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Pricing in two-sided markets: A case study of Stavanger Aftenblad

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Pricing in two-sided markets: A case study of Stavanger Aftenblad

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Abstract

This thesis gives an introduction of the model Value Network and how this fits with two-sided markets. The authors present general price theory for value pricing and strategic pricing in two-sided markets, and give an introduction to the development of the newspaper industry in the last years. The purpose of the thesis is to answer the following research questions:

1. Can value pricing be used together with price theory for two-sided markets when pricing a platform?
2. By using the theory presented in question one, how can Stavanger Aftenblad price an online news edition?

The thesis start by introducing the two price theories, and then put the main factors from each theory together in a table. This gives an indication of how they can work together. The authors conclude that using two-sided market theory to consider the factors that are special in pricing a platform (cross- and same-side effects, users sensitivity to quality and price, output costs and brand value) and applying these into the strategic pricing pyramid, which focuses on value for the customer, will be the best approach to the challenge of making a platform profitable. Pricing a platform is after all a matter of how to attract customers in order to create both same- and cross-side network effects.

In the case study the authors look into the different methods of digital user payment, and through the discussion it is concluded that the metered access method, which gives away a given number of articles for free each month before the readers have to pay, is the best suited pricing method for Stavanger Aftenblads online edition. The authors also look into Stavanger Aftenblads possibilities for advertisers and how Target Advertising can be a solution to meet the reader's sensitivity to quality and awareness towards advertisement. As a result this may increase the network effects present at the platform.

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Preface

After two years with Master studies at the University in Stavanger the day has come to submit our master thesis in economics and administration. We have both chosen to specialize in strategy and management, and hence obvious for us to write a thesis about development and strategic choices in a particular industry. We were both intrigued by the Stabell and Fjeldstads (1998) new value configuration Value Network after an interesting lecture in strategic marketing the second semester. We therefore contacted the professor regarding topics for our thesis. After some discussion we agreed on looking into pricing in two sided markets and how it fits with regular value pricing. We also wanted to see how this could be used in real life and therefore chose to do a case study of Stavanger Aftenblad.

We have previously worked together on home exams and knew that we would work well together. Along the way we have had good discussions regarding the topic and how we should proceed, and we believe the thesis would have lost relevant findings if only one student wrote it. This last semester has been used mainly on the thesis, and we are looking forward to letting go of the student existence and start using what we have learned these five years in our coming professional careers.

With this we would like to sincerely thank our advisor Kenneth H. Wathne for all the time he has spent with us, the feedback during the process and good advice along the way. We would like to thank Kolbjørn Andreassen, innovation manager in Stavanger Aftenblad, and Gunnar Stavrum, Chief Editor in Nettavisen, for their patience and quick responses to our questions both on e-mail and during the interview. We would also like to thank Anette Simonsen and Fredrik Hatlestad for proofreading the thesis after we were done. Finally we would like to thank our families who supported us in our process of writing this thesis.

Bente S. Sørskår & Lene Simonsen

Stavanger, 06.06.2012

1.0 Introduction

1.1 Background

In the newspaper industry today there is a lot of confusion about what the next strategic move should be. Newspapers are characterized as an industry that serves a two-sided market. This means that they have two types of customers, advertisers and readers. Advertisers want as many readers for the newspapers as possible; the more readers, the more they are willing to pay for the advertisement. Because of this newspapers can have low subscription fees for the readers. This will often lead to more readers and then higher advertisement revenue. Readers on the other hand are often sensitive to advertisement. Many readers do not want to buy a newspaper that is filled with advertisement, but on the other hand they do not want to pay a high subscription fee. Other readers do not mind the advertisements and some even buy the newspapers to get the advertisements. This shows us that the newspaper industry has a pricing dilemma: What should the subscription fee be and how much should the advertisers pay?

A related challenge is that there are some indications that business models with revenues from subscription fees have become increasingly less viable on the internet (Kind, Nilssen and Sjørgard, 2009). This is a challenge because most newspapers today are looking at new ways to develop. What might happen is that if newspapers do not go online within a few years they will not survive. This challenge has resulted in a new way of thinking. Digital user payment is more relevant now than ever before and the newspapers have to find the correct way of implementing this without losing customers.

Companies have earlier used Michal Porters Value Chain model as a standard for how they should run their processes internally and how to price their products. This is a typical assembly line way of organizing a company. Raw materials come in on the left side and through a serial of sequential activities the final product comes out on the other end. Porter also argued that by tailoring your Value Chain to your strategy the company would create sustainable competitive advantage (Fjeldstad and Andersen, 2003). The companies' price their product based on production costs and customer's willingness to pay. Companies in two-sided markets may have to think differently. The Value Chain is not as well adapted to

companies that don't produce physical products and therefore new models and theories regarding value creation, strategy and pricing have occurred.

1.2 Main objectives

In this paper the authors will give an overview of literature that considers the pricing dilemma and through this point to different aspects that has to be considered when pricing an online newspaper. Our main objective is to find a way to price a potential online edition of Stavanger Aftenblad. Our research questions are:

1. Can value pricing be used together with price theory for two-sided markets when pricing a platform?
2. By using the theory presented in question one, how can Stavanger Aftenblad price an online newspaper?

1.3 Structure

The rest of the thesis is organized as follows: In chapter two the authors will present the model for Value Networks, and the development in the newspaper industry from 2000 to where it stands today with a mix of paper editions and different electronic versions. The authors will go through price theory with respect to value pricing and pricing dilemmas in two-sided markets, and how different aspects of the market will influence the pricing decision. We will then look at how these two price theories can work together. In chapter three the authors will give a brief overview of the method, and in chapter four present the main case: how Stavanger Aftenblad (from now on referred to as "SA") can price a potential online newspaper. In chapter five the authors offer their concluding remarks.

2.0 Theory

2.1 Introduction

Two-sided markets are characterized by the fact that they serve two different types of customers at once on the same platform. Companies in these types of markets are built up so that the platform is the product itself, and works like a base in order to connect the two – or more - customer groups.

Rochet and Tirole (2006, p 645) defines a two-sided market as “a market in which one or several platforms enable interaction between end-users and try to get the two sides “on board” by appropriately charging each side”. This might indicate that two-sided markets need a unique price structure, an alternative to the traditional price structure found in one-sided markets. Traditional price structure does not allow the companies to take advantage of the revenue opportunities that comes from serving two customer groups, because of the relationship between customers (end-users) in a two-sided market that differs from the structure in one-sided market when defining the price.

The price structure in two-sided markets has to take into consideration the demand from both customer groups and the externalities that arise in the relationship between the two groups. Rochet and Tirole (2003) stresses that in two-sided markets it is not the price level that matters, but the price structure that decides whether the company will survive or not. They have therefore an alternative definition of two-sided markets “Net utility on one side increase with the number of members on the other side of the market, all else given” (Rochet and Tirole, 2006, p. 657). This means that the companies cannot price the two different customer groups independently if they want to maximize their total revenue. They have to take into consideration that the two customer groups affect each other’s willingness to pay. They also need to look into different aspects of the relationship between the customer groups and the customer’s reactions to different changes in the market. We will elaborate on this in section 2.4.2 Strategic pricing in two-sided markets.

2.2 Model

Two-sided markets are not new, but with new technology and a more global market there has been an increase in the need of defining this type of value creation and to find a business model that facilitates profitability in these kinds of business-structures. Stabell and Fjeldstad (1998) present two new models on how value is created in businesses that do not produce a physical product: *Value Shop* and *Value Network*. This in addition to Michael Porters traditional Value Chain gives three different ways of understanding value creation with general principles of how value is created, and how the activities are built up with primary activities and support activities. This gives guidelines on how the business should perceive the value creating process, and how to handle different aspects of organizing in order to make value or to support the value creating activities.

The traditional way of looking at value creation, in form of the Value Chain (figure 1) and the process from costs to revenues in an organized and dependent process, focuses on cost leadership or differentiation. The process is characterized by long-linked technology. The purpose of the model is to disaggregate the activities in the process to make it more efficient and create greater value. One of the main benefits from using the Value Chain is the ability to analyze the activities in the production process and establish sustainable strategies to create value and compete in the market.

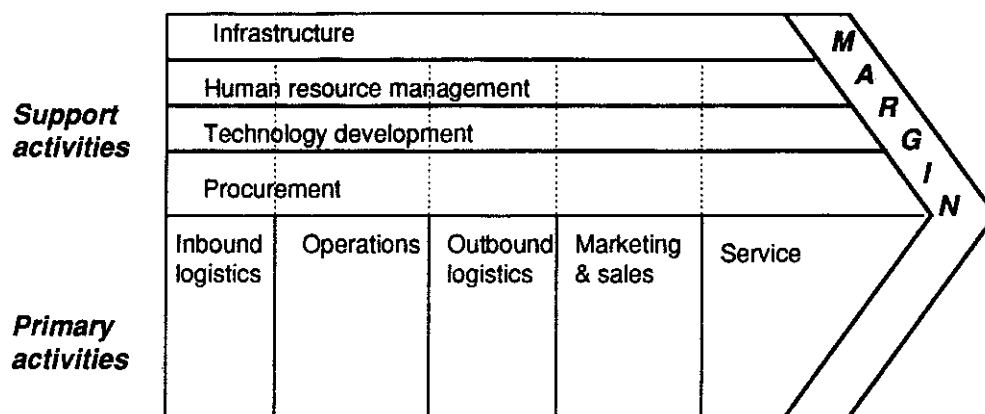


Figure 1: Value Chain (Stabell and Fjeldstad, 1998, p. 418)

This model lack solutions for companies that create value in different ways than the long-linked technology. Stabell and Fjeldstad (1998) therefore add the two new models of value creation. The Value Shop is used when the technology is intensive, where value is created when solving a specific task or problem for a customer. The Value Network is used when the technology is mediating, “to link clients or customers who are, or wish to be, interdependent” (Stabell and Fjeldstad 1998, p. 427).

In this thesis the authors focuses on the Value Network (figure 2) where value is created by linking customers together on a platform. Companies characterized by serving a two- (or more) sided market on a platform are called a Value Network. The platform itself is the product offered to the market and facilitates the opportunity for the two customer groups to meet. There are costs and revenues on both sides going from left to right and right to left (not just cost on the left side and the revenue on the right side as we find in the Value Chain). The reason for this is that the company is operating with two types of customers (Eisenmann, Parker and Alstyne, 2006). Examples of these types of platforms can be Visa, PlayStation and different media (TV, newspapers, radio, etc.).

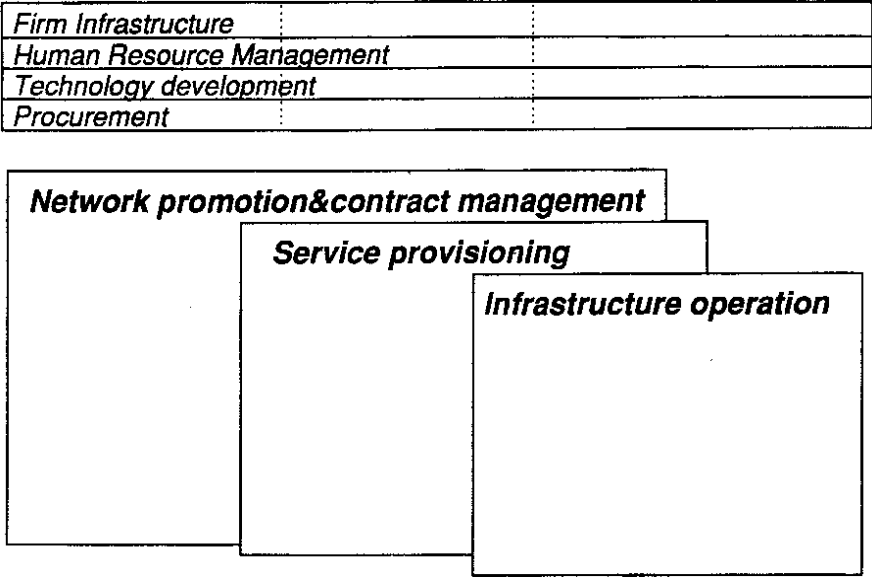


Figure 2: Value Network diagram. (Stabell and Fjeldstad, 1998, p. 430)

Stabell and Fjeldstad (1998) have defined three primary activities in a company with the value configuration Value Network. As seen from figure 2 the first task is to promote their network to attract customers, manage the contract with the customers (to make them want to stay on the platform), and also govern the details around customer service and charging for the use connected to the contracts. The second is service provisioning to link customers in the network and to charge for the value that is created in these activities. The third activity is the infrastructure operation and the activities associated with keeping the network alert and ready for the customers to use (Stabell and Fjeldstad, 1998).

The support activities are the same in all three value-configurations: company infrastructure, human resource management, technology development and procurement. These are activities that do not affect the value creation directly, but are necessary to build up the company and to perform the primary activities; it is the framework of the company.

The product in Value Networks is the platform and the customers buy access to the network that is connected to the platform. The value is the expectation of whom it is possible to interact with, which is called “netspectations” (Fjeldstad and Andersen, 2003). The netspectations may be toward customers in the same customer group (same-side) or in other groups (cross-side). Value Networks facilitate for customers to interact and therefore provide for the network. Value is created through interaction between customers who are, or wish to be, interdependent.

When customers join the network they affect the utility of each other’s membership on the platform, giving it higher value as the network expands. These network effects may be direct - same-side effect - or indirect - cross-side effect -, depending on which customer group it affects. When the company serves the network and accommodates activities between customers, they want everyone in the network to join the platform as this makes it more likely for other customers to join as well. When more people join the network the utility for other customers rise. In Value Networks customers should therefore be managed as communities (groups of people that want to do something together) rather than segments (Fjeldstad and Andersen, 2003).

Eisenmann et al. (2006) presents three issues that need to be done right in order to ensure success in a two-sided market: Getting the price right, coping with competition (especially *winner-takes-all* competition) and avoiding envelopment. When pricing a platform it is important to get it right because it affects the customer sides that use the platform. Regarding pricing, the authors will look into the factors that Eisenmann et al. (2006) finds important to the pricing process later in the thesis. When it comes to competition platforms may be characterized by winner-takes-all competition if three factors occur: 1. If it is expensive for one or both customer sides to stay on more than one platform they will choose to single-home (use one platform only – contrary to multi-homing where the customers use more than one platform). 2. If others join because of strong positive network effects, competitors will have difficulties to convince customers to use their platform. 3. If the users don't have any or have only small preferences when it comes to special features in the product the platform may standardize and still get a lot of customers (Eisenmann et al., 2006, p.7). Avoiding envelopment is another challenge as network effects, as well as high switching costs (costs associated with switching from one platform to another), often shelter established players from new entrants. Envelopment has occurred as a way to overcome entry barriers in two-sided markets. “An enveloper leverages its existing user base ... to enter another platform market in which network effects require a critical mass of users” (Eisenmann, Parker and Van Alstyne, 2010, p. 17). This is most often done through bundling its own platforms functionalities with the targets, so that one can leverage share users and common components. According to Eisenmann et al. (2006) a stand- alone platform has two options when facing envelopment: sell out or exit the field. Other choices are to find a “bigger brother” or change the business model of the platform, by for example changing the money-side (Eisenmann, et al., 2006).

