

Research brief:

## Innovation for New Revenue Streams from Digital Readers: The Case of VG+

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### ABSTRACT

This case study of VG+, the platform for paid digital content published by the Norwegian media outlet VG, reports a process of innovation for new revenue streams in the digital news market. As is typical of such media innovations, development and change have been stepwise and gradual, responding continuously to experience. Data gathering and mapping of users' behaviour have been crucial for these innovations. Such knowledge about users has informed changes to the product, resulting in growth of customers and revenue streams.

### KEYWORDS:

revenue streams, paywall, paid content, iPad, algorithms, recommendation engine, personalization

The Journal of Media Innovations 2.1 (2015), 123–30

<http://www.journals.uio.no/index.php/TJMI>

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## INTRODUCTION

A current trend in the media industry is the emergence of paywalls, as traditional news media institutions attempt to generate innovative revenue streams within the digital news market. In Norway, VG+ (VG's online edition for paid content) has proved successful in attracting a growing number of paying customers. However, the path to success has been quite different than the one envisaged at the launch of VG+ in December 2010 – not least because the media industry does not know exactly how to innovate for new revenue streams based on a digital readership to replace falling revenues from traditional paper readers. This research brief presents the case of VG+ as one such process of innovation. The study offers insights into a media outlet's innovation strategy, based on step-by-step learning, experience and gradual improvement rather than on larger-scale fundamental changes. For this reason, the long-term direction for such innovations can be unpredictable.

## RELEVANT THEORIES

Theories of *media innovation* provide a framework for describing how news products are designed and redesigned for the development of new revenue streams. This socioeconomic perspective aligns with the Schumpeterian tradition (Fagerberg et al., 2005) in its application to media studies (Storsul & Krumsvik, 2013). These theories account for innovation mainly in terms of economic entities – for instance, categories such as product, process, position and paradigm – with the addition of social innovation as another relevant dimension. Concerning degree of novelty, one characteristic of media innovation is the gradual, step-by-step improvement or continuous change in a serial product (such as a newspaper) or in the nature of online editions. This matter of gradual improvement proved to be of particular interest in the present analysis. Media innovations also emerge as a result of multiple and varying influences, including technology, market opportunities, competitors and regulation (Storsul & Krumsvik, 2013, pp. 13–21). It follows that studies of media innovation must necessarily deal with this complexity, as seen in the development of more complex media economics when transforming to digital business (Bang & Solvoll, 2014).

A further feature of digital media is *user in-*

*volvement*, which includes opportunities to develop a relationship between the media product and its users. From a media business perspective, the aim of building such a relationship with the customers is often to support innovation of new revenue streams. The theoretical framework used here originates in a study of strategies for user involvement, in which different typologies are characterised as the *four D's* for strategic development of user involvement: deliberation, donation, distribution and data gathering (Krumsvik, 2013). In the present case, the strategy for gathering user data proved to be a crucial issue for further innovation. One other phenomenon illustrated by this case study is the emergence and influence of social media and network effects in theories of the new digital media economy (Krokan, 2013).

## RESEARCH QUESTION AND APPROACH

As indicated above, research on media innovation provided the starting point for this study on new revenue streams in digital news markets. The aim was to examine the process of innovation for one media product and to review how it fits with current theory. The research question for this case study on VG+ was formulated as follows:

*In the case of VG+, how are new revenue streams generated, and how can these efforts be described in terms of media innovation?*

The study was limited in that it was confined to a case study of one media product (VG+). A further limitation of the study is that it focused only on revenue stream innovations rather than on the total product. In considering different strategies for user involvement to support new revenue streams, it became clear that the typology for data gathering was especially important.

The case study was based on two research interviews, with access to some internal documents, annual reports and mapping of VG+. The study also drew on earlier research on innovation involving the media outlet VG and its owner company Schibsted Media Group (Barland, 2012; Barland, 2013).

Interview quotes in this paper are translated from Norwegian.

Although the scope of this study extends only to one digital product in one media outlet in a small country, this is not a marginal case. The Norwegian market is considered among the principal arenas in the development of digital news business, especially because of the involvement of VG and their owner company Schibsted (Doctor, 2014). In this context, VG+ is seen as a potential leader and trendsetter for media industry digital products in Norway and Scandinavia.

