



## **#osservatorioTestateOnline**

An Observatory to know numbers and dynamics of digital journalism,  
in the broader context of media analysis for the protection of pluralism

# **OBSERVATORY ON ONLINE PUBLISHING 2018 REPORT**

*Unless otherwise indicated, the data in the Report have been processed by AGCOM on the basis of data collected through the Observatory on online publishing and data submitted by companies to the Informativa Economica di Sistema (IES). For brevity's sake, the source for this data is not indicated.*

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## FOREWORD

The Observatory on online publishing stems from the need to understand a phenomenon which, in the digital environment, is nearly unknown.

To complement recent actions to protect pluralism and online news<sup>1</sup>, AGCOM, in partnership with ANSO (Italian Online Press Association) and USPI (Italian Periodical Press Union), created an Observatory monitoring online-only news outlets. The goal of this Observatory is to economically analyse this phenomenon, survey it, have it appreciated by citizens and, finally, to understand the regulatory framework in which it operates.

The analysis, therefore, is focused, both on the supply and on the demand side, on online-only news outlets. As a matter of fact, AGCOM, having dealt for long time with the evolution of communication, highlighted how, in an interconnected world, particular mechanisms develop which characterise the digital environment and determine the success and consumption of new forms of news<sup>2</sup>, as well described in the latest report on news consumption.

Furthermore, the high availability of online contents, paired with new forms of dissemination, in which it is hard to tell facts from opinions, true news from fake news, in which assessing the reliability of sources is increasingly more difficult, contributed to a general trust crisis which worsens that of the news industry, as highlighted by AGCOM's previous analyses<sup>3</sup>.

This Report includes evidence obtained, in particular, through a first survey carried out by AGCOM at the end of last year (see below). Specifically, the analysis focuses on online-only news publishing services (aka online-only news media).

### *Scope of the Observatory*

There are different types of online news sources (websites, apps, blogs,...), such as those that come from traditional media and those that are online native.

As for traditional media, this includes print media (newspapers and periodicals) and broadcast news (radio and TV). Moreover, the reference geographical area for traditional media with online outlets can be national or local (interregional, regional, province or municipality). There are then news agencies

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<sup>1</sup> See also the recent institution of the [Technical Board to guarantee pluralism and information reliability on \*online\* platforms](#).

<sup>2</sup> Cf. the latest [Report on News Consumption](#), February 2018.

<sup>3</sup> See the [Sector Inquiry News and Internet in Italy, business models, consumption and professions](#) referred to in resolution no. 146/15/CONS, as well as the [Observatory on journalism](#).

which publish news in a structured way through their own websites. All of these entities and their news supplies have been monitored by AGCOM for a long time.

There are also many new online media which provide very differentiated services, aiming to a general audience or a more specialised one (for type of contents or reference geographical area). A category like that of online-only news media includes those websites which provide a variety of web services including a news section, often developed in partnership with other media (both online and traditional). Other primary sources of online news, for citizens, are those people (single journalists or, more generally, influencers) which operate online (with their own blogs, social networks pages,...) providing news and comments on current events as a non-registered publisher. Therefore, they often deviate from the canons of professional journalism<sup>4</sup>.

The Observatory focuses on online-only publishing, that, offering product and process innovations which are typical of the Internet, is often able to anticipate new information needs. Of course, online-only news media are not the only ones to innovate, as shown, for instance, by the recent experiments of the New York Times or The Washington Post on augmented reality<sup>5</sup>. However, online-only news media, for their nature, follow mechanisms which are typical of the web.

Moreover, as already mentioned, while traditional media (with online outlets) have been known and monitored for a long time, online-only news media, created more recently, still lack a deep analysis and, therefore, are less understood.

The scope of the inquiry, therefore, is defined by the nature of the news outlet (online-only) and by that of the publishing company (online-only and not belonging to any publishing group operating through other media).

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<sup>4</sup> Other news sources are search engines and social networks, which are becoming more and more relevant (see Report on News Consumption). In this context, however, the focus is on published news. This rules out online platforms from the scope of the analysis. However, as will be described later in the Report, online platforms are playing an increasingly important role in all the phases of production, distribution and payoff in online publishing.