2.3 The newspaper industry

Newspapers are classic examples of firms with two-sided markets who will benefit from using the model Value Network in order to describe their value creating process. The reason for this is that they serve both readers and advertisers as two distinct customer groups. Today they are experiencing a pricing dilemma regarding the online newspapers. Who should pay what for the access? This dilemma has occurred in the last years as a consequence of the big changes inside the industry. Introduction of e-papers (Eisenman, Stuart and Chakravorti, 2010), and the possibility to read news on 3G and iPads have introduced a new type of customer demand

from both sides. The fact is that more people read newspapers online and the number of printed-paper issues falls steadily and have been doing so for a while. In the last years the decrease has leveled off, but still there are big turnovers from day to day in sales of paper editions (Tjersland and Bruaset, 2012). In Norway the advertisement market has also slowed down (Medienorge, 2012). These problems can be explained partly by the financial crisis and the fact that there are not advertised as many jobs as before. Another explanation is that the advertisement market is moving away from paper editions (Nipen, 2011).

In this section the authors look at how the newspaper industry is developing in general and at the statistics for the development in Norway. The section is divided into two parts. First the authors look into the development on the reader side of the industry and second the authors give an overview of the advertisement market. After this the authors give a presentation of the most common methods regarding digital user payment before they present some off the changes that has been made both internationally and in Norway. Finally the authors look into how the government's subsidization of media in Norway may affect online newspapers in the future.

2.3.1 The Reader

General

Back in the 1980-90 most people read their newspapers and were willing to pay the usual subscription fee that was demanded. Later in the 1990s when the online newspapers became more popular the industry offered the online content for free and financed the business on advertisement revenues (Seamans and Zhu, 2010). Because of this new opportunity to read the news online for free it is today talked about a hypothesized shift of news consumptions from the traditional papers to the online news media (Ahlers, 2006).

Ahlers (2006) looks at this hypothesized shift in the United States in his paper "News consumption and the electronic media". He found that some migration had occurred, but that the number of people who had substituted paper editions for online editions was not higher than 12% in 2006. This is much lower than what most people thought, and Ahlers (2006) therefore concluded that the hypothesized shift had not yet occurred in 2006. The only segment that stood out in Ahlers (2006) paper was young adults. Young adults (age 19-29)

were shifting to online news media as a substitute to the traditional versions already in 2006, and the development in the industry indicates that this trend has continued. Today more people read papers online. This is reflected in the development of several newspapers. Newspapers like the Guardian and Daily Mail in the United Kingdom are becoming more international (News of the world, 2012). This means that they have readers all over the world and not only in the UK, which again indicate that people read more online and the competition therefore gets bigger for the newspapers.

Norway

Table 1 shows the same findings for Norway (in 2001-2011) as Ahlers (2006) found in The United States in 2006. Table 1 is from Statistics Norways (SSB) report Norsk Mediebarometer 2011. The participants in the survey are Norwegian citizens between 9-79 years old. We can see from the table that the amount that read printed papers on an average day has fallen from 78% in 2001 to 63 % in 2011. At the same time the amount of readers of the newspapers online sites has increased from 10% to 48%. The amount that only read printed paper is in 2011 32% while in 2001 it was 69%. This shows that there has been a significant decrease in the amount of readers that only read printed papers, but this doesn't mean that people don't read newspapers anymore. The amount that read newspapers on an average day has not changed at all (78%), but the amount that read both online and paper editions has increased from 9% in 2001 to 32% in 2011. This can be explained by most people looking at the digital version as a supplement to the paper edition rather than a substitute because the paper editions have a quality that digital media don't have (Statistics Norway, 2010).

Users still read the traditional papers, but might read the online versions as a complement. As shown in the table below, the numbers in the two columns for printed papers are not the same, as well as for the online columns. The reason for this is that in the two first columns some of the readers of printed papers also read online versions and vice versa. But in the two last columns they either read printed or online newspapers.

| | Print newspaper | Online newspaper | Either print or online newspaper | Only printed newspapers | Only online newspapers | Both online and printed newspapers |
|------|-----------------|------------------|----------------------------------|-------------------------|------------------------|------------------------------------|
| 2001 | 78 | 10 | 79 | 69 | 2 | 9 |
| 2002 | 77 | 12 | 79 | 67 | 2 | 10 |
| 2003 | 77 | 17 | 80 | 63 | 4 | 14 |
| 2004 | 75 | 19 | 79 | 60 | 4 | 15 |
| 2005 | 74 | 27 | 81 | 54 | 7 | 20 |
| 2006 | 74 | 31 | 82 | 51 | 8 | 23 |
| 2007 | 72 | 34 | 81 | 47 | 8 | 25 |
| 2008 | 68 | 35 | 77 | 42 | 9 | 26 |
| 2009 | 65 | 40 | 78 | 38 | 13 | 27 |
| 2010 | 64 | 43 | 80 | 37 | 16 | 27 |
| 2011 | 63 | 48 | 79 | 32 | 16 | 32 |

Table 1: Reading of printed and online newspapers from 2001 -2011 in percent (SSB,2012).

The report from SSB also mentions that 1/ 4 of the younger participants only read online newspapers. In 2011 there were more readers of the online editions than paper editions at the age 16-24 during a day. The same counts for the age group 25-44. In these two groups the amount of readers of online newspapers is 65%, while in the group 9-15 year olds only 18% reads online newspapers. It should be mentioned that the 65% also read printed papers, but still 27% of the readers between the ages 15-44 only reads the online newspapers. This can be critical for the newspapers because it is the younger generations that are the future customers and if this trend continues it only emphasizes the fact that there is a need for a new business model for the online newspapers.

2.3.2 The Advertisers

General

The industry has also experienced some changes on the advertiser side. For newspapers to subsidize readers (as readers read the online edition for free) they are dependent on earning money from the advertisers, both from the printed and the online edition. The challenge is that

today there are several different platforms for the advertisers to use, not just newspapers but also marketing channels like social media and pure marketing sites on the web (an advertiser database). It is therefore as well a shift from newspapers to general internet advertising.

Seamans & Zhu (2010) looks at how the introduction of an advertiser database online like Craigslist can affect local newspapers in the United States. How do the newspapers respond to the advertising platform competition? Their results showed that because of these new opportunities for advertisers the newspapers had a decrease in advertisement revenue, decrease in their share of the market sales and a decrease in their advertisement display share. As a consequence they had an increase in subscription price.

Norway

In Norway there have been ups and downs when it comes to advertising revenue of printed-paper editions. As we can see in table 2 there was a peak in 2007 and a significant decrease in 2009 on printed-paper editions. This can be explained by factors like the financial crisis in 2008 that lead to lower demand for advertisement of jobs, house sales etc. The decrease in online advertisement revenue was not as high, but still made an impact.

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------------|------|------|------|------|------|------|------|------|
| Paper editions in total | 6085 | 6658 | 7101 | 7825 | 7551 | 6151 | 6449 | 6476 |
| Daily press | 5600 | 6138 | 6528 | 7190 | 6872 | 5569 | 5844 | 5869 |
| Incertion | 374 | 388 | 423 | 465 | 501 | 437 | 466 | 465 |
| Free newspapers | 111 | 132 | 150 | 171 | 176 | 145 | 139 | 142 |
| Internet in total | 647 | 941 | 1333 | 1757 | 1869 | 1718 | 4064 | 4355 |
| Brand | 436 | 677 | 950 | 1279 | 1350 | 1201 | 1420 | 1541 |
| Section | 210 | 264 | 383 | 477 | 519 | 517 | 669 | 799 |
| Online cataloges | - | - | - | - | - | - | 1166 | 1099 |
| Search | - | - | - | - | - | - | 809 | 917 |

Table 2: Net advertising revenue in Norwegian media 2004-2011, in millions (medienorge, 2012c)

Table 2 shows that there has been a big increase in revenue on the internet from 2009 to 2010. These numbers cannot be directly compared since the table from 2010 also include online catalogs and search advertisement. The prognosis for 2012 is that the daily press will lose market share to online newspaper advertisement and search engine advertisement.

A challenge regarding advertisement is that the advertisers bargaining power is stronger today than before because of centralization and reorganization. Professional advertisers use media firms to negotiate on their behalf to get a lower price than if they had negotiated with the newspapers on their own. Another factor is that advertisers use substitutes like search engine advertisement instead of newspapers (Ministry of education and research, 2010, p 75-76). Examples of these substitutes are Google, Finn.no, Facebook etc. This may push the prices on advertising in newspapers further down. Today the advertisement online is increasing and there are possibilities for the newspapers, they just have to find the right way to attract the advertisers to the newspapers instead of the substitute platforms.

The newspapers may have to develop in new directions to attract the advertisers, both online and printed-paper editions. They have to consider new ways of pricing their products and consider new products to meet new customer demands. The question is how to enable this.

2.3.3 Methods regarding digital user payment

According to the industry there are already different methods used regarding digital user payment. The three main methods are:

1. Freemium
2. Full paywall
3. Metered access

Freemium is a method in which the users do not pay for the newspaper, but for that “something” extra. They add an extra element to the online edition, to which the users have to subscribe to get access. These elements can be travel guides, exclusive articles, top ten articles, sports etc. The thought is that the readers will not be willing to pay for news they can get somewhere else. Therefore this is still free. According to Kolbjørn Andreassen, Innovation manager in SA, this model is the most popular to use in Europe. 71% of the

European mediahouses use this on their online newspapers, one of them here in Norway; Fædrelandsvennen which just launched a charged online edition.

In the other end is the Full Paywall method. Here the readers access the front page of the online newspaper, but can't access any articles without subscribing to the entire newspaper. This means that the newspapers don't give anything away for free. Papers like Times in London use this model, but we also find it in Norway. The local newspaper Hallingdølen introduced this model for their online paper in November 2011 and is experiencing more subscribers and more page views now than before. This again has resulted in a higher amount of advertisers (Mediebedriftenes Landsforening, n.d.)

The Metered Access method is a combination of the two methods above. Here the reader's get a number of articles for free each month, varies from 5 to 30. After this the readers have to subscribe to access more news. In other words: the newspapers charge their most loyal customers. This is a method much used in the US, and The New York Times is a good example of this where 10 articles are given for free per month before readers have to subscribe.

Inside these alternatives there are again different price options. One alternative that most newspapers use is bundling. Bundling is a strategic method used to sell two or more products as a package for a lower price. The newspaper industry has previously only had their paper editions, but now there is a possibility to bundle the paper edition and the online edition in one package. Statistics shows that readers still want paper editions, but that the demand for electronic versions as a complement increases (Statistics Norway, 2010). Koukova, Kannan and Kirmani (2011) points out that when formats have equivalent quality, consumers perceives the formats as complementary and are more likely to buy the bundle. It is therefore a possibility to bundle the paper edition and the electronic edition into one product for the readers and this can be done in all three models. This way the papers will sell both editions. This type of bundling strategy is most often directed to the end users (readers). An alternative bundle is a subscription that give the online newspapers during the week and that the paper edition is delivered home to the reader in the weekend. Magazines as well can be bundled

together with the newspaper to defend the price. Another advantage regarding bundle is that bundle vs bundle can be extremely challenging and therefore this strategy can deter an envelopment attack (Eisenmann, Parker and Van Alstyne, 2010)

Another possibility is to look at the newspaper as a bunch of single products. This means looking at each part (sport, family and home, economics, energy, etc.) as individual products. This way the readers can choose which part of the newspaper they want to subscribe to. The different parts can have different prices according to the access of the material elsewhere. Sports and economics for example may be priced low since the readers can get this for free somewhere else. Energy and investigative journalism may have a higher price as they might be more difficult to get a hold of.

2.3.4 Changes made

Some newspapers have already made an effort to meet the market demands. In this last section we will look at some international and some Norwegian attempts to meet the new challenges.

International

Eisenman et al., (2010) wrote about how *Orange*, which is one of the leading telecommunication operators in France, started up with the e-paper (Read & Go). Read & Go was an idea where the user would buy a device that could show the newspapers on a high-resolution screen, which would look just like the paper edition. Orange wanted to offer Read & Go as a bouquet of newspaper titles and the plan was for it to work as a mobile phone contract with a minimum amount charged each month to the user. Their biggest challenge before launch was regarding advertisement. The technology was slow and the partners had concerns regarding who should have the contract to the advertisers.

Another challenge before launch was that they had to consider the pros and cons regarding first-mover advantage in contrary to late-mover advantage. There were big opportunities to capture first-mover advantage in e-papers, which meant getting control over the best deals with the newspapers and technological companies as well as attracting a substantial customer base before competitors even started their launch. Through late-mover advantage on the other

hand, they would have the possibility to learn from their competitors regarding design, consumer use and preferences, marketing messages and optimal operating systems. Eventually they asked themselves: Are we administrators or are we entrepreneurs? By this they meant, would they lead the way for e-papers or would they just follow the flow and administer their product based on what competitors did (Eisenmann, et al., 2010)

Another example of a new introduction is Apples introduction of the Daily. This was not just another e-book, but an iPad newspaper that the customers can subscribe to for 99 cents a week (Who needs paper?, 2011). This again shows that the traditional newspapers have to develop to follow the market change. Other introductions made is the New York Times online, with everything from mobile apps, electronic versions of the paper edition to an online store where you can buy photos, articles, birthday books etc.

Norway

In Norway Dagens Næringsliv and Aftenposten are two examples of newspapers that have introduced their papers on iPad. The iPad editions are approximately the same as the paper editions. Just in a digital form. Dagens Næringsliv is selling the subscription both alone on a week basis or as a package together with the paper edition. This is consistent with the results from Koukova, Kannan and Kirmanis article from 2011 that point out that it is important to see the bundle choice as a significant opportunity to increase revenue.

Aftenpostens iPad version comes out two times a day. It is the same content as the paper edition but with some extra material like videos and more pictures. Aftenpostens managing director Sondre Gravir says that they are going to use 2012 to develop the online and mobile edition of their paper so that it will turn out as good as the paper edition (Bruaset, 2012) and this looks like the trend in most media houses in Norway. Most media houses indicate that 2012 is the year to go all in online. Stavanger Aftenblad announced March 16, 2012 that Fædrelandsvennen is the first newspaper in the Schibsted group that will launch their full newspaper online; this edition was available from 14th of May 2012. Here the subscribers will have access to exclusive and extended news online, while news and stories that other newspapers have access to will still be free for the customers (Ankersen, 2012). Hallingdølen, which is a local newspaper, have introduced a paywall that only gives access to the front page. If readers want to read the articles they have to subscribe to the online edition

(Mediebedriftene, n.d.)