## THE CASE OF VG+ AND THE INFLUENCE OF IPAD HYPE

In terms of traffic, users and revenue streams, VG is the frontrunner among traditional Norwegian media outlets in the transition to digital publishing. Any interpretation of data from VG must take account of their position as an important role model for media outlets in Norway.

As a popular tabloid newspaper, VG's online edition ([www.vg.no](http://www.vg.no)) was introduced in 1995. After a troubled period for the media industry, marked by falling circulation and revenues, expectations were raised when Apple's tablet iPad was launched in 2010. As Espen Olsen Langfeldt, Managing Editor and COO of VG+, said in the research interview:

VG's management discussed a strategy document in June 2010. We had crazy expectations of the iPad even before it was launched in Norway. Our strategy was to build VG+ for iPad as VG's third publishing platform, alongside paper and web. Our crazy idea was to do it exclusively for iPad, which had not yet launched in Norway. We did it.

Here, Langfeldt confirms the initial aim of VG+: to exploit the hype surrounding the iPad and the great expectations for this new digital device within the

media industry. The development of VG+ (*pluss.vg.no*) is not a linear story, as strategies changed continuously in response to experience. But according to Langfeldt, one strategy has persisted: “We are a permanent beta-version.” With these words, he describes how VG+ has followed a typical pattern for media innovation. The improvements are gradual, step-by-step, day by day, with serial products providing the rationale for this pattern of development. In retrospect, however, some milestones can be identified among the innovations of VG+:

- December 2010: VG+ was launched as a free digital product for iPad. VG informed the market that VG+ would be free of charge only for an introduction period. Although VG+ was supposed to be updated daily, that frequency had to be increased immediately because of the response from users.
- June 2011: The paywall was introduced, with payment via *iTunes*.
- December 2011: A hybrid version of VG+ for iPhone was launched.
- June 2012: Schibsted’s system for login and

payment, *SPiD* (Schibsted Payment ID), was launched. This is the portal for payment preferred and promoted by VG+. At the same time, VG+ was transformed from an exclusive version for iPad and iPhone to become VG’s platform for paid content, including the web version (*pluss.vg.no*).

- October 2012: *SPiD* enabled gathering of user behaviour data. On the basis of such data analyses, the managers of VG+ have learned more about the process of converting free users to paying customers by making changes to content and user experience.
- March 2013: A new hybrid version of VG+ for iPad and iPhone was introduced, with a new and more visual layout, more interactivity, more functionality, and distinct from the free online web edition (*VG.no*).
- September 2013: A new version of VG+ for Android was introduced.

In relation to strategies for digital business development, the number of paying customers is clearly a crucial success factor for VG+. These figures are

not publicly available, nor are they measured by any external or independent actor on behalf of the industry, as is the case for measurement of user traffic. However, based on data made available for this study by VG, as presented in Figure 1, the number of customers can be seen to double in the period from 2011 to 2012. By January 2013, that number was about 11,000, increasing to about 33,000 by January 2014, and nearing 49,000 when this study ended in September 2014.

Taken together, the list of milestones and the numbers of paying customers invite two observations that will be elaborated below. First, it becomes clear that VG+ is a product of step-by-step innovation, and second, the introduction of a strategy for gathering user data proved to be a breakthrough point for growth.

The following interview quote from Torry Pedersen, VG’s Editor-in-Chief and CEO, sums up the innovation strategy for management of digital transformation:

My idea has been that digital will win in the long term. End of story. Digital media is better; it gives a better user experience, more moving pictures, more interactivity, and it will get better and better. I have worked with digital media for many years, and my