<sup>5</sup> Cf. <https://www.nytimes.com/interactive/2018/02/01/sports/olympics/nyt-ar-augmented-reality-ul.html> and [https://www.washingtonpost.com/pr/wp/2018/02/01/the-washington-post-announces-2018-winter-olympics-coverage-plans/?utm\\_term=.2778cc0a14e3](https://www.washingtonpost.com/pr/wp/2018/02/01/the-washington-post-announces-2018-winter-olympics-coverage-plans/?utm_term=.2778cc0a14e3).

*Analysis method*

The Observatory started in June 2017 with a questionnaire addressed to all online media with online-only news outlets (see also the Methodological appendix). The survey, carried out by AGCOM in partnership with ANSO and USPI, ended in November 2017.

The participation in the initiative has been good and the sample accounts for about 20% of the target group, that is online-only media's outlets.

The questionnaire (cf. Annex) is divided into two parts. The first section refers to the publishing company: general data, size, access to government funding, funding received and investments made. The second section contains information on news outlets. Specifically, data collected relate to themes treated by the outlet (that can be general or specialised, national or local); how much of the content is internally produced and how much obtained from third parties; the importance of audio-visual contents; the implementation of content customisation algorithms and source verification automatic tools; processes relating to advertising revenues; management of the interaction with readers.

Other economic data (revenues, costs,...) were obtained through AGCOM's IES (Informativa Economica di Sistema)<sup>6</sup>.

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<sup>6</sup> For further details about the Authority's IES, please refer to: <https://www.agcom.it/informativa-economica-di-sistema-ies> (Italian).

# 1. ONLINE PUBLISHING AND THE SYSTEM OF NEWS SOURCES

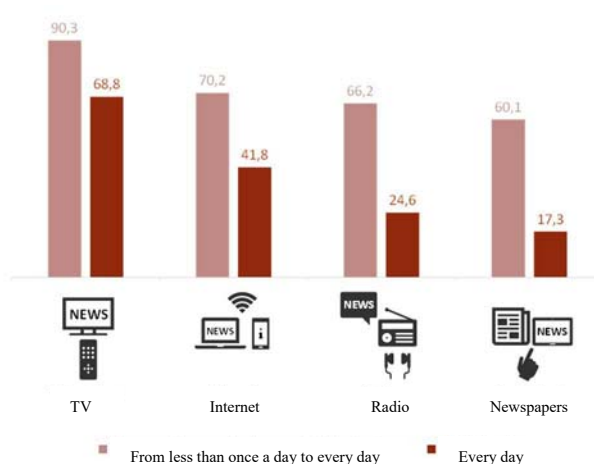
## 1.1. THE RELEVANCE OF THE DIGITAL WORLD IN THE NEWS INDUSTRY

The extension of the Internet, that can reach users anytime and anywhere, led to the development of new sources of news and consumption patterns. The impact of digitalisation on the news industry, timely measured by AGCOM<sup>7</sup>, has, in fact, led to a drastic change of paradigm in the world of communication and has heavily affected news reporting models.

Digitalisation, in news consumption, is not about simply migrating or moving the printed or analog product to a digital medium, but it also supposes re-thinking the concept of news. Especially for online-only news outlets, it does not offer a replica of the printed product, but a brand-new tool to get news (be it a website, an app or anything else).

As shown in the latest Agcom Report on news consumption<sup>8</sup> - refer to it for further details - Internet has now become, after TV, the second source of news, reaching 70% of the population (see Table 1.1).

Table 1.1 - News sources usage (2017; % population)



