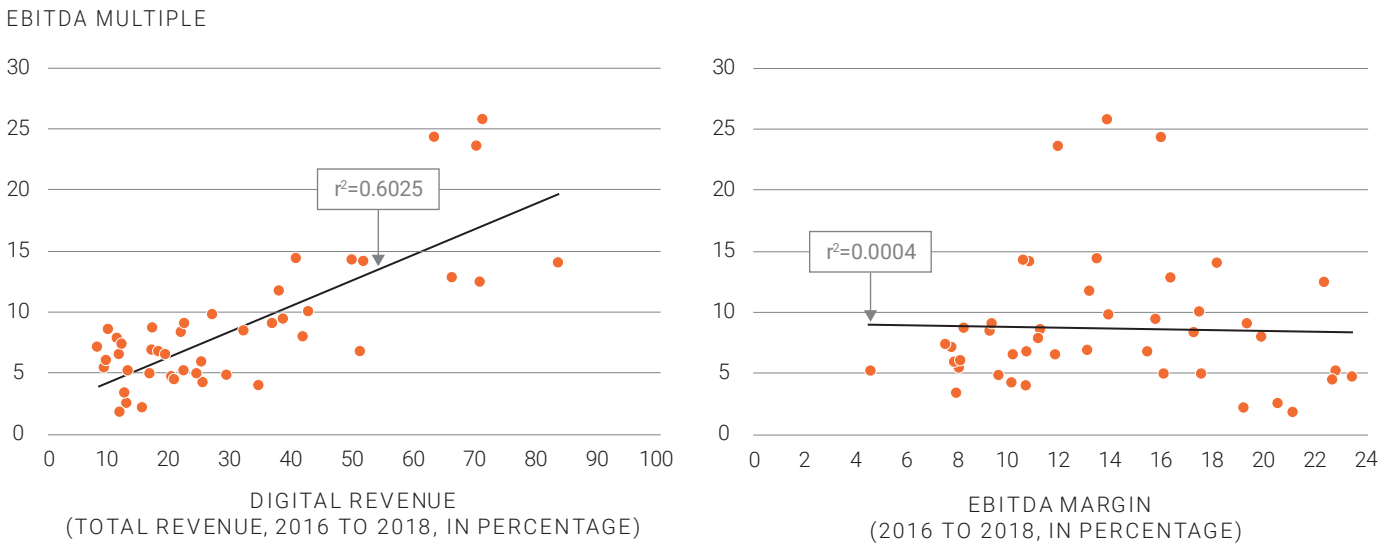
Aggressive digitalisation is the only possible way forward for all but a few specialty publishers. A recent AlixPartners analysis shows that the enterprise value of publishing companies depends less on plain margins than specifically on the digital revenues (i.e. in percentage of total revenues), which markets recognise as the core of sustainable value creation (see figure 1). The imperative for publishers is to develop a holistic digital strategy and execute against it rigorously. This imperative extends to publishers' merger-and-acquisition activities, which should emphasize digital investments and further reduce the dependence on print.

Formidable obstacles, however, stand in the way of publishing's digital transformation. Europe's deteriorating economic outlook is hastening the decline in advertising

and subscription revenues and making it even harder for incumbents to fight off proliferating digital offers, including offers of free online news coverage. And in part because of publishers' image as conservative organisations, they find themselves at an acute disadvantage in the war for much-needed digital talent, which bring the experience they desperately need to modernize both their technology and business models.

These constraints are hampering publishers' ability to dismantle their print and logistical infrastructures and drying up resources to fund investment and innovation. And these delays may cause publishers to endure potentially substantial losses during the pivot to digital.

FIGURE 1: DIGITAL REVENUES DRIVE HIGHER VALUATION OF PUBLISHERS AROUND THE WORLD THAN PROFITABILITY ON LEGACY REVENUES



Source: AlixPartners analyses, CapitalIQ

REALISM WINS

At present, only a mere handful of publishers have demonstrated their ability to develop robust digital revenue streams, invest in digital businesses, and exercise strict cost management. Among the features that set those outfits apart from the crowd are their early acceptance of the reality of print's demise and their aggressive search for ways to survive the chaotic transition to digital while preparing for the future. Most of their peers, by contrast, appear overwhelmed by the volume and urgency of transformation requirements, which they also practically lack the experience for. Long accustomed to a stable business environment untroubled by disruption and cushioned by high profitability, legacy publishers are often struggling to adapt to the need for innovation, continuous improvement, and careful cost management.

There is still time, though, for publishers to make the transition—if they act quickly. To do so, several key actions are required:

- **Above all, publishers must develop a holistic digital strategy** that includes data collection and analysis to better understand customers and target content to them.
- **It must be accompanied by the methodical conversion from print to digital products**, spurred by smart pricing, customer-focused content management, and subscription models as well as optimization of logistics and print capacities.
- **Content management strategies** should be anchored, with a clear definition of target groups, in unique selling points such as interactive graphics, hyperlocal news coverage, or distinctive brand attributes that customers can't find elsewhere and that support the development of new, digitally based revenue streams.
- **Aggressive M&A activity and partnering** will likely feature in the transformation strategies of many publishers. Proactive consolidation can help build the scale that will enable publishers to escape the fixed-cost trap.

- **However, M&A may also mean diversification into new business areas** that are adjacent to the core business but promise better growth perspectives (for example, online classifieds or online education). Effective change management here will be a core component of success.
- **Players should time their acquisitions carefully** and avoid overextending themselves financially—the market will likely get worse before it improves, and publishers will need resources in reserve to weather the lean times.
- **Skilled cost management** can free up funds desperately needed for digital investment without starving strategically important budgets or short-changing the development of critical new capacities.

MANY PATHS TO ONE DESTINATION

Even at this late date, some publishers remain reluctant to leave behind the comfortable certainties of the print era. But the legacy industry's survival depends upon leaders' acceptance that the old world is no more, and that only with bold moves can publishers retake control of their destiny. Different organisations will follow different paths to digital—some will plunge into comprehensive transformation, others will set up ring-fenced digital units that will operate in parallel with the traditional print business. Still others will attempt to acquire their way to digital fluency.

It is evident that senior leaders will have to quickly decide the best route for their organisations—and then commit to it wholeheartedly. Half-measures will only dissipate organisational energy. Publishers that don't act now—as in today—to transform their businesses will fall further and further behind, ceding the future to those who have not just acknowledged the reality of digital but embraced it.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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