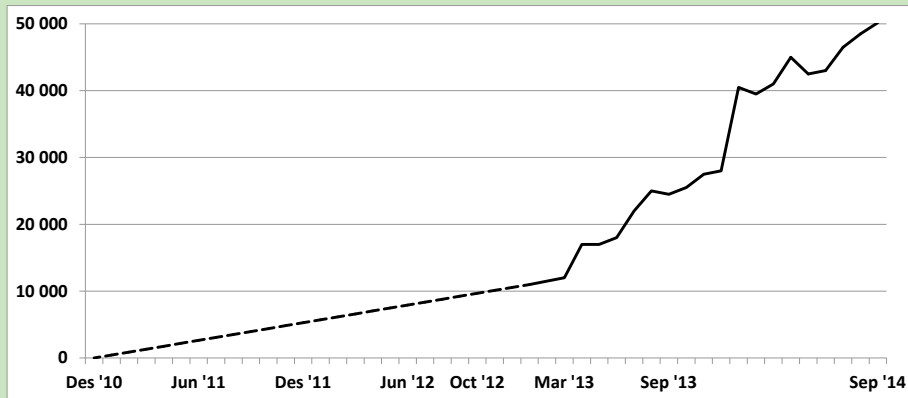


Figure 1. Number of paying customers for VG+.

The bold line indicates data provided by VG; the dashed line is a linear relation between certain numbers. Dates correspond to milestones as described in the text.

Source: VG.

experience is that endurance is necessary in order to win. When our competitors more or less gave up on the iPad, we continued. Now, we are close to 50,000 paying customers.

Pedersen's point here is that, in the long term, digital publishing will replace paper publishing. He ac-

cepts that there will be nuances and exceptions, but for the media company he runs, the big picture is very clear – transformation to digital media business. Within this digital vision, the development of VG+ is one of the many changes transforming this media outlet.

## STEP-BY-STEP INNOVATION

Clearly, VG+ is a result of step-by-step innovation, and this path has not taken the envisaged direction. Launched as an iPad platform, VG+ became VG's platform for paid content – its paywall. Nevertheless, VG's management is quite satisfied with the outcome. Each step in the innovation process has depended on the previous step; the trajectory has been path-dependent. Strategy has changed in line with experience, adjusting in response to new trends. And although the iPad hype collapsed, it became a breakthrough point for the development of innovation strategies for new digital revenue streams, and for converting free users to paying customers.

Media innovation theory identifies a dichotomy in respect to degree of novelty. According to the Schumpeterian tradition, there are *incremental* and *radical* innovations. The former refers to gradual improvement, in which one innovation builds on another. By contrast, according to Storsul and Krumsvik (2013, p. 17), radical innovations have far-reaching consequences. In the present case, this theoretical distinction between incremental and radical is more usefully understood as two poles of an axis, where an innovation's degree of novelty can be located at any place along this axis.

The description of VG+, as “a permanent beta-version” makes it clear that changes, experiments and improvements are ongoing every day. Such innovations are obviously incremental. However, changes at a larger scale and of greater novelty were described above as “milestones” or “steps”. In the bigger picture, such innovations are still at the incremental end of the axis because, even if they represent crucial changes for VG+, they are still no more than adjustments within a product. Therefore, those milestones are incremental innovations because they represent gradual changes. Such gradual or stepwise innovations may also be seen as a strategy for reducing any business risks related to actual changes (Krumsvik in Bang & Solvoll, 2014, pp. 118–134).

### GATHERING USER DATA

After October 2012, data gathering proved to be a breakthrough point for growth, when lessons learned from analyses of user behaviour began to be a key issue for VG+. In several ways, data gathering seems to be a key to the growth of new digital revenue streams for VG+.

According to CEO Pedersen, VG has redefined its market, as Google and Facebook are now identified as the company’s main competitors. At the core of the new competition in digital media markets is knowledge about customers. As Pedersen explained, “We are moving from anonymity to identity”. Login and user profiles enable the publisher to deliver advertisements as well as editorial content that is a better fit for the individual user (Krumsvik, 2013, pp. 665f). Facebook has been a front-runner in this development, and despite its global position, this presents a challenge to national and local media’s close and (to some degree) exclusive relation to readers and advertisers. For many years, segmentation and niche products have been the trend in media product innovation. In digital media, this trend has transformed into the individual customization and targeting of products (Barland in Bang & Solvoll, 2014, pp. 142–152). Schibsted (VG’s owner) developed SPiD (Schibsted Payment

ID) as a tool for the company’s media publications. Serving as a digital cash register, it enables a single login across Schibsted’s different digital media while gathering data on user behaviour.