It seems as the industry is adapting to the trends in the market, but as Espen Olsen Langfeldt in VG mobile says, “There is a willingness to pay out there, but you should be careful challenging it” (Bruaset, 2011, own translation).

2.3.5 Subsidy of media in Norway

In Norway newspapers can get two different kinds of subsidies from the government. They are divided into direct and indirect media subsidies.

Direct subsidy is a grant that is given to daily press that meets certain criteria. The main criteria are:

- Containing news- and relevant articles that make them stand out from other publications.
- Have a responsible editor that has a status that corresponds to the regulations in the Editorposter.
- The grant is only given to papers that have paying subscribers and they have to take a genuine price for subscriptions, single copy sale and advertisement.
- They have to sell ½ of the net approved editions through subscriptions.

These are just a few of the demands that are listed for the grant (Ministry of culture, 2010, p. 34-35) and the grant doesn't include online and digital editions or single copy paper editions.

Indirect subsidy is an exemption from the 25 % value added tax (VAT). Since the VAT was introduced in 1970 newspapers that come out at least once a week, books and different publications have been exempt from it through a zero rate (Ministry of culture, 2010, p 40). This exemption does not include online or digital newspapers. These newspapers are taxable with a standard rate of 25%.

The reason for these subsidies is to keep the media diversity and a differentiated daily press. The discussion today revolves around subsidies causing unfair competition between the different newspapers and that because of the development in the industry it might be a challenge to draw a fair line between who should get subsidies. There is suggested an extension of the direct subsidy to make it platform neutral (Bruaset and Sørheim, 2012). This means that in the future it may also include online editions, which again will increase newspapers incentive to go online. Today newspapers have low incentives to commit to their online newspapers because they lose money on two different sides. First they lose the direct subsidy when readers move online, and then they lose subscription income because reader's willingness to pay online is lower than on paper (Huitfeldt, 2012). By making the direct subsidy platform neutral there is a hope that the incentive to go online will increase. The challenge is that the other criteria will still be valid, meaning that the criteria regarding payment and subscriptions have to be met before online newspapers can get this type of subsidy. Many online newspapers are free of charge for readers and earn their revenue entirely from advertisers. By keeping the payment criteria the newspapers are forced to find a way to make the readers subscribe to their online edition. This is not as difficult for newspapers that have paper editions that can work as a cash cow to finance the development of digital user payment. Gunnar Stavrum, chief editor in Nettavisen.no, points out that the challenge occurs for the purely online newspapers. They will have difficulties receiving media grant because they can't afford risking their entire business model just to be paid through political appropriations (Personal communication, April 17, 2012).

Another challenge is that the VAT exemption will for now not apply for online editions, and therefore there will still be a big competitive difference between newspapers that have both online and paper editions and newspapers that are purely online editions. In 2010 there were introduced two alternatives to the way the newspapers are subsidized (Ministry of culture, 2010, Ch. 8). Alternative 1 suggested lowering the VAT for digital media to 8%, to keep the zero rate for paper editions, and to introduce a work grant to online journalists. Alternative 2 suggested an 8 % VAT for both paper and online editions. This way there would not be a competitive advantage for any of the media, and the subsidy would appear more targeted. It would also be easier for newspapers to bundle their paper and online editions in a joint subscription if the VAT was the same for both media. The supporters behind alternative 1 showed to Wilberg's report regarding how VAT will affect the newspaper industry negatively

and that the VAT would reduce the newspapers action. The readers of newspapers are price sensitive and an introduction of VAT would lead to loss of subscribers because of higher prices for paper editions. The supporters of alternative 2 mentioned that because of the two-sidedness in the market the increase in price would not be as high as in a traditional market and it would not be an issue (Ministry of culture, 2010).

The discussion regarding the indirect subsidy has been going on for a while and if the suggestion regarding platform neutral grant is implemented it will be natural with a new discussion regarding the VAT question. VG and Mediebedriftenes Landsforening have already started the discussion and publically agreed on an 8% VAT on the online edition (Kvalshaug, 2012), which corresponds to the suggestions mentioned earlier.

If the conditions regarding the VAT are not changed, a consequence of a platform neutral direct subsidy can be that the industry experience a winner-takes-all dynamic where the biggest newspapers like Dagbladet, VG and Dagens Næringsliv will have a possible competitive advantage over purely online newspapers like Nettavisen.no. Purely online newspaper will not receive any grant, and have to pay 25% VAT on the online edition. Today the ten biggest newspapers in Norway receive 60% of the support given through the zero VAT rate (Ministry of culture, 2010, p. 112). Many might not perceive this as a very well targeted support in relation to developments in the industry and the fact that the media subsidies are there to maintain media diversity, both locally and regionally.

2.4 Price theory

Because of the different ways of pricing a product or a service “Strategy and tactics of pricing” by Nagle, Hogan and Sale (2011) was a relevant base of pricing theory in general. By looking into the process of value pricing presented by Nagle et al. (2011), the authors tried to find links between this way of setting the price and the challenges of pricing in two-sided markets. This section will present the strategic way of pricing a product/service in a value based way, as described by Nagle et al. (2011), before a presentation of strategic pricing in two-sided markets is given. At the end the authors give an overview of how the two theories fit together, by answering research question one through a table.

2.4.1 Value Pricing

2.4.1.1 Pricing the product/service

Nagle et al. (2011) is mentioning three pricing methods which should not be used alone when setting the price; cost-plus-, customer-driven- and share driven pricing. They conclude that companies should price their products according to the value of the product in order to make long-term profit. “Strategic pricing requires making informed trade-offs between price and volume in order to maximize profits.” (Nagle et al., 2011, p.21)

Nagle et al. (2011) presents Value Pricing as a process to be used in order to set the price as a solution to the challenge of strategically pricing the product/service. This in order to make profit in a changing market where prices have become more transparent leading to increased price sensitivity. Three principles are used as a base for the process: value-based, proactive and profit-driven (Nagle et al., 2011, p.6). The value based focus lets the decision makers reflect differences or changes in the value to customers. The proactive focus makes the firm take action in advance of an anticipated disruptive event. The profit-driven focus measure “success ... by what it earns relative to alternative investment” (Nagle et al., 2011, p.6). With these in mind it is presented a concept of a Strategic Pricing Pyramid where steps of decisions have to be made before the next step is taken, with setting the price as the last step in the process (Nagle et al., 2011, p.15). If one follows these steps in order, and makes sure that the right information comes in the hands of the decision makers, it will give a solid base for profit making. Although this is not guaranteed to work, it is given an indication of a “31 percent higher operating income” using a value-based strategy (Nagle et al., 2011, p.2).

2.4.1.2 Value pricing process

The levels in the Strategic Pricing Pyramid are value creation, price structure, price- and value communication, pricing policy and price level. We have chosen to illustrate the pyramid through a table (See appendix one for a detailed explanation of the five levels).

| The Strategic Pricing Pyramid | Process | Goal | Benefits |
|---------------------------------------|---|---|--|
| Value creation | <p>The lead here is customer value, which is found in two forms: monetary and psychological. In business to consumer purchases the value is often a combination of these two forms, but in business to business purchases the value is often defined by the money. Companies should find out what the customer values in the product, and find the closest substitute that will be the reference price used as a base of setting a price.</p> | <p>The company should make the product according to what the customer values, connect it to the right reference price and choose how much of the differentiation value to be captured in the price.</p> | <p>A product that is valuable for the customer and attractive as a solution for a problem/need they seek to cover.</p> |
| Price structure | <p>Segment the market in order to get higher profit, using several price points and secure them by using the three mechanisms “price-offer configuration”, “price metrics” and “price fences”.</p> | <p>Maximize revenue in each segment, while serving more of the market than with a one-price point solution.</p> | <p>Higher profit. Hinder the competitors to get a base in the low-end users in the market, by service the whole market.</p> |
| Price- and Value communication | <p>Communicating the price should include four aspects in which the customer will react if not addressed: Consumers tendency to evaluate prices in relative terms, the products own reference price, fairness in pricing strategies and gain-loss framing.</p> <p>Regarding value the company should develop a message according to the products characteristics, the cost of searching for it and the benefits it gives. Also take into consideration the complexity of the buying process and make sure that the customer finds the message useful.</p> | <p>Protect the product from competition, increase customers’ willingness to pay, increase customers’ likelihood of buying the product.</p> | <p>Awareness of the product and its value, higher willingness to pay. Associations with the brand that will connect value to it.</p> |

| | | | |
|-----------------------|--|--|---|
| Pricing policy | Make guidelines for who gets discounts, how much and in which situations. | Take control over discounts so that giving a discount will be fair and according to the strategy of the firm. | Greater credibility to the sales personnel and justice in customers buying process. |
| Price level | <p>Define the products price window by using the reference price from the substitute of the product and adding/subtracting a positive/negative differential price. The price window will be affected by where in the lifecycle the product is located and what the costs (marginal and avoidable) are.</p> <p>Set the price according to the company's strategy based on the reference price adding a sum that captures the differential value.</p> <p>Communicate the price to the market while ensuring that it is a fair price so that the customers will be willing to pay even though it's higher than they expected.</p> | <p>To capture differentiation value in the price.</p> <p>Secure long-term profitability.</p> <p>Ensure willingness to pay.</p> | Happy customers who buy your product. |

Table 3: The Strategic Pricing Pyramid, based on Nagle et al. (2011)

2.4.1.3 Pricing in different settings

This general model is a description of the pricing process, all things considered, and how the firm may consistently follow their strategy in pricing their product/service. What Nagle et al. (2011) do not say anything about is whether this process may be used in all types of industries, and if the process may be used for both one-sided and two- (or more) sided markets.

2.4.2 Strategic pricing in two-sided markets

Two-sided markets are, as mentioned earlier, distinguished from other markets by the fact that their platform has two different types of customer groups with interdependent demands (Parker and Van Alstyne, 2005). The main question is therefore who should pay what for accessing the platform. Below are three of the alternative solutions to this question.

1. Charge both sides the same
2. Charge only one side, and subsidize the other
3. Charge one side more than the other

2.4.2.1 Customer demand in two-sided markets

In figure 3 the dotted line shows how the demand curve for both customer groups would look like if the companies only worked to maximize revenue from the customers, without considering the network effects between them. The dark grey field illustrates the revenue from both groups individually. The arrows show how the demand curve shifts, and how price and quantity increase/decrease in the two groups when the network effects are taken into consideration. This is a classic illustration of how customer groups in two-sided markets are interdependent and how one groups price elasticity affect the others demand. As seen in the figure 3 revenue increases significantly in market J and decrease in market C. This corresponds with the interdependent assumption that market J is sensitive to the changes of demand in market C. Market C on the other hand is price sensitive, which results in an increase in quantity when the platform price decrease. As long as the increase in revenue from market J is higher than the loss of revenue from market C this subsidizing strategy is profitable. To subsidize do not just mean that customers should get access to the platform for free, like in alternative two mentioned above. Sometimes the companies decide a lower price for one of the customers (alternative three). Usually this price will not result in revenue for the company, but it will attract enough customers so that the other side's willingness to pay increases and the revenue then covers the costs and creates profits for both customer groups (see figure 3).

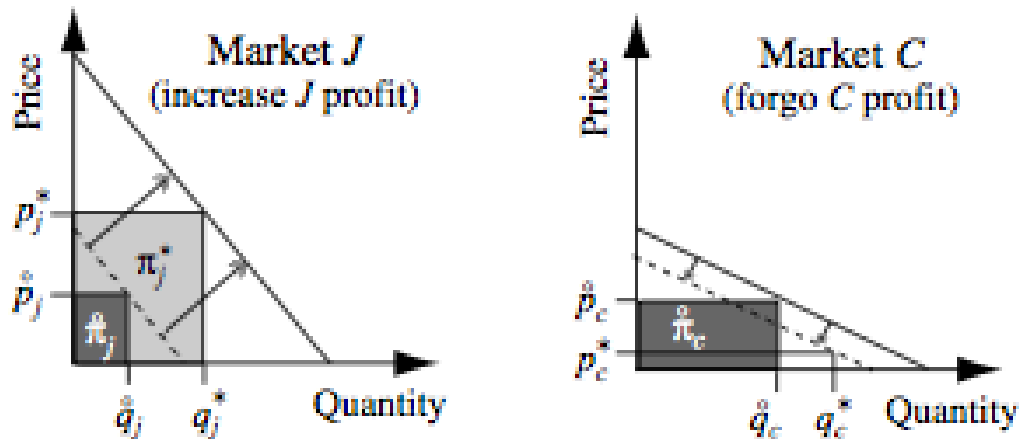


Figure 3: Demand curves for readers and advertisers and the influence of network effects (Parker and Van Alstyne, pp. 1498, 2005)

Figure 3 is general when it comes to two sided markets. There will be other factors that can affect the demand curves in each specific market. In this thesis the focus is on newspapers. Here the users are not willing to pay high subscription fees for their access, but they want quality articles that appeal to them. They only see value in newspapers that actually appeal to their interests and take their perception of advertisement into account. This indicates that quality and advertisement averseness also affect the readers (market C), not just changes in price. On the other side advertisers (market J) are willing to pay high prices as long as the newspapers have a high number of readers, and it is the correct type of readers. A challenge can be that when the readers are not as price elastic as the figure suggest, the platform can lose the network effect that result in higher demand from advertisers. As a consequence the platform may have problems exploiting the market effects as well as they wish. A solution can be to pursue same-side effects between the users (market C). This can over time result in cross-side effects which again gives the platform the possibility to exploit the network effects between the two customer groups to increase revenue.

Advertisers

Advertisers demand is characterized by generating profit from each reader who sees the advertisement. This is why Wilbur (2008) points out that for advertisement-supported media, the most important insight from the two-sided market literature is that the advertisement price has to reflect both the value of reaching a given audience and the marginal effect of the advertisement sale on the total size of that audience. This marginal effect can be both positive

and negative. The change of total audience as a result of the advertisement sale can result in positive and negative spillover effects. An increase in advertisement sale can lead to negative spillover effects on readers (in this section referred to as end-users because of their role as potential customers of advertisers) and vice versa. This is because of the averseness end-users can have towards advertisement. So to take the marginal effect into account the platform has to deduct the negative spillovers to find the correct advertisement price. It can be said that the value of placing an advertisement for a firm is a function of the number of readers, their characteristics and the probability that the end-users actually sees the advertisement and responds to it in some way (Van Cayseele and Vanormelingen, 2009).

Armstrong (2006) points to two natural ways to price advertisers:

1. Charges are explicitly levied on a per- user basis
2. Advertisers are charged a lump-sum fee for placing an ad

In alternative 1, if platform I offers advertising space for a charge of γ^i per end-user and the advertisers profit per end-user is α , advertisers will only choose a platform with this price structure if $\gamma^i < \alpha$, and the number of advertisements do not depend on the number of end-users on the platform (Armstrong, 2006).

Alternative 2 is more complex. Here the advertiser pays one fixed price for the advertisement space and platform I compete for the end-users in the market. The reason for this is that the advertisers will join platform I as long as the platform has won the competition for end-users over platform J and the lump-sum price do not change the more end-users platform I attracts (Armstrong, 2006). This also corresponds with Van Cayseele and Vanormelingen's (2009) claim that the advertising company chooses the advertisement amount in each paper based on a comparison of cost for each advertisement space and expected revenue. To summarize; more end-users lead to more advertisers, which again attract more end-users, if the end-users like advertisement.

Another way to price the advertisement is through Google auction model (see appendix 2). Here advertisers bid on different ad spaces and whoever wins the auction and has the best quality advertisement “wins” the space. The quality of the advertisement is characterized by different criteria’s such as numbers of clicks, quality of landing page or relevance of the advertisement. This way the users always get quality and targeted advertisement and the advertisers get higher return.

The advantage of such advertisement is that the end-users are being treated as individuals instead of a collective goal, and the advertisers eliminates the possibility to waste advertisement on users that are not interested. They only target end-users with a high preference to their product and this way they increase their profit. As a result they are willing to stay on the platform.

Readers/end-users

Readers demand on the other hand is characterized by preferences regarding advertisement, content and price. It is not always so that the higher the quantity of advertisers, the lower the demand from readers. Research shows us that users of media are affected by advertisement, and that it affects their demand for the specific media both positively and negatively. Wilbur (2008) shows that advertisement doesn’t affect demand for newspapers and magazines as much as on TV. One reason for this can be that in newspapers and magazines readers can skip the advertisements, but when looking at TV they have to see the whole advertisement.

The indirect utility consumers derive from newspapers depends on both product and consumer characteristics (Van Cayseele and Vanormelingen, 2009). Both price and the benefit of the product are important factors here. Rochet and Tirole (2003) states that buyers in two-sided competitive markets prefer platform j if: $B_j - P_j > B_i - P_i$. This means that readers analyze the difference between the benefit (B) and the price (P) for each single platform before they choose which one to join.

As mentioned earlier readers (consumers) preferences regarding advertisements is an important factor to consider when setting a price for the readers. Consumer surplus can be written as follows:

$$CS = U + \sum_{i=1}^m (P_i + \gamma_i A_i) C_i$$

Here U is the total utility for consumers, P_i is the price, γ_i is a measure of consumer's preferences to advertisement, A_i is the level of advertisement and C_i is consumer demand. In other words, $(P_i + \gamma_i A_i)$ is the cost for the consumer (Kind et al., 2009).

As we can see from the function, advertisement preferences are an important factor when setting a price for readers as it affect consumers demand and price directly. If A_i is high, it is assumed that $(P_i + \gamma_i A_i) C_i$ is negative because the high amount of advertisement will affect consumer's demand negatively, dragging consumer's surplus down. It will be the other way around if A_i is low. This is supported by Wilbur's (2008) conclusion that users of media are affected by advertisement, and that advertisement preferences can affect readers demand and willingness to pay both positively and negatively.

Both figure 3 and the function above indicates that the two customer groups affect each other's demand curves. Even though the price for one customer group is irrelevant for the other and vice versa, they will indirectly influence each other's preferences. The reason for this is that if prices for e.g. readers increase, the amount of readers can drop. This will make it less attractive for advertisers to place their advertisements in the newspaper (Kind et al., 2009).

Failing to take into account the effect between the two customer groups might lead to pricing errors. Parker and Van Alstyne (2005) points out that companies might try to maximize their sales to both customers, and this way misses the opportunity to manage the effect between them. This means that the newspaper company has to choose which alternative that gives highest revenue and keeps the customers on the platform. One of the most important tasks is to make sure there are enough customers on one side to make value for the customers on the

other side and vice versa (Evans and Schmalensee, 2007). This is where platforms often fail as they charge one of the sides too much without considering the cross-side effects. The result: the customers back out. It is a difficult process to find prices which both customer groups are willing to pay and that maximize the cross-side effects. This is the main reason why it is so difficult for Value Networks to find a good solution to the pricing structure.

2.4.2.2 Important factors that affect price decisions in two-sided markets

Eisenmann et al., (2006) mentions six factors that have to be considered when making price decisions in two-sided markets: possibility of cross-side network effects, possibility of same-side network effects, user sensitivity to price, user’s sensitivity to quality, output costs and user’s brand value. The factors will in this section be presented and related to the newspaper industry.

Cross-side and same-side Network effects

Network effects can be defined as a phenomenon where a platform becomes more attractive the more customers actually use it. A cross side effect is when an increase in customer group one increase customer group two’s willingness to pay and/or willingness to use the platform and vice versa. A same-side effect is when an increase in a customer group increases the same group’s willingness to pay and/ or willingness to use the platform (Eisenmann et al., 2006).

Figure 4 illustrates how the two sides affect each other and the platform. All three parts of this figure are important to achieve the network effects.

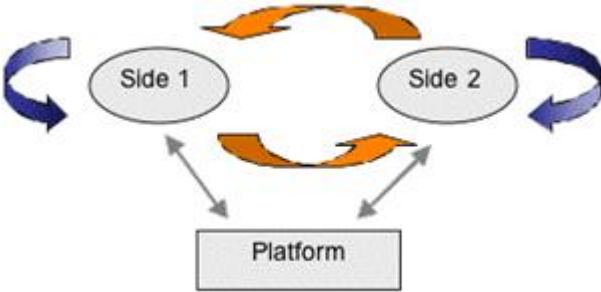


Figure 4: Cross-side and same-side network effects (Eisenmann, 2007, p. 30)

The effects may in different situations be positive and negative. Cross-side effects are positive when it attracts customers in the other group. For example in the media industry, if the

platform attracts more end-users, it will automatically attract more advertisers and increase advertisers willingness to pay. The reason for this is that the possibility that someone will see and respond to the advertisement is higher. This effect can be negative if readers are averse to advertisement. If the advertisement increases the readers might back out and join another platform. This will affect advertisers negatively because their advertisement will create less value, and they will most likely find another platform. The challenge here for managers of platforms is to find the fine line that holds on to readers, and manage to earn money from advertisers. Armstrong (2006) points out that if group one (readers) exerts a positive externality (network effect) on each member of group two (advertisers), then group one will be targeted aggressively by the platform. This is also illustrated in figure 3 above, which shows how the externalities affect the two customer's demand. In most two-sided markets it is normal to subsidize one customer group and use the other group as a money side (this is where the platform earns their revenue) (Eisenmann et al., 2006). This price strategy emphasizes the importance of capturing cross-side effects, which can secure long time profit. A challenge here is to know which group to subsidize in order to create positive cross-side effects. These effects might have been overestimated according to Stremersch, Tellis, Franses and Binken (2007), and they indicate with their findings that the cross-side effects are not the critical factor in early adoption of a new product.

In the media industry same-side effects may be positive on the reader side when people use the same platforms, and as a result may influence each other and have more in common and to talk about. Online newspapers have taken this into account by adding the comment field on the bottom of most of the articles. This way they facilitate for the readers to communicate. Same-side effects may be negative if the platform is an "exclusive only" platform where there is an image associated with being on the platform. This may be damaged if many are allowed to access. On the advertiser side it can be a negative effect if the platform is experiencing an increase in advertisers, and as a result is tempted to increase the price for advertisement. If the advertisers do not believe the price reflects the expected return of the advertisement they can choose to advertise on a different platform.

Because of these network effects and the two different customer's willingness to pay, alternative one presented in the beginning of the section regarding charging both customer

groups the same is not much used. When pricing a two-sided market the firm has to take into consideration that value is created through network expectations and through serving the network and accommodating activities between customers. This also distinguishes the Value Network from Value Chain, as customers should be perceived as “communities rather than segments” (Fjeldstad and Andersen, 2003, p. 51).

User's sensitivity to price

The fact that users are sensitive to price is not a new phenomenon. Companies always compete for the customers, and this gives the customers opportunity to push the prices down. Readers are sensitive to the price of different media because they are uncertain about the value they will receive from joining this particular platform instead of another. In the newspaper case the platform is depending not only on the fact that the readers have to like the articles, but also that they are not too averse to advertisements. Because the newspapers are depending on the readers to capture cross-side effects, they subsidize this side of the platform. In other words; companies subsidize the customer group that are uncertain about the value they will receive from joining the platform or the group that is off high value for the other group (Eisenmann et al., 2006).

User sensitivity to quality

Eisenmann et al. (2006) mentions a possibility to charge the customer that supplies the quality, not the customer that demands it. This will give a possibility to charge the advertisers in such a way that low quality advertising will be excluded, and therefore giving the reader quality advertisement. This corresponds with the alternative mentioned earlier regarding Google's auction method. This, as well as target advertisement, is an important piece in the price strategy for platforms like Google and Facebook (see appendix 2) and can be an alternative to advertisements in online newspapers.

Output costs

If the platform managers choose to subsidize one of the customer groups the output cost are an important factor they have to take into account. Newspapers have output costs that occur

because of the readers demand. This means that they are giving a product that costs money to produce and distribute away for free or at a low cost and they will experience negative revenue. When it comes to online editions the costs on the reader side will be lower than for the paper edition, but still as long as they give it away for free they will lose money without advertisers. This shows how dependent they are of the cross-side effects. They depend on the advertisers to cover all the costs (or at least some of them) if they choose to take a small subscription fee from the readers. A challenge associated with this might be that not all advertisers are willing to pay these high fees. Some readers of free/cheap newspapers are cost conscious and the advertisements will not have the desired response, but this also depends on who the advertisers wants to reach. To be less dependent on advertisers willingness to pay, many newspapers today are looking into how they can price both readers and advertisers online to cover all their costs, and earn profit from both sides.

Users brand value

All users have different preferences. For a company to be sure that the brand value of their product is positive for both customer groups Eisenmann et al. (2006) and Rochet and Tirole (2003) both mention the possibility to attract marquee users. Marquee users are users that attract other users to the platform using the network effects. On the advertiser side this can be high class product advertisement, big important companies or big buyers. On the end-user side a marquee user can be a profiled person/celebrity that talk positively about the product. The important factor here is to make sure that these users commit to the one platform exclusively (Eisenmann et al., 2006). By attracting marquee users on both sides the other users brand value will increase.

In the case of users brand value the subsidy question is again an important factor as companies often subsidize the customer that is uncertain about the value. It is therefore important to locate the customer group who are uncertain about the value they will receive from joining the platform, and convince them. This way the other customer group's value will increase because of the network effects presented above.

The six factors are all related to each other and a platform cannot consider one without taking the other five into account.

2.4.2.3 Multi- or single-homing

Another challenge for companies in two-sided markets is competition with other similar companies. The customers have the possibility to choose which platform to join, and if they want to join several platforms. Single-homing is when a customer chooses to use only one platform, and multi-homing is when the customer use several platforms (Armstrong, 2006). High multi-homing cost will reduce customers' willingness to maintain a connection with competing companies and may result in single homing. In the newspaper industry competition is strong. This results in low multi-homing costs for the customers, which leads to multi-homing.

Multi-homing might make it difficult to differentiate a platform from others as there is nothing unique about a platform that provides the same applications as their competitors (Landsman and Stremersch, 2011). The negative effect of multi-homing on the network is in some cases found to be larger than the positive cross-side effect, but this seems to vary when it comes to the age and market share of the platform because the level of multi-homing is affected by these factors (Landsman and Stremersch, 2011).

There are three different structures of multi-homing:

- Both customer groups single-home
- One group single-home and the other multi-home
- Both customer groups multi-home

In the newspaper industry it is reasonable to assume that readers multi-home because of low multi-homing costs and since the readers have different preferences and interests regarding what they want to read about. A reader might want to subscribe to different newspapers according to their interest in content. They might for example subscribe to SA to get the local and energy news, and to Dagens Næringsliv which focus on finance and development in different industries. The authors also assume that most advertisers multi-home because of the low costs associated with switching between platforms, and therefore place their ads in

different newspapers. If readers had single-homed there should be no tradeoff in the decision to buy advertising space in different newspapers (Van Cayseele and Vanormelingen, 2009). The challenge in the newspaper industry is that both groups multi-home. This is a situation where little research has been conducted and it will therefore be looked into in the case section later in the thesis.

2.4.2.3 Price method

In the beginning of this section it was presented three different pricing methods for platforms in two-sided markets; (1) charge both sides the same amount, (2) charge one side and subsidize the other or (3) charge one side more than the other. Because of the network effects presented through the section and the two customers differences in willingness to pay, alternative one is not relevant for the case regarding online newspapers.

Alternative two and three are both subsidy alternatives in two different ways. Alternative two is much used on online newspapers, but it is also possible to price the readers as well as the advertisers (alternative three).

2.4.3 Value pricing theory combined with price theory for two sided markets

2.4.3.1 Research question one

In this section the authors will answer research question one: Can value pricing be used together with price theory for two-sided markets when pricing a platform?

The authors choose to do this through a table (see table 4) to illustrate how the strategic pricing pyramid fits with the six factors mentioned in the two-sided theory, and where they have to adjust to each other. On the x-axis the authors have lined up the six important factors described in 2.4.2.2 that affects price decisions in two-sided markets, and on the y-axis are the five steps of the strategic pricing pyramid.

| | Cross-side and same-side effects | User's sensitivity to price | User's sensitivity to quality | Output costs | User's brand value |
|---------------------------------------|--|---|--|--|---|
| Value creation | To readers value is to read news, information, personal updates and ads. To advertisers value is to reach the readers. If the company manages to create value for readers and get them on board, the advertisers will join the platform as well. | The user side is characterized to receive psychological value rather than monetary (because it's business to consumer purchase) and sensitive to price, and one strategy in pricing two sided markets is to subsidize the side that is uncertain about value connected to the product (and therefore sensitive to price). | Readers want quality and tend to be averse towards advertisement, spam might create disutility. Target advertizing might better connect readers to the right advertisers and therefore increase the value for advertisers and reduce reader's averse attitude towards advertisement when they get relevant advertisement. | Creating value is also about finding the right reference product. Choosing a reference product and subsidizing the users side raise challenges when it comes to covering costs associated with production. | Getting marquee users on board may increase the value further for both users and accessers, as these may promote the brand. |
| Price structure | By segmenting both customer sides the company may serve the whole market, this may create high profit. Relevant advertisement creates value for readers and relevant segments create value for advertisers. Value Networks have to consider the relationship between these two to exploit the network effects. | Two-sided markets theory argue that the users should often be subsidized and therefore pay less. | Value Networks should according to two-sided markets theory charge extra on the "money side", the side which is willing to pay to get access to the user side. By using an auction model similar to Google's, the platform may be able to increase the quality of the advertisement by rewarding high quality advertisement. | Subsidizing the user side has to be covered by other income, mainly through the access side and the price structure of the two sides will therefore affect each other | Utility associated with joining the platform depends on the netspectations. |
| Price- and value-communication | In addition to take into account the four aspects of customer's reaction (see table 3) to price, the company should focus on | Users need to know what they get in order to be willing to pay; addressing the aspects of consumers may reduce users' | Communicating value to the access side will need to contain netspectations of meeting the user side. Using target advertizing will in | Communicate in such a way that customers understand that it costs to make newspapers. | Addressing the four aspects of customers' reaction to price may increase their |

| | | | | | |
|-----------------------|--|--|--|--------------------------------|--|
| | creating net expectations. | sensitivity to price and get them to use the platform. | addition help set requirements for the quality of the ads. | | perceived brand value. |
| Pricing policy | Because of the transparency of prices in the market, creating a fair discount system may help on users willingness to pay and to use the platform. | Knowing that there is control of who gets discounts in which situations may reduce some of the user's price sensitivity if it's perceived to be a fair system. | The company may stimulate for better quality by giving discounts for quality ads, like in Google's auction model. | | A just system may have a positive effect on the perceived brand value. |
| Price level | It might not be the best solution to price within the price window as the network effects plays an important role in a two-sided market. Price the users too high and the company will fail to capture the cross-side effects. | Subsidizing the users is a way to meet their sensitivity to price in order to draw them to the platform. | Subsidizing the user side increases willingness to pay and to use the platform and therefore increases the value to accessors by connecting them with a greater mass of users. To create value for the readers the company might stimulate to high quality advertisement and target the advertisement more accurate according to readers preferences.* | Secure long-time profitability | If the customers are satisfied with the platform the brand value will increase and the willingness to pay will be higher |

Table 4: Value pricing theory combined with price theory for two-sided markets

*Google has tried to solve this challenge through its auction model by giving discount for quality advertisement (see appendix two).

2.4.3.2 Result

The authors imply that value pricing of a product/service may work as an overall strategic process in Value Networks, and therefore two-sided markets. There are methods that may lead to quick and in some cases unprofitable decisions, but following the guidelines of value pricing it is more likely to consider most factors that should be considered when setting a price. The important aspect regarding two-sided markets is to include network effects like same- and cross-side effects, which makes the pricing process in two-sided markets more complicated. The authors believe that by integrating the six factors from two-sided markets theory into the Strategic Pricing Pyramid is the best approach to the challenge of making a platform profitable. Profitability is after all a matter of how to draw customers to it in order to create both same- and cross-side network effects so that they are willing to pay for getting access to the network.

3.0 Method

In this chapter there will be given a presentation of the method used in the thesis, and an explanation for why the different methods have been used. The theme of the thesis is pricing in two-sided markets and is based on theory from pricing strategy and management. With new technology and the possibility for new ways of serving different customer groups on one platform, two-sided markets was attractive to look into to see what affects the price setting process. The thesis looks into how value pricing theory as well as strategic pricing in two-sided markets can be used together in the pricing of a local newspapers transition from free online paper to digital user payment.

3.1 Research design

The authors wanted to explore the field of two-sided markets and see how it could fit with value pricing. It was also decided to look into the possibilities a local newspaper in Norway has when it comes to charging the online edition, and it was therefore conducted a case study of SA Exploratory research is defined as “research into a new topic to develop a general understanding and refining ideas for future research “(Neumann, 2009, p.13). The reason for why explorative design was chosen is that theory regarding two-sided markets often focuses purely on platforms and network effects within. The authors wanted to see if there were similarities to value pricing, and therefore had to build the theory on secondary data from both pricing theories. Regarding the case, digital user payment in the newspaper industry is a new phenomenon, and there are not much data to go on. Explorative design most often relies on qualitative approaches (Neuman, 2009, p. 13) as well as secondary data, and it where therefore concluded that this design would fit the research questions best.

3.2 Data

In the method of explorative design it is a natural part of the process to search for information and to see what others has found out about the subject (Gripsrud, Olsson and Silkoset, 2004, p. 59). Available data gathered for other purposes is called secondary data and is possible to use if it is found valid according to the examination questions. Primary data will be information gathered from firsthand experience either through quantitative or qualitative methods (Gripsrud et al., 2004). In this thesis it is used a qualitative approach, which often include observations or group- and person interviews. Because the authors wanted to talk

directly to the people working with the question regarding digital user payment in the different newspapers, it was conducted an interview with the innovation manager in Stavanger Aftenblad personally, as well as e-mail communication with the chief editor of Nettavisen.

3.2.1 Secondary data

The authors approached the literature of value pricing using this as a base to understand the process of pricing a product/service. After this the authors looked into research articles that explores and measures two-sided networks, and their network effects. Here the characteristics of the industry were taken into consideration to find answers to the research questions. Different sources were used to find information on the subject of price theory, two-sided markets and the industry of news media. The advisor of the thesis recommended searches for online research articles at the Google Scholar site and the library at the University of Stavanger's database available for students. Statistics from the industry is used for the purpose of describing the status today, and is indexes measured by standardized material. This is found on the sites of TNS Gallup, Statistics Norway (SSB) and Media companies association (Mediebedriftenes landsforening).

3.2.2 Primary data

Early in the process of writing the thesis a request was sent to Stavanger Aftenblad to use their newspaper as the case study. The authors interviewed the manager of innovation in SA and had contact by e-mail with chief editor of Nettavisen (a purely online newspaper). According to the procedure described in Gripsrud et al. (2004) of how to set up an explorative design it was prepared an interview guide (see appendix 3) for the depth interview with SA and a separate e-mail to the editor in Nettavisen. The interview with SA was recorded on tape after asking for permission from the interview object. The first interview was conducted after researching and confining the theory into relevant content, where the interview guide was used as a base for the discussion. After this the contact was based on e-mails between SA and the authors.

3.3 Analysis

To uncover the variables that affect the decision about pricing the online edition of Stavanger Aftenblad the authors compared traditional pricing theory against the theory of two-sided markets to find if there were any similarities in how to price a product/service. This was then applied in the case of SA to find if there is a certain way they should address the challenge of digital user payment, and a specific model to use when pricing the two customer groups.

3.3.1 Case

The goal for the case is to reveal a possible way of solving the dilemma of charging an online edition of SA in order to secure a long-term profitability. The authors decided on the following questions for the case:

- What factors affect the choice of a price model?
- How will the price model maintain SA's customer base and attract younger (under 40) readers?
- What possibilities will arise regarding advertisement and how can the platform take advantage of these?

To answer the first question the authors decided to look into six factors that can affect the choice of price model. These are readers reactions and expectations, advertisers possibilities, cross- and same side effects, handling competition, media subsidization and SA's two biggest problems according to the innovation manager, attracting young readers and churn (=turnover). The discussion leading to these factors is based on the conclusion of research question one and the answers given through the interviews.

3.4 Validity

Through the selection of articles and books used to answer the first research question, the authors checked all articles validity in the field of price theory. Through searches in Google scholar it was looked into how many times the articles have been cited, and by whom. Other articles literature lists were checked to confirm that no important articles were left out. The

reason for this was to see if the articles used were accepted in the field of both two-sided markets and price theory. At the end the authors made tables illustrating the articles, authors, context, variables and main findings. This was done to support in the process of selecting the articles used in the thesis. The authors believe that this strengthens the thesis validity and is an important factor to assure the readers that the theory used is at the top in its field.

Before conducting the interview with SA, the authors prepared an interview guide, which included all the main themes that were debated during the interview. This guide was sent to the advisor of the thesis before the interview to ensure nothing was left out. The authors believe that this helps strengthen the validity of the thesis, because the interview guide gives a structure to the interview, making it more likely to get all information needed for the case. After the interview was conducted a summary was sent to SA for proofreading and further comments. This to ensure that there would be no wrong citation in the thesis.

Employees from both SA and Nettavisen were asked before the interviews whether they wanted to be anonymous or if their names, titles and company name could be used in the thesis. None of them had any objections to be mentioned or cited in the thesis.

SA is in a process of considering digital user payment for their online newspaper, and what price and method to choose. The lack of information may therefore affect the authors conclusion, as some of the questions in the interview guide regarding price were not answered. The innovation manager emphasized that this was because all newspapers in Norway are working on this challenge now, and SA has to keep their information confidential so that it do not reach their competitors.

3.5 Generalization

When it comes to the question regarding generalization of the thesis the authors believe that the readers have to look at the thesis as two separate contributions. First regarding the price theory discussion and second the case regarding newspaper industry.

The authors believe that the combination of value pricing and pricing in two-sided markets can be generalized to apply for all companies in two- (or more) sided markets. This because it is not based on a specific industry, but on research done in several two-sided markets. The authors believe that all companies in two-sided markets should take value pricing into consideration when pricing a platform, because this will help increase the value of the network effects on the platform.

The case alone cannot be generalized to other industries and maybe not even other newspapers, because of the explorative design of the thesis. According to Neuman (2009, p. 13) “an explorative study is conducted to find out enough to design and execute a second more systematic and extensive study”. But the authors believe that the result can be used as a basis for more specific studies regarding users willingness to pay, and digital user payment in Norwegian newspapers.

4.0 Case

4.1 Introduction to case

“The greatest challenge that bigger and smaller newspapers here have in common, is that no one for the time being has a substantiating answer of how the free online edition is going to compensate revenue losses for the paid paper edition.” (Leder, 2012)

The SA has for a long time received income through their paper edition, from both readers and advertisers, and through the online edition from the advertisers. This is about to change as the customer demand changes through technologic progression and new possibilities of sharing information on social networks. Transferring the news from paper to online went for a long time without trouble as the paper edition compensated for the lack of income from the reader side of the online version. Value creation in a newspaper is not based on long-linked technology (Value chain), but rather a mediating technology (Value Network), and the network effects seems to be stronger when it comes to the Internet as speed and interaction has dramatically increased.

This gives new challenges within the customer groups, facilitating a platform for the readers and giving advertisers the chance to target advertise. The possibility of target advertisement depends on readers' willingness to subscribe in order to fit the ads towards the reader. If SA manages to attract readers to their platform, the advertisers will join in order to reach the readers.

The last couple of years the amounts of readers of the paper edition have declined as shown in the table below. The online readers have increased - bringing with it the challenges of two-sided markets online where news and updates are shared for free.

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|------|------|------|------|------|------|
| Stavanger Aftenblad, paper edition | 180 | 182 | 179 | 177 | 176 | 183 |
| Stavanger Aftenblad PLUSS, paper edition | - | - | - | - | - | 158 |
| Number of Online readers | 17 | 24 | 30 | 36 | 46 | 58 |

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------|------|------|
| Stavanger Aftenblad, paper edition | 183 | 184 | 180 | 173 | 169 | 173 |
| Stavanger Aftenblad PLUSS, paper edition | 162 | 159 | 148 | 135 | 122 | 118 |
| Number of Online readers | 70 | 100 | 102 | 112 | 123 | 123 |

Table 5: Amount of readers in SA 2000-2011, in 1000 (Medienorge b,c, 2012)

4.1.2 Description

The paper edition of SA is the base for the case study, with their two customer groups; readers and advertisers. The readers can pay a fee to subscribe to the newspaper over a period, pay for the daily newspaper or read it for free at for example the library. Subscribers are characterized to be over 40 years old with a high income (according to Andreassen). They in general read several newspapers. Norwegians read in average 1.3 papers a day according to Futsæter (2012). When it comes to subscription fees the reader subscribe for a given period of time, but as these may be cancelled the authors find the multi homing cost to be low. The reason for

this is that the switching cost between papers is low. The advertisers pay for advertisement they get on print according to the size and positioning of the advertisement, and may get a discount if they are regular customers. Multi homing cost is relatively low as they may freely change platform without having to make any high investments. Most advertisers use more than one platform to make announcements.

The authors define SA as a Value Network because of their mediating services between these two customer groups, as they facilitate the link between the readers themselves and between advertisers and readers to serve their interdependence. This means that SA needs to get the pricing right, handle competition and avoid envelopment in order to succeed (Eisenmann, et al., 2006). In this case the focus is on the aspect of pricing and the factors in which affects price decisions in two-sided markets.

SA is a platform where readers can read news, advertisement, relevant articles, put in private advertisement and updates on private matters (like birthdays and obituaries). Some sections of the paper is produced by journalists regarding news and articles, while other sections allow for interaction between the readers. In addition the paper prints ads from the advertisers, which give the opportunity for the readers to get information about events, discounts and other relevant information about the region. The value for readers is to connect to news and information in order to know about things happening in the region both before and after events. When many people connect to the platform more will choose to connect in order to get the same information and to interact with other readers. This creates same-side effects on the platform. The advertisers have netspectations of reaching the citizens in Rogaland County. This is the value given to the advertisers, and when many readers choose to stay on the platform provided by the paper they create cross-side effects as advertisers wants to reach them.

4.2 Factors for setting the price

In order to set the price the authors will in this section argue for how the factors are analyzed in order to meet the challenges associated with a Value Network. The authors will focus on readers' sensitivity to price and quality and how this is communicated as fair to the readers of

SA, possibilities for advertisers, possible network effects, competitors and the debate regarding media grant. SA innovation manager mentioned that their two biggest challenges are to attract young readers and churn. The authors will therefore also look at how the methods meet these challenges.

Reader's reactions and expectations

The readers reactions to the charged edition and their expectations of how the transition will be done will affect their demand for the online edition. According to the two-sided markets theory it is critical to get the reader side on board so the advertisers will join as well. In order to take into consideration user's sensitivity to price the authors chose to look at factors that affect the reader also because of their characteristics of receiving psychological value rather than monetary. In each of the pricing methods it will be positive to cover some of the output costs by charging readers for the access.

Quality

It is said that those who focus on quality journalism will survive the changes. The trend shows that those newspapers that focus on quality journalism don't have as high decline in amount of readers as the rest of the industry (Garvik, Fanghol, Ursin and Aursland. 2012).

In order to meet the reader's sensitivity to quality the authors find it important to analyze how the three pricing methods will handle this challenge.

Advertisers

In this point the authors will take into consideration the possibilities created for advertisers. This is done to analyze how SA's transaction to online edition will affect advertisers possibilities using the different pricing methods.

Cross- and same-side effects

Because of the interdependency between the customer groups the authors find it important to analyze how the different pricing methods will affect this relationship when charging both readers and advertisers. The network effects must be considered because the value of the networks is more important than to maximize revenue.

As more readers use social media daily (especially the younger generation) the authors suggest this argument should be heavily weighted as it makes such a great impact when it comes to same-side effects, which again affect cross-side effects.

Handling competition

Both customer groups are multi-homing. This makes it important to reveal how the methods will handle this challenge, as the customers will go to competing platforms if SA's online edition does not handle this point. Competition will also be relevant when it comes to reference price. Regarding the local coverage there are several newspapers that cover the different areas in the region but only SA covers all of Rogaland. This might be a strength when it comes to being a platform that connects the region, but it might be a challenge when it comes to setting the price.

The authors will on the base of this look into the challenges of multi-homing and reference price. Regarding reference price the authors does not take the media subsidization into account under this factor as this is discussed later, but subsidization will affect the competition as paper editions are subsidized.

Media subsidy

The criteria that have to be met in order to get subsidy today will not apply to the online edition. On the contrary this is being discussed with a possible solution to provide subsidies also for online editions where the newspaper sells half of their edition through subscriptions. The authors discuss this challenge regarding a future possibility of getting subsidies.

Stavanger Aftenblad's challenges

The age for settling has in the latest decades sloped upwards, and people in Rogaland younger than 40 years old are most likely non subscribers of SA paper edition (9/100 subscribers are below 40 years old today according to SA according to Andreassen). Many of these read news online.

Readers also tend to switch between platforms, and this is done more frequently online than with the paper editions. The readers might do that to get a broader view of news and information by reading different newspapers. This turnover is called “churn” in the industry.

On the basis of the interview with Andreassen , the authors chose the two main challenges when it comes to ensuring the company's future profit: attracting younger readers, who are less willing to pay, and the churn, which is a greater challenge in the digital market.

4.3 Experience among media houses

As mentioned in the industry section there has been some introductions of e-papers in Norway as an attempt to meet the demand from the two customer groups. These e-papers are a copy of the paper editions and may be accessed through subscription for a day, or for a longer given time period. The newspapers have to do something about the online edition to make it work in new format and to address new challenges. Some have already taken the jump (Ex. Hallindølen, Fædrelandsvennen), and some are planning to introduce subscriptions online in 2012. In the Schibsted group Fædrelandsvennen is the first newspaper in their group to introduce payment online (May 2012 they went online with their whole edition). They use a Freemium model where the reader comes into a free site with headlines and teasers to read more, and then have the possibility to click into articles and other content. Some of the articles are open for everyone, while others are limited to those who subscribe. The subscription is of an all-or-nothing characteristic as the reader pays for access to reading all the content in any format, either you subscribe for a day, 30 days or a year.

Some foreign newspapers have also started with digital user payment. Times in London have, as mentioned, put up a Full Paywall and several American newspapers have introduced the meter model. The Star-tribune in the US introduced the metered access method in July 2011 where they “give away” 15 articles each month. In his editorial outlining the changes, Casper Star-Tribune editor Chad Baldwin wrote

“While access to trib.com for our most active users won’t be free, it’ll still be a pretty darned good deal: The monthly cost for print subscribers will equal the average cost of a trip to Starbucks. For those who aren’t print subscribers, it’ll cost the same as two trips to Starbucks” (Baldwin, 2011).

The Tribune has two different prices online: One for print subscribers and one for the readers who just want the online edition. This shows that within the different models there are many ways to price.

Another solution to the digital user challenge that has occurred abroad is the use of outside companies that help with the introduction of digital user payment. They offer a solution for readers and the newspaper. This way the newspaper itself does not have to use much time on the solution, they can just outsource the user payment.

Pianomedia is a company facilitating this type of solution where almost all newspapers in Slovakia and Slovenia are on board. The company offers a subscription that works in a way that when the users log into one newspaper they get access to all the newspapers in the community (Interview SA).

Press+ is a US company that offers the same as Pianomedia (www.mypresspluss.com). One account for easy access to paid online news, commentary and other features for the readers. The readers don’t just subscribe to one single newspaper. They get access to all the newspapers within the Press+ community.

Press+ provides four key services for the publishers:

- Reader revenue platform; this is made available through tools, data and support.
- Topical content package; they offer a bundled subscription to connect the publishers on a common topic across multiple Press+ websites.
- Data and analysis; offer detailed reports, which instantly show which strategies and tactics that work.
- Restoring the Balance of power; they negotiate wholesale licensing/ royalty fees with search engines, e-reader providers etc.

This shows that they create a community for the publishers, where digital user payment is natural and easier to defend. On their web site they call themselves a good old fashion newsstand where they can come and look at the front pages, but if they want to bring the paper home to read, the readers have to pay a small fee.

4.4 How do the three methods for digital user payment fit with the price theory from research question one and Stavanger Aftenblad?

In this section the authors will go through advantages/disadvantages of the three methods Freemium, Full Paywall and Metered Access in terms of how they fit with SA online and the factors that effects the price decision.

4.4.1 Freemium

Reader's reactions and expectations

Freemium can be an advantage because it makes the transaction less intimidating for the users. The browser version of SA will still be free and the method therefore corresponds to the general perceptions that news online should be free of charge.

The authors think that Freemium will be perceived as a more faire price structure compared to what users get for free online today. It will look like the same newspaper, but it gives an

opportunity for readers that are especially interested in some topics to subscribe to these. This way nobody is actually excluded from the public debate and SA can in a way continue as before.

In this method, Nagle et al.'s (2011) aspect of proportional price evaluation can be used as an advantage (see appendix 1). SA can have a start price, but there is a possibility to change it over time and/or incorporate more articles into the subscription over time. This way there is a possibility to convert the method into one of the other two and the result: the readers will not react as negatively to digital user payment (Weber-Fechner effect, appendix 1). SA can then safely start up with digital user payment and then wait to see what the competitors choose to introduce, and adapt if necessary.

Quality

SA may choose to reward subscribers by putting quality journalism in the charged edition, but Freemium opens a window where readers may test the quality of the edition and evaluate if they are willing to pay for more. If they think the content is worth it, they may sooner be willing to cross over and subscribe instead of just reading for free.

This method set a demand for quality journalism for the whole newspaper. Readers are sensitive when it comes to quality. As mentioned in the theory above, they are skeptic to pay for something without knowing what quality they will receive. SA should communicate the value of the product in a way that makes the readers want to subscribe, and communicate a fair price to the readers while doing it. By using the Freemium method they get a chance to convince the readers of the quality through the free articles and to create a perception of quality that will increase readers' willingness to pay for the rest of the paper.

Advertisers

By introducing Freemium advertisers will have a bigger incentive to join SA The reason for this is that there will be a new possibility for advertisers to target the advertisement towards

the subscribers (appendix 2) because each subscriber will have a personal profile that can be used to find out about their specific interests. This will again meet the users demand for quality presented above because readers will be less averse to advertisement targeted against their interest field. The problem is that a big part of the newspaper will still be free of charge and if SA fails to attract the subscribers, the advertisers might go to a different platform.

Cross- and same-side effects

Freemium gives good opportunities to attract readers to the platform. Giving away content for free may help get readers on board (lower prices – more readers) and use the platform of SA. Readers may share content on social media and draw others to the platform as well, creating a positive same-side effect. The backside of having freemium is that the readers may not easily share the content which is charged for, because the reader would have to subscribe to get access. If they manage to attract readers though, the advertisers would want to get access to the platform in order to reach potential customers. In addition the readers who subscribes to the charged content, will give SA the possibility of facilitating target advertising towards reader preferences and therefore minimize negative cross-side effects as readers may be averse to advertisement.

As mentioned earlier in the thesis, readers like to read the same newspapers so that they can interact with others that share the same interests in forums and have something mutual to talk about in general. SA could therefore use Freemium to connect readers through interest forums where the readers may be able to interact with each other. This can help attract more readers through same-side effects since it will be of value for the readers to get in connection with others in the area with mutual interests.

Both interaction and target advertisement may increase the reader's quality perception of the newspaper because they are treated as individuals instead of a customer group.

Handling competition

Multi-homing:

In Norway there are few newspapers that have started with digital user payment. This might be a disadvantage in Freemium as readers and advertisers multi home. By introducing a subscription on some of the newspapers articles/topics there is a chance that readers will continue to read the free version of SA and read the rest of the news on other platforms. This will again reduce the possibility for target advertisements and reduce some of the positive cross-side effects. This is why it's so important to communicate the quality and value of the subscription to the users and differentiate SA from other platforms.

Reference price:

If the company compares their platform with other online newspapers, their reference price will be according to the compared alternative. In Rogaland SA competes with Rogalands Avis and the many local newspapers in each municipality. The online access for these are free, but is available (as SA also supply) to be downloaded as a pdf of the paper edition. Prices of these vary according to time aspect, the daily edition of these vary from 15,- to 20,- NOK but is cheaper if the reader subscribe for a given time period.

The alternatives to SA are still free of charge and the Freemium method will as mentioned live up to the expectations about free access. Therefore it is hard to set a reference price since compared to the alternatives online the price should be zero.

The authors believe that by using Freemium SA have to set the reference price by comparing the charged online edition version to their own paper edition, and the free part will be as today. The articles that are included in the subscription will most likely be the articles that are paid for in the paper editions. The two reference prices (one for readers and one for advertisers) will in this model be divided into two again: one price for the free paper, and one for the subscription.

Media subsidy

A possible future disadvantage with the Freemium method is if the new media subsidy mentioned earlier is implemented. The Freemium method might not bring in enough income/subscribers to be qualified for subsidies. This way other newspapers that manage to have enough subscribers, by choosing another method, will have a competitive advantage. SA may use this as an advantage though if they are early on the online edition and adjust prices a little by little as readers get used to paying for the content, according Nagle et al. (2011) this will help meet the customers tendency to evaluate prices in relative terms.

Stavanger Aftenblad's challenges

Attracting younger readers

SA today has a majority of readers above 40 with high income. The Freemium method can help to attract and keep younger readers because of the free content, and hopefully subscribe when they get older. The problem is that most young readers are also interested in reading the articles that would be included in the subscription (travel guides, top ten, etc.) and as a new trend the younger generation use social medias (Facebook, Twitter etc.) to share the news they read. This will not be possible if the articles are included in the subscription since their friends will not always have access to it. This might be a challenge as young readers are less willing to pay for content.

The authors therefore think that Freemium can be both positive and negative regarding young readers. Positive because it attracts younger readers who reads for free, negative because they are excluded from parts of the edition that might have triggered a willingness to pay for quality journalism.

Churn

Keeping customers over time can be critical since churn costs is high. According to Andreassen, some of their readers are willing to pay for the entire newspaper and others are not willing to pay at all, and the rest of the readers are in the middle of these two. The

Freemium method seems to meet this problem in a good way. The readers that are willing to pay can do this and get the extra articles, and the readers that want a free newspaper still have the possibility to read some of the content.

4.4.2 Full paywall

Reader's reactions and expectations

In short term this method will result in a loss of readers for SA because of the subscription fee. It can be experienced as an abrupt and unfair transition from having everything for free to having to pay for it all. The advantage with full paywall is that it will bring in more money in long term because it demands a subscription from all users. This again can help SA to increase the quality of the newspaper, both when it comes to articles and technology that will benefit the readers.

If SA manages to defend the price level and communicate quality and value well, then according to the theory discussion the readers might come back and through this create value for the advertisers. The chief editor in Hallingdølen, who use a Full Paywall, put it this way “you get the readers you deserve” (own translation, n.d.). By this he means that if the company do not focus on the value/quality demand from the users and just set a price and hope for the users to come, they will not be able to attract the readers.

Quality

A challenge here is that the demand for quality journalism will be there from the start and reader's willingness to pay will be low because they are not sure about the quality received. Communicating the value readers will get from joining the platform will be critical.

Advertisers

Advertisers will try to reach different reader groups and as the readers have to pay for access, this will exclude consumers who are most cost conscious. The readers that do join the platform will not be as cost conscious as readers of free papers, and this might increase

advertisers' willingness to place quality advertisement on SA's online newspaper. Full Paywall gives the best basis for administrating target advertising because charged usage for the readers means that they have to register. This results in the possibility of target advertisement because SA will have personal information on all the readers. They will be able to sell this as a netspectation to the advertisers so that the advertisement can be more targeted against the interests and segments for each specific reader (see appendix 2 for examples). The advantage here is that all advertisement can be targeted.

Cross- and same-side effects

The advantage of the Full Paywall method is that SA will not be as dependent of the advertisers to cover the output costs, as well as the profit. This because subscribers will pay for access and therefore contribute to cover expenses associated with the platform. They will get rid of free riders and also be able to facilitate target advertizing towards all readers, which is the greatest argument for choosing the Full Paywall method. Regardless it is crucial that SA gets readers to subscribe. They should get marquee users on board to signalize value and status associated with joining the platform in order to create positive same-side effects through netspectations.

To manage to pull this method off SA is dependent on the positive same-side network effects. If they manage to attract the readers, the advertisers will come as a cross-side effect using this method because as mentioned this method is the best one for advertisers. Through using the target advertisement SA can decrease the possibility of negative cross-side effects that comes from the fact that readers are averse to advertisement.

Handling competition

Multi-homing

Since both customer groups' multi-home and the other newspapers are free or can implement one of the other methods it might be difficult to get the users to pay for SA. Why should they pay when they can get the same news somewhere else for free or at a lower cost? SA may have a disadvantage using a Full Paywall, and will in that case have to differentiate in order to

get subscribers. Readers need to know what they get in order to be willing to pay, and the platform has to contribute with value for the customer.

Reference price:

Considering the discussion under Freemium, the reference price will in Full Paywall be more complex because the content is at the time either free or charged. It will be the same content as in the paper edition but available in a format that readers expect to be free. SA may use the sole paper edition as a reference price, after all it will be the same content and maybe even more value connected to it with easier format. The authors suggest if using this method price- and value-communication should be highly prioritized in order to increase the readers willingness to use and to pay for access to the platform.

Media subsidy

One of the most important advantages for the Full Paywall method is that it corresponds to the demands for the possible new platform neutral media subsidy. This way, if it is implemented, SA will get the possibility for a third income to the online edition.

Stavanger Aftenblad's challenge

Attracting younger readers

By introducing a Full Paywall the authors believe that SA do not take into account the challenge regarding young readers. As mentioned earlier young readers have lower willingness to pay and a Full Paywall will exclude them from the newspaper. This will be a problem in the long run because it is the younger generation who is the future customer. If they get used to other platforms, the odds for them to subscribe to SA later might be smaller.

Churn

The Full Paywall might have a positive effect on the churn challenge, because if the readers are willing to join the platform they will use it. The reason for this is that if they first pay for the newspaper the possibility that they will go over to a different newspaper is smaller because the switching cost will be too high when they have to pay for a new subscription.

The challenge here is the big “if”. Readers might be hard to convince to join the platform and SA may lose some of their readers as well as the possibilities to get the younger readers on board.

4.4.3 Metered Access

Reader's reactions and expectations

With a given number of articles for free the readers have the possibility to check out the quality of the articles, join the public debate and enjoy links from friends and family even without a subscription. After reading the free articles of the month many newspapers that use this method still give away the ingress for free as a trigger for the readers to buy the whole article, and therefore subscribe, especially if they are already convinced that the benefits from joining the platform is worth the price.

Those who otherwise may be unwilling to pay will not be excluded from the public debate as the readers themselves get to choose which articles to read. Readers who either reads for free or pays for the content may share news that others is allowed to access no matter if they are subscribers or not. This is an important factor in creating network effects as the group 12-29 year olds is using social platforms more frequent than online news editions (89% of 12-29 year olds use Facebook daily according to Futsæter, 2012). Sharing links to articles will reinforce the same-side effect on the platform that SA provides and at the same time create cross-side effects ensuring advertisers willingness to pay for access.

This method (like Freemium) will be able to handle the reader's tendency of evaluating prices proportionally, as SA may start at giving x number of articles for free and then slowly adjust this number downwards. They may also charge a certain amount for the single articles and then adjust these upwards as people get used to paying for online journalism.

Metered Access method is not much used in Norway or in Europe in general. It is mostly used in the US, where it works because most of the newspapers are introducing this way of digital user payment. The authors think that in Norway it can go both ways. It may not work because no other newspapers are using it and the readers are therefore not familiar with it, but it may work for the same reason: it is something new and it gives new possibilities for readers themselves to choose what to read.

Quality

Knowing the quality will reduce the reader's price sensitivity and the risk related to buying an article or to pay a subscription fee because they know what they get for their money. This may lead to reading more articles and raise readers willingness to pay.

Advertisers

In Metered Access the free articles will draw readers to the platform and the paid access gives opportunities within the concept of Target Advertising. If SA manages to communicate the quality of the articles and benefits of joining the platform right, the readers will come and with them the advertisers who will have a good opportunity to target their ads directly at each reader.

The advertisers are interested in reaching out to the population of Rogaland, and will be willing to pay knowing the mass uses SA for getting news and information. The paid access will demand a user account for the reader and give the possibility of Target Advertising as the reader registers personal information.

Cross- and same-side effects

Some say what drives number of clicks on the web is often the general approach that covers a wide range of readers and in addition keeps the articles small (Jansen, V., 2012). This might be difficult in Metered Access method as it lifts the quality of the journalism and therefore takes away the possibility of reaching a greater reader mass. On the contrary it may be easier to create positive same-side effects in the Metered Access method as the articles may be shared in social media without charging new readers. Subscribers may read everything that is shared and family who not usually read SA online will be able to read the articles shared up to a given limit.

There will also be a possibility to target advertisement as some of the readers subscribe. SA may use this as a chance to reveal a more specific pattern of preferences connected to clicking into the different content.

Handling competition

Multi-homing

Both readers and advertisers might use other platforms when readers have to pay for content, because when the number of readers goes down it also reduces advertiser's willingness to pay and to use the platform. All articles will be available in for free before readers have to pay for access when they have access the amount of free articles. Readers can be cynical enough to jump from newspaper to newspaper - reading the local part at Rogalands avis, the international news at Dagbladet, national news at VG and just read SAs special features like the energy part or local news. This way the reader does not have to pay for anything, and quality journalism will be even more important in order to differentiate SA from competitors. The authors believe that the Metered Access method would work very well for a regional newspaper like SA because it makes it easy for the readers to share content with others.

Reference price

The different prices of the articles or subscription fees will have to depend on the content. SA

has a wide range of news and information, and might have different reference products. For example VG net may be a reference product when it comes to general news online, Technical Magazine (Teknisk Ukeblad - a magazine about industry) may be a reference product when it comes to industry and energy, and Facebook may be a reference product when it comes to updates on private matters. The reference price for the reader side will not be as straight forward as in the Freemium model because some of the content may be the same as in the paper edition while other articles may be the same as what the readers have available online for free today.

Media subsidy

In Metered Access method as in freemium it might be difficult to get subscribers as some of the content will be free. The chance of getting this subsidy is a bit higher in this method compared to Freemium, because when the readers subscribe they subscribe to more of the newspaper than through Freemium.

Stavanger Aftenblad's challenges

Attracting younger readers

The Metered Access model will give the opportunity for young readers to stay on the platform for free until they find it natural to cross over to pay for the content. The opportunity to share and read articles through social networks like Facebook, Twitter and other social platforms will lead to same-side effects as friends and family will click into shared links, some may even come to the point where they subscribe to read more.

Churn

Changes in the access for free riders will most likely have an impact on the turnover, but giving some content away for free might create a positive connection and keep readers on the platform. For those who subscribe the turnover will tend to be low as the fee is already paid and the subscribers will read what they have paid for.

4.5 Advertisement possibilities

Today SA has two different types of advertisement advertisers can buy:

1. Advertisement can be bought to a fixed place on the website. These can be in different modules and sizes according to the placement on the site.
2. Advertisers can buy view-based advertisement where the advertisement is shown x thousand numbers of times.

The price of the advertisements is always dependent on what the market is willing to pay. This means that there is no fixed price, but that it varies with the attractiveness of the price. The economics and energy part of the newspaper normally have a higher price than the rest online. They do not have a maximum amount of advertisement they accept in the newspaper (both online and on paper), but they have a demand for size so the editorial content doesn't lose the focus. SA does not have a standard model they use to regulate the amount of advertisement, but follow the market and their instinct.

This is a different method than the auction method Google uses. Andreassen does not think Google's model is much used in Norway. He believe that since Google is a search engine, the users are more aware about what they are looking for and therefore the auction model with target and quality advertisement is easier to use. Readers of newspapers on the other hand are served a more diverse content, which might make it more difficult to use the Google model.

SAs approach may be an easy solution to the advertisement challenge. The methods they use today do not give a lot of credit to the readers and treats the readers as a collective goal rather than individuals. It doesn't take advantage of the two-sidedness in the market when they do not add the factor of readers into the price of advertisement. This is a problem as the possibility of increasing the network effects between the two customer groups is in the dynamics between the customer groups. Also, when the readers are paying for the newspaper SA have personal information about all their customers, this can only help advertisers tailor their advertisement for the newspapers different parts if SA exploits these possibilities. Today

it does not look like they take this into consideration and according to Andreassen they do not plan to change their methods when introducing digital user payment for the readers.

The authors do not think this is a good solution because SA have the possibility to divide their customer groups into smaller segments, which corresponds to the value pricing theory. This might decrease user's sensitivity to advertisement and make readers look at advertisement as a supplement to the article they are reading. Target Advertisement is a way to meet the challenge of reader sensitivity to advertisement. Here the companies place advertisements that are made to meet specific segments, websites etc. This means that they are tailored to meet customers of the specific product/service. The authors therefore strongly recommend considering the possibility to implement Google's method regarding target advertisement and quality advertisement in SAs price method for advertisement. As well as regulating the amount of advertisement in the newspaper, this may help decrease readers awareness towards advertisement and may increase advertisers' revenue.

4.6 Technology

One of the main reasons for the changes in the newspaper industry is, as mentioned in the introduction, the technology development that has occurred the last years. Introduction of laptops, smartphones and reading tablets have introduced a new possibility to be online everywhere, all the time. These developments have created a demand for fast going technology and therefore a new challenge for the newspapers. The problem is that it does not look like the development is going to slow down as new operating systems and technological toys are all the time released to the public.

This is where it gets complicated for SA. Where should they start? What do the users want? Both mobile phones and reading tablets have at least three well known operating systems (Android, Apple and Windows) which all demand their own layout for the newspaper and technological systems. Should they focus on all or just some of them?

Readers demand has changed from a simple need to get the news delivered to get easy access all the time, everywhere and in the preferred format. They want more pictures and videos, and layout can be an important factor to attract them to the platform. The advertisers also expect more from the platform they join. As mentioned in the theory, one of Orange's problems regarding advertisement was the slow technology. Today speed is an important factor for both customer groups, and together with targeted and quality advertisement these are important factors SA has to take into consideration.

SA has for some time now offered the online edition and the paper edition on both paper and as a PDF. They have an app for the online newspaper that works on iPhone and Android, and in May 2012 they also introduced an app for Windows phones. This shows that they are doing their best to keep up with the development, but still the apps are free of charge for the users. The reason for this is that it is just a copy of the online edition, and Andreassen therefore believe that there will be no willingness to pay among readers. Today SA are working on increasing the value of the app before introducing a payment system. The question is: For how long can they keep on going? There is no doubt that they have to follow the technology development and as Andreassen pointed out: "in the future we don't know if we will have two or fifty revenue sources". This depends on what products it will be possible to introduce within the concept of a newspaper.

Another challenge within technological development is that digital user payment will demand a new payment system for SA, which again will result in new investments or outsourcing of these.

One of the questions that need an answer fast is if there are different price models according to quality and which electronic version the readers use.

4.7 Discussion

Readers' reactions and expectations

Since SA have had some of the content of their edition online the last decade, people in the region and beyond have read the online site for free. This will be a part of the challenge of

putting all SA's content in an online edition and at the same time change readers perception of value and willingness to pay.

Freemium will in this regard be the least scary and excluding as it gives almost the same access for readers as today, but with the possibility to subscribe and get what up until now have only been available in the paper edition. Full paywall will be such a dramatic change that some readers will use other media that is available for free, some will join the platform and some again may be willing to join the platform if they are convinced that the subscription fee will be worth it. Metered Access will be a middle way, which gives a smoother transition regarding access and willingness to pay as readers will be able to read some content for free before they are asked to pay.

The importance of creating same-side effects calls for a method that draws the mass to the platform but at the same time facilitate customer preferences. Both Freemium and the Metered Access gives content away for free and therefore may create same-side effects. At the same time both these two takes into account the tendency to evaluate prices in proportions and facilitates a smooth transition by charging only for the extra content. Full Paywall might give income as the readers pays for what they read, but it will be harder to pull off the same-side effect which is essential to get advertisers on board. A paywall of this sort may also create reactions towards the big jump from free to paying for everything. Because of these two factors, same-side effects and relative evaluation of prices, a Full Paywall may not only scare off the readers as they have to pay from the start but also prevent a same-side effect.

Quality

The readers are, as already discussed, price- and quality sensitive and all three methods gives the opportunity to trigger the reader to subscribe to the charged access through headlines and introductions. In Full Paywall this is the only content the readers get for free and they have to judge based on minimal information about the content. This makes it important to communicate value in order to raise willingness to pay.

In Freemium a lot may be judged out of the quality of the free content. This makes it important to make a good impression through the articles that is available for everyone, even though the reader does not at this time pay for the content. The Metered Access may have an advantage, as every article can be a trigger for reading another and at the same time include every citizen of Rogaland in quality journalism. The possibility to choose which articles to read for free might have a positive effect also in communicating value and creating willingness to pay.

Advertisers

If the company should be able to subsidize the readers they will have to charge the advertisers in order to make profit. The network effects will increase advertisers' willingness to pay the more readers they get access to. Today SA sells advertisement space in given spaces on the site, either for a given time or a given amount of clicks.

Target Advertising may give an additional effect in which companies might better target their customers. Target Advertising requires that readers subscribe in order to target them, in which Full Paywall will be the best alternative because every reader has to subscribe to use the platform. Metered Access will partly serve this type of advertising, and might also be combined with the advertising model SA have today for the readers that do not subscribe. The least favored in this regard is the Freemium where it will be harder to get readers to subscribe, and Target Advertising will be difficult.

Cross- and same-side effects

It is critical to create positive same-side effects on the reader side in all of the methods as this drives the income on the reader side and the chance to get advertisers on board as a cross-side effect. Freemium will draw readers to the platform and may facilitate for same-side effects with its free content but at the same time risk negative cross-side effects giving advertisers access. On the contrary SA will through Freemium be able to create positive cross-side effects that will draw advertisers to the platform. Full Paywall may get some of the reader side on board, but it will be harder to create same-side effects as readers are price sensitive. The advantage of Full Paywall is that they will always know the value of their reader side so they

may sell it to the advertisers in form of Target Advertisement, which will reduce reader's averse attitude against advertisement. Metered Access may create same-side effects because all content is free up to a certain limit and may be shared in social media. This will also attract advertisers, and SA may facilitate Target Advertising towards subscribers. In all of these methods SA may use marquee users to create same-side effects.

Handling competition

Multi-homing

Little research has been done in situations where both customer groups multi-home, as mentioned in the theory of two-sided markets. In cases where one side single-home and one side multi-home there is a dynamic of one side attracting the other, so that the side which multi-homes wants to join the platform that the single-homing group uses. By attracting the single-homing group the multi-homing group will be forced to join the platform in order to meet the other group. The challenge of having two groups multi-homing is that no one is guaranteed to get both of them on board. What might seem to be a principal is that if you get the readers on board, the advertisers will join as well to reach the readers. So even if the readers read other newspapers they will be of value to the advertisers. The challenge will, based on the theory, be to get readers on board – using the platform of SA- drawing the advertisers to it as well.

Freemium will be able to draw masses of readers to the platform on the free part of the edition, giving a possibility to get advertisers on board. The charged part of the edition, as also the Full Paywall method, might not draw that many users to it but gives an opportunity to be more accurate in creating value for the advertisers within the concept of target advertising. Metered Access combines these two drawing readers to the platform as a given number of articles may be read for free, and the possibility for advertisers to more accurately target their customers. As all content in principal may be read for free, the users will multi-home but still stay on the platform.

Reference price

Regarding competing platforms and their pricing of the platform, SA has several alternatives in choosing a reference price. They may use the competing platforms in the region, similar platforms which give the users the same or similar value, or their own paper edition and current online edition.

Media subsidy

Taking into consideration the possibility for media subsidy all of the three price methods may be adjusted in such a way that SA may get the subsidies, but Full Paywall is the only method that guarantees this through full subscription. Freemium and Metered Access are weaker in this regard because some of the content will be free and will not demand that readers subscribe. In Freemium this may be controlled by setting the limits of free content. In Metered Access the readers may be able to exploit the access fully and not subscribe at all. Setting limits though may not be without trouble as these affect the network effects.

Stavanger Aftenblad's challenges

Attracting younger readers

Taking into consideration the low willingness to pay and the tendency to settle down in their late 30s, attracting younger readers may require more than a simple go-online solution as they are familiar with the possibilities of using different platforms.

Freemium gives young readers the possibility to stay on the platform for free with a limited access. Full Paywall will demand that readers subscribe, and therefore exclude the readers who have a low willingness to pay. Introducing this method will most likely lead younger readers to other platforms that today are still free of charge given that there are other platforms that will substitute the value associated with SA. The authors have argued that there are platforms that may be potential substitutes. Metered Access method will give the chance to share content in social networks, which may be an advantage when it comes to drawing younger readers to the platform. The challenge might be to find out what they are interested in

and adapt.

Churn

Freemium may meet the demands from younger readers as some of the content will be free of charge, but considering that the free-riders have to go to other platforms to get what is charged for at SA the churn might be a problem. Full Paywall may scare off the younger readers, but may have a positive affect towards the challenge of churn. It might even create an incentive for younger readers to join the platform in order to be a part of the older readers public debate (this will depend on the same-side effect). Metered Access will answer to both these challenges, drawing younger readers as they get a certain amount of free access - and may share it on social platforms - and reduce the churn.

4.8 What should Stavanger Aftenblad do?

In this section the authors will answer research question two: “By using the theory presented in research question one, how can SA price an online newspaper?” On the base of the author’s analysis the different factors are given characters according to how well the pricing method responds to each challenge. If the method answers “very well” to the challenge they weight two positives (++), a “bad” answer to the challenge will give a negative (-), ratings between these are “good” (+) and neutral (0). The authors have implied in the description of the factors that same-side and cross-side effects should get an extra weight when it comes to concluding on a pricing method. The factors are therefore in general given a 10% weight of the total score and the same-side and cross-side effects are weighted with 20% of the score.

| | FREEMIUM | FULL PAYWALL | METERED ACCESS |
|--|-----------------|---------------------|-----------------------|
| Reader's reaction and expectations | + | - | + |
| Quality | + | 0 | ++ |
| Advertisers | - | ++ | + |
| Cross- and same-side effects (weighted double) | + | + | ++ |
| Multi-homing | + | + | ++ |
| Reference price | 0 | 0 | 0 |
| Media subsidization | 0 | ++ | + |
| Younger readers | + | - | ++ |
| Churn | - | ++ | ++ |
| SUM | 4 | 7 | 15 |

Table 6: The weighted outcome of the case analysis

From this table the authors find the metered access method to be the best pricing method for SA to use in the transition from paper edition to online edition given the circumstances. By choosing the Metered Access method the authors believe that SA will be able to meet the challenges in a way that takes into consideration the characteristics of a Value Network because of the method's ability to draw readers to the platform and the focus on value for both readers and advertisers.

Within the Metered Access method there are opportunities when it comes to the charged content. SA may divide the articles in such a way that users may pay for single articles, whole editions, single themes etc. There are great opportunities regarding bundling, giving

customers a chance to put together their own newspaper as a bundled edition of personal preferences. Possible themes that SA might make available for customers are energy, culture, sports, local reports, travel guides and discussion forums.

5.0 Concluding remarks

The authors have searched to find an indication of which direction newspapers should move regarding digital payment. Traditional patterns are making a base for a new industry to form as paper and online editions finds its place in the rapidly changing market. Considering the challenges of pricing, as internet for a long time has been free of charge for users, the authors asked these questions:

1. Can value pricing be used together with price theory for two-sided markets when pricing a platform?
2. By using the theory presented in question one, how can Stavanger Aftenblad price an online newspaper?

The authors conclude that integrating the six factors from two-sided markets theory into the strategic pricing pyramid is the best approach to the challenge of making a platform profitable.

This conclusion is based on an exploratory approach on the subject and the authors propose that more research should be done, both theoretical and practical, to back it up.

SA is standing in front of what may be the most challenging situation where both readers and advertisers seem to find new ways to interact both in the physical and the digital world. The authors find the Metered Access method to be the best pricing method for SA to use in the transition from paper to online edition given the circumstances. By choosing the Metered Access method the authors believe that SA will be able to meet the challenges in a way that takes into consideration the characteristics of a Value Network because of the method's ability to draw readers to the platform, and the focus on value for both readers and advertisers.

The authors suggest that further research should look closer into readers' sensitivity to pay online. There should be conducted surveys regarding digital user payments that together with the conclusion of this thesis may give SA a basis on which they can make a decision regarding which pricing method to choose.

The authors also think that the theme Target Advertisement is interesting and should be looked further into as it might take advertising to a new level.

The authors find it peculiar that nothing has been done regarding media subsidy for the last three years since the report has been available for the ministers in this period. The current requirements to get subsidy seem to favor the paper editions without giving the online editions a fair chance to compete in the market. Despite this, the trend shows a decline in paper editions and an upturn online.

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Appendix 1: Strategic pricing pyramid (Nagle et al., 2011)

Value creation

At the end of the day what really gives profit is the sale where the product generates value to the customers, and reflects what they are willing to pay for. One needs to understand what creates value for the customer in order to create the right value in a product/service. The basic decision in making profit is about value and what the customer really wants in the product. Some might say that use value is the lead here, but Nagle, Hogan and Sale (2011) points out that people almost never want to pay the price that is actually the value of their experience. There is also some that think that value is what the customer is willing to pay for the product, but some customers may – even if they paid a price for the product - end up disappointed because of the products lack of value for them. Some may not even know the value and therefore misses the opportunity to buy the product, even if it's a fair price to them. Therefore it is important that the value of the product is captured in the price using the right reference price and adding a reasonable differential price. The reference price is found using the price of the product closest to fill the need the product will cover. The differential price is the part of the economic value that potentially may be captured in the price, containing monetary and psychological value. Nagle et al. (2011) points out that for business to business purchases monetary value is the most important because of the ability of measuring the actual value the product/service applies to the business. To know which price to set, one needs to have a base in which to set the price from and what the customers is willing to pay. Before setting the price structure the firm needs to know what the reference product is and what price level this product has. If the firm product/service has extra/or less attributes than their competitor product/service, they can price it accordingly higher/lower because of the increase/decrease in value for the customer according to the differentiation value.

Price structure

The next step is to determine the different price levels at which the segments are willing to pay so that the profit will be as high as possible. Setting a one standard price level may give profit, but the difference between barely staying on the profit side and really getting something out of it may be greater than you think. Nagle et al. (2011) presents an example that shows the difference between setting a standard price (according to the principle of setting the price that maximizes profit) for the whole market and setting prices for different

segments in the market, which shows a significantly higher profit if the company segment the market (Nagle et al., 2011, p.48). With a five price point model the profit in the example is 80% higher than choosing a one price point solution. Even if it is easier to have only one price point, it may be risky to serve only the high-end users of the market as the lower profit segments may be used as a base for competitors to enter the market. It will pay off to serve different segments; letting them pay the price they are willing to pay and maximize the profit in each segment rather than seeing the market as one. What also needs to be taken into consideration is the cost of serving different segments. Another challenge is the buyer's ability to get the product/service for a lower price, even though they are willing to pay more. Nagle et al. (2011, p.50) gives three mechanisms in order to maintain the: Price-offer configuration, price metrics and price fences.

Price and Value communication

With the value and price structure as a foundation, the important next step is to communicate price and value to the customer so that they will realize the real value of the product. It's especially important to communicate the price and value if it's a new product, and it includes a risk for the customer to buy. Nagle et al. (2011) sums up the role of price and value communication like this:

“To protect your value proposition from competitive encroachment, improve willingness-to-pay, and increase the likelihood of purchase as customers move through their buying process.” (Nagle et al., 2011, p. 72)

To communicate the value of a product/service Nagle et al. (2011) gives us some processes in which the firm needs to develop a clear message at different stages of the buying process. The message needs to be adapted according to the product characteristics taking into consideration “the relative cost of search” and the “type of benefits” the product gives (Nagle et al., 2011, p. 76). Because of the different ways of making a decision of which product to buy, one needs to carefully communicate the value of the product in ways that the customer will find useful. The message also needs to be adapted to the purchase context in order to give the customer a right picture of the solution for their need. It is also important to get the message into the right stage of the customers buying process. This in order to influence their knowledge about the product, as the firm in addition to this makes sure that the content of the message is “delivered

to the right person at the right time in the buying process” because of the complexity (Nagle et al., 2011, p.87).

When it comes to communicating the price it is discussed four aspects in which the customers will have reactions if not handled properly. The first is about proportional price evaluations, which are the consumer tendency to evaluate prices in relative terms rather than in absolutes, called the Weber-Fechner effect (Nagle et al., 2011, p. 87). The conclusion here is to make small adjustments in the price within certain limits when it comes to raising the price, keeping it within acceptable limits. In case of price cuts it is more effective to make a great cut that goes under the lower limit of noticeable pricing, than making smaller cuts several times. Second is reference price which defines which products/services customers compare in the process of finding their solution in the buying process, such as alternatives, substitutes and the prices of these. The price communicated with a new product will also be associated with later appearance of the product/service and therefore important to do right the first time. It's better to set a high price and communicate a discount than to communicate in such a way that the customer will think that the low price is the normal price. Third aspect deals with what customers perceive as fair in pricing strategies. This can be such as the product/service is perceived as a necessary good or a luxury good, also taking into consideration the motive of the firm and how to manage the perceived fairness because of its subjective nature (customers will evaluate information according to their own knowledge). Fourth is about gain-loss framing which stresses the fact that consumers respond differently as a consequence of how the gains and losses are communicated. One should communicate the prices as normal prices with an opportunity of getting discounts rather than low prices with a potential of having to pay extra for additional services.

Pricing Policy

Pricing policy is more than instructions of who gets to give how big of a discount, but more of a set of regulations of who gets discounts in which situation. To ensure that the store isn't given away, the firm has to have the same pricing policy for all customers in times of changes that affect the purchase ability. If this is not the case, there is a chance that it is the customers with a strong negotiating will who most frequently will get discounts in the buying process.

This might give the wrong signal to other respected customers who willingly pay the price of the products real value, as well as it effects the profit. There has to be a pricing policy which gives directions of who gets discounts and how big discounts is allowed in which case, and also fences to control that there are no leakage to segments paying the full price. With a pricing policy at hand the sales personnel can negotiate with the customer directly without having to refer to their higher authority, this will give a greater credibility to the sales personnel.

Price level

At the top of the pyramid in the process of strategic pricing is the pricing itself. The firms profit will depend on which level is used and which price is set in order to get sustainable income. Nagle et al. (2011) gives a three step pricing method to capture the elements concerning the customers, the competitors and still also take the consequences of the costs.

- Define price window

The price window is a possibility area which defines at which level the price should be set within limits based on the reference price adjusted according to the positive and negative differentiation value. Two factors will affect the price window: Lifecycle and costs. The price window will depend on where in the lifecycle the product is located, because this will be reflected in the reference price. The cost will give an indication not to set the window lower than the costs. The firm will lose profit if it sets the price lower than the cost level. The cost level should include marginal costs and avoidable costs.

In all cases of price window the upper limit will give a roof of what the price can be, if the price gets higher the customer will see it as an unfair price and therefore be unwilling to pay the price even if it's just above what seems to be a fair price. The roof is set accordingly higher or lower than the differentiation value of the reference product. The lower limit is the floor and is defined by either the reference price or the costs related to producing the product/service when the differentiation value is negative. Price under the floor will hurt the profitability of the firm since the floor limit is defined by the cost.

- Set initial price according to differential value

Finally set the price in different segments according to the strategy of the firm and their goals to safeguard their long-term profitability. It's important to decide how much of the differentiation value the firm wants to capture in the price, and not only set the price as high as the price window allows. Firms also need to take into consideration the relationship between price and volume.

- Communicate prices to the market

After setting the price the firm needs to communicate the price to the market in such a way that the price is seen as a fair price. This will ensure that the customers are willing to pay even though the price may be higher than they expected in the first place.

Appendix 2: Target Advertisement (Google & Facebook)

Search engine marketing has ever since Internet advertisement got introduced been popular among advertisers. There is a lot of money and potential, but also many traps to fall into. Therefore many advertisers, as well as platform have started to set a standard for the advertisement and platforms like Google and Facebook have certain demands to the advertisements on their platform.

To get your advertisement showed on for example Google, advertisers have to bid on different key words. Then by multiplying the bid with quality of the ad decide if the advertisement is shown and where. This means that it's not always the advertiser with the highest bid that get the top position when consumers use the keyword. Another point is that the advertisers can decrease the price of their ad by increasing the quality of the advertisement. By using this model Google eliminates low quality ads. The quality can be evaluated by numbers of clicks, quality of landing page and the relevance of the ad (GoogleBusiness, 2012). Here target advertisement is important.

Target Advertisement is a way to meet the challenge of users sensitivity to advertisement. Here the companies place advertisements that are made to meet specific segments, websites etc. This means that they are tailored to meet customers of the specific product/service.

The advantage of such advertisement is that the consumers are being treated as individuals instead of a collective goal, and the advertisers eliminates the possibility to waste advertisement on users that are not interested. They only target consumers that have a high preference to their product and this way they increase their profit.

Google is one example of a company that uses Target Advertisement. They have three different ways for advertisers to target their advertisements:

1. Contextual advertisement
2. Placement advertisement
3. Interest-based advertisement

Contextual advertisement is a method that uses keywords, word frequency, font size, link structure etc. to decide what the website is about, and adapts the advertisement to the website (Google, n.d.). This way the users of the website will only see advertisements that match the content of the page.

Placement advertisement is when the advertiser chooses a particular part of the website for the advertisement. The ads don't have to be directly related to the site, but they are handpicked by advertisers who have found out what the websites users are interested in general and what they can offer them (Google, n.d.).

Interest-based advertisement looks at consumer's interests. What pages do they visit the most and what advertisements are they most likely to click on? Here Google show advertisements

based on users' earlier interaction with them, for example what web pages they have visited earlier. Users of Google can also view and edit their own interest categories (Google, n.d.).

Another company that use target advertisement is Facebook. Here advertisers can choose to target their advertisements based on location, age, interests, relationship status, birthdays and all other facts found on their users' profiles and Ip address locations. This way both big companies and local businesses can use Facebook as an advertisement site. They can also add the like button under their advertisement to increase the effect of the ad (Facebook, n.d.). The effect of this can be that more people click on the advertisement because they see that many of their friends like it.

This shows us that advertisement is no longer just about placing an ad to a site, and that the companies use private online profiles for what it's worth. This form of advertisement is also used by some newspapers, but not in the same scale. If newspapers can get readers to subscribe online this can be the future for the advertisers. The reason for this is that the newspapers will know more about their readers, and it is therefore easier to target them through segments.

Appendix 3: Interview guide- Stavanger Aftenblad

1. Present our thesis.
2. What is a Stavanger Aftenblads thought on the development in the industry today?
3. How is Aftenbladets situation and how do you look at the future?
4. What are Aftenbladets experiences regarding the case?
 - Advertisement revenue online.
 - Reader's willingness to pay.
5. What challenges are different when pricing online compared to the paper edition?
6. Is it a challenge that the online edition has been free for so long? How do they plan to meet this challenge?
7. Are there possibilities for bundling? How?
8. How do Aftenbladets look at a potential online newspaper? What do they plan to do with the original online newspaper to get the users to pay?

9. What do you look at as reference product and how can Aftenbladet be differentiated from the competitors?
10. Network effects?
11. Costs regarding the online edition.
 - How does this affect the digital pricing decision?
 - Invest in advertisers or readers?
 - How will they balance the amount of advertisement versus attracting readers?
12. Any thought on how to get the advertisers to choose Aftenbladet over other platforms?