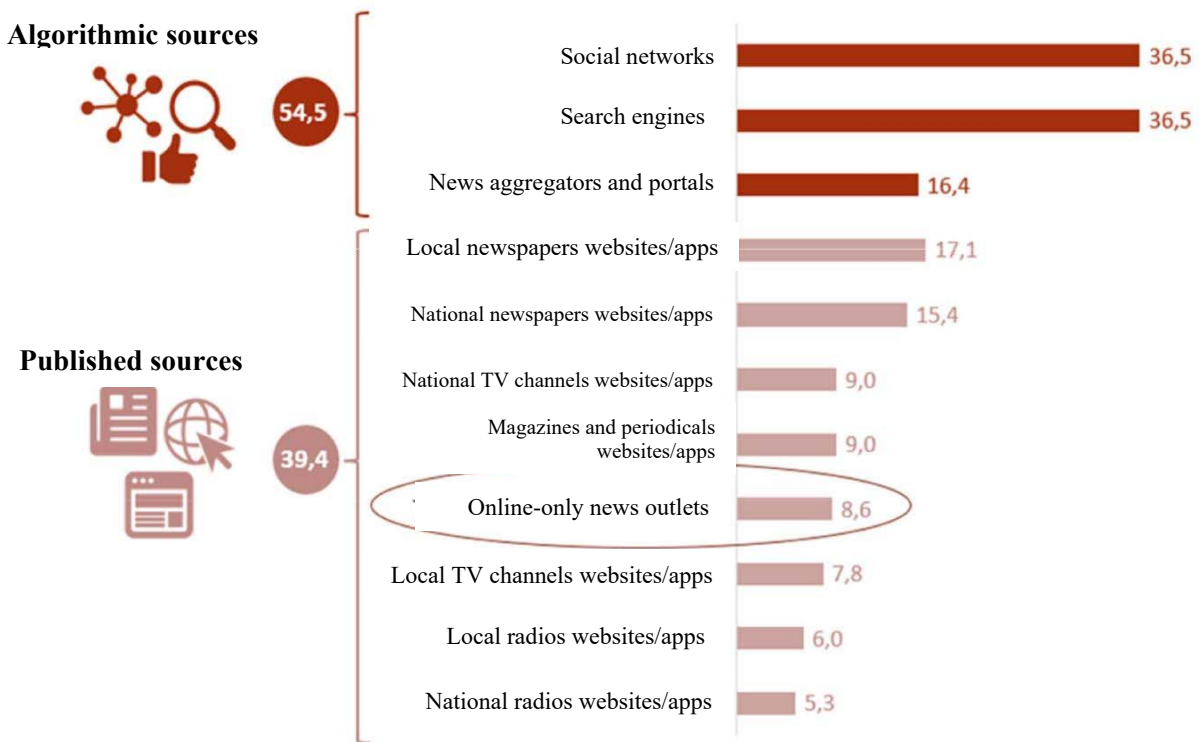
Source: Agcom - Report on News Consumption (2018)

<sup>7</sup> See, for instance, the Sector inquiry “[News and Internet in Italy. Business models, consumption and professions](#)” cit., taken from the [Sector inquiry on Internet services and online advertising](#), terminated with resolution no. 19/14/CONS.

<sup>8</sup> Cf. again the [Report on News Consumption](#), February 2018.

A great deal of Italian population now uses web services to get the news (42%, every day), but news, in the online environment, comes in all shapes and colours. There is a large set of online sources that differentiate by type of publisher (coming from other media or from the web), step of the production or distribution chain (publishers, blogs, platforms), dissemination mode (published or algorithmic), brand reputation (see Table 1.2).

Table 1.2 - Access to news by published and algorithmic sources (2017; % population)



Source: Agcom - Report on News Consumption (2018)

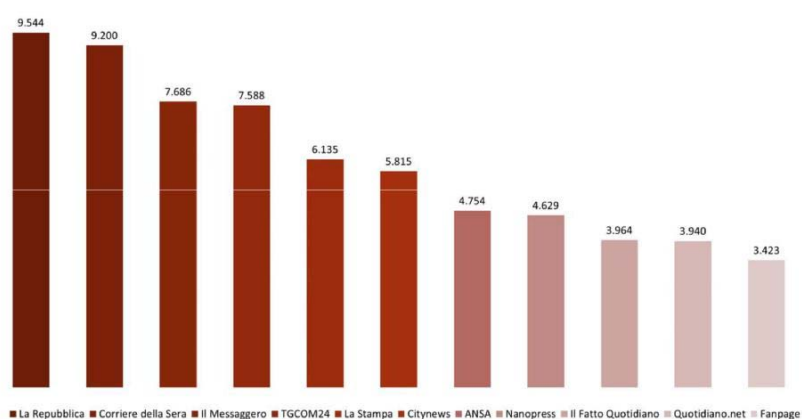
In a few years, there has been a shift from a lack of news access to a source oversupply. In the first phase of this process, intermediaries between users and providers have been gradually eliminated. In the second phase, then, they have been reintroduced through new entities (online platforms). The latter phase led to an algorithmic dissemination of news (see Table 1.2 again), since platforms are, both for citizens and media, an increasingly important doorway to news.

As for online published news, the Italian system, which is quite conservative, especially supports traditional media, even in online



activities. By analysing, through Audiweb data, online outlets audiences, we can see that publishers coming from traditional media are at the top - especially print media (Repubblica, Corriere della Sera, Messaggero,...) but also TV (TGCOM24) and agencies (ANSA) - even though online-only news outlets stand at the top positions as well (Citynews, Nanopress, Fanpage: see Table 1.3, which refers to single browsing users).

Table 1.3 - *Audience news online*: browser navigation<sup>9</sup> [Single users (000)]



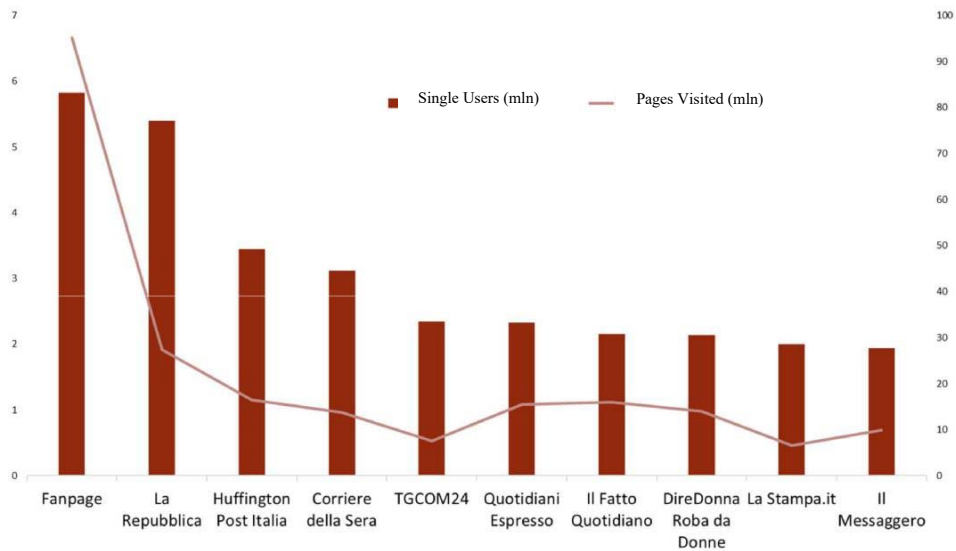
Source: Audiweb, Internet Ranking Total. November 2017

Besides, as anticipated, the role online platforms (social networks especially) are playing and mobile usage are radically changing news consumption and distribution. Therefore, by analysing Audiweb data on online news browsing through the main social networks (aka “In-app Facebook browsing and instant articles”; see Table 1.4), we can see very different results. In this context, the importance of online outlets as main source of news stands out: out of the three top outlets by audience, two (Fanpage and Huffington Post) are online native.

In a world where news as a product is broken down and the pieces accessed singularly (articles, comments, videos, posts,...), platforms act as intermediaries between users and access to online news. Very often, news is accessed because users incidentally or randomly find them, and often they are not fully aware of the nature or origin of the news they read.

<sup>9</sup> Both PC and mobile browsing, including browsing through the website’s owner app.

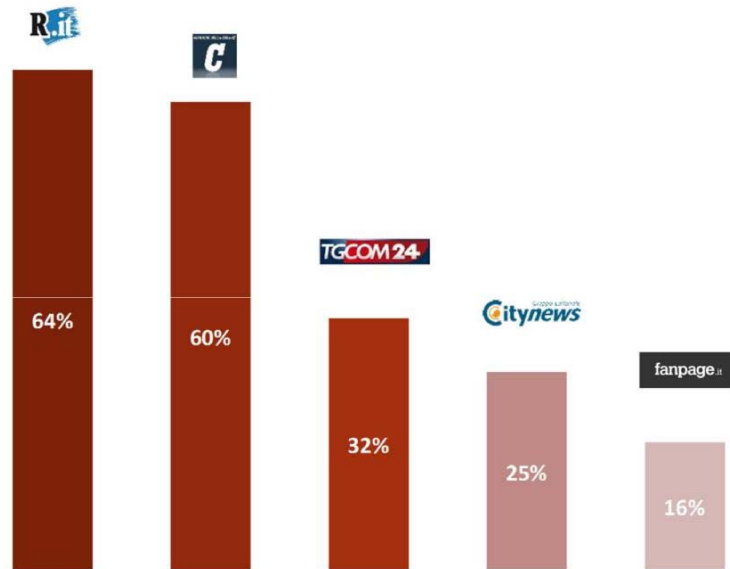
Table 1.4 - Facebook In-App Audience (Single users and pages visited - mln)



Source: Facebook mobile in-app Audiweb Survey - Browsing and Instant Articles. November 2017

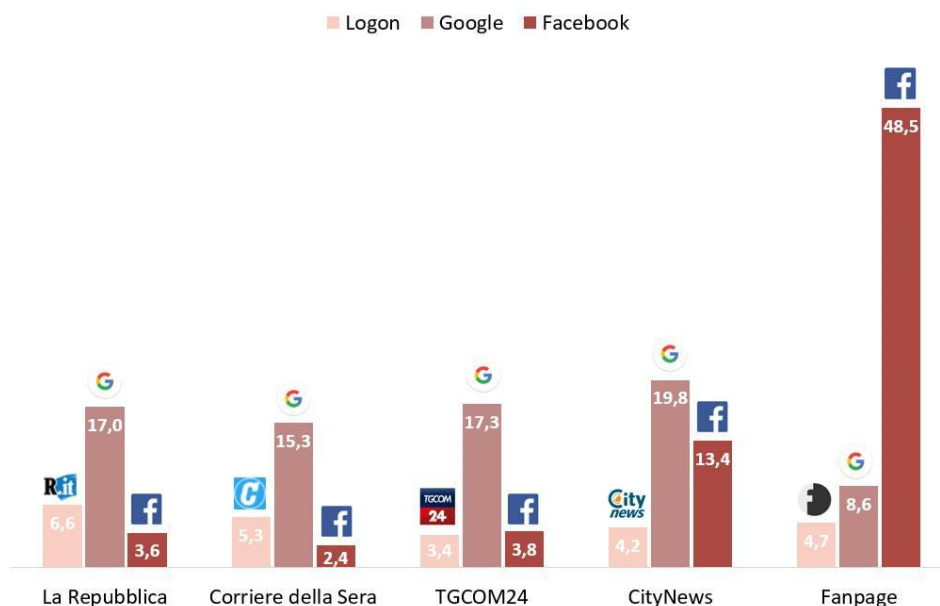
Citizens visit traditional media’s websites much more because of the power of their brand: direct access to their websites amounts to 60% for historical newspapers such as Repubblica and Corriere della Sera (see Table 1.5), while the percentage falls for online-only news outlets (CityNews: 25%, Fanpage: 16%).

Table 1.5 - Direct access by main newspapers websites (% direct logon/ access average/Google/Facebook)



Source: AGCOM-processed comScore data. December 2017

The latter, as anticipated, depend more on online platforms' gatekeeping role (especially Google and Facebook) and on related algorithms (see Table 1.6). The importance of platforms when reaching an audience, besides the type of browsing carried out through them (see Chapter 2 of the mentioned Report on News Consumption), makes, for obvious historical reasons, online newspapers and their brands less recognisable and popular with the public.

Table 1.6 - Traffic inflow by main newspapers websites (% desktop users) <sup>10</sup>

Source: Agcom - Report on news consumption. December 2017

Users' access to news, even those published by traditional newspapers, through online platforms leads to a set of issues that AGCOM already addressed before. The main issues are about reputation on the one hand, and reliability on the other.

First, the particularity of online intermediation, as already mentioned, makes citizens less and less aware of the source of the news they access, thus reducing the degree of popularity and reputation of the newspaper brand.

Moreover, the appearance of new formats of online news, such as videos<sup>11</sup>, and their distribution through platforms, leads to a certain degree of confusion between hard news (current events, politics,...) and soft news (gossip, for instance)<sup>12</sup>. Confusion between