When VG+ installed and launched SPiD as its new login and payment function in June 2012, the strategic move was the switch from an iPad version to a general platform for paid content. However, after some weeks, new knowledge emerged that prompted further interest. As Langfeldt explained this innovation and experience, “We were surprised. We could analyse what kind of content converted free users of VG’s web version to paying customers of VG+. And the stories that accounted for this conversion were often not as we expected”. He went on to say that the data analyses of user behaviour provided more powerful insights than expected.

Schibsted has developed a digital business model in which huge traffic from journalistic websites is bundled with commercial digital services, resulting in new revenue streams, and *convert* has emerged as a new key term. Journalism is used to point customers to the digital services, where they are either *converted* to paying customers or remain as free customers where business partners of the actual service contribute to cash flow (Barland, 2013, p. 104). The logic of VG+ is similar, where VG’s web

version provides traffic and VG+ *converts* the users to paying customers. Data gathered by SPiD and analyses of VG+ user behaviour have increased management knowledge of this conversion process even more than was expected. Langfeldt offered this example: “Our new insight made it evident that there is a market for paid content. Though, if a digital product of paid content is supposed to survive, it has to supplement the flow of news, not repeat it”. This quote describes a new insight into the converting process, which became the starting point for a different way of selecting content from VG+ to publish as a daily offering to readers of VG’s web version. The result was increased growth in paying customers, as illustrated in Figure 1 above.

The next challenge for the analysts of user behaviour is *churn*, referring to customers who do not renew their digital subscription. So far, according to Pedersen, the experience with digital paywalls is that the churn rate is quite high. He explained that the next step in innovation is the development of recommendation engines – an online newspaper version of a function that users have become familiar with in how *Netflix* recommends the next film to see or *Amazon* recommends another book to buy. This functionality is built by mapping user behaviour onto algorithms. In the case of VG+, such a recommendation engine should improve the

product in two ways. First, it will personalize VG+ to the individual user. The product and content will be the same for all, but recommendations, selections, and the order of articles will be personalised. Second, reduction of the churn rate is prioritised. Pedersen explained that data analysts working for VG+ will therefore make a special effort to develop this functionality for this target group. At the same time, he noted how important it is for VG to “be in Schibsted’s harbour”, as he described it. That is another broad topic; for present purposes, the relevant point is how Schibsted’s SPiD, across their media companies, has empowered VG+ to gather and analyse user data, and to use these for development of products and customer relationships.

## CONCLUSIONS

The research question for this research brief was: “In the case of VG+, how are new revenue streams generated, and how can these efforts be described in terms of media innovation?” To answer this question, the study was confined to innovations involving new revenue streams for VG+. Among the *four D’s* of typologies for user involvement mentioned above, only data gathering was elaborated. Because of these significant limitations, this research brief is effectively a pilot study for a topic that seems worthy of further research.

From the observations in the case study, a few conclusions seem clear. First, VG’s online platform for paid content (VG+) is considered a success by management. However, VG+ at the end of 2014 is a quite different product than was envisaged during its launch in December 2010. Initially, VG+ was a special edition designed for iPad, but over the years, several changes have been made. This case study has focused on the growth of customers and the generation of new revenue streams from that digital edition. Those changes have been described as milestones or steps and classified as incremental innovations as defined by theories of media innovation referred to above. The key point is that each step has resulted in a new situation, new ex-

periences, and sometimes also new strategies for the next step. The development of new revenue streams from digital users is considered to be one of the crucial challenges for the news media industry. Nobody knows exactly how this problem is to be solved. The present research brief has described how one key actor in the Norwegian market is approaching it, through a step-by-step approach with experiment and experience.

Strategic user involvement by data gathering seems to account for the successes reported here, and for the success of similar media products. Social media such as Facebook illustrate very clearly the power of login functions, personalised content, and advertisers. Similar functions, developed by SPiD, were launched for VG+ in June 2012, leading to a new level of knowledge about users' behaviour after some weeks. Based on these new insights, promotion of the product was adjusted in line with data that showed how editorials could be selected and presented to convert free users to paying customers. The growth in the number of paying customers from 2013 onwards provides clear evidence of this effect. The next step will be to introduce recommendation engines, similar to Netflix, to increase the use of VG+ and to reduce the rate of churn.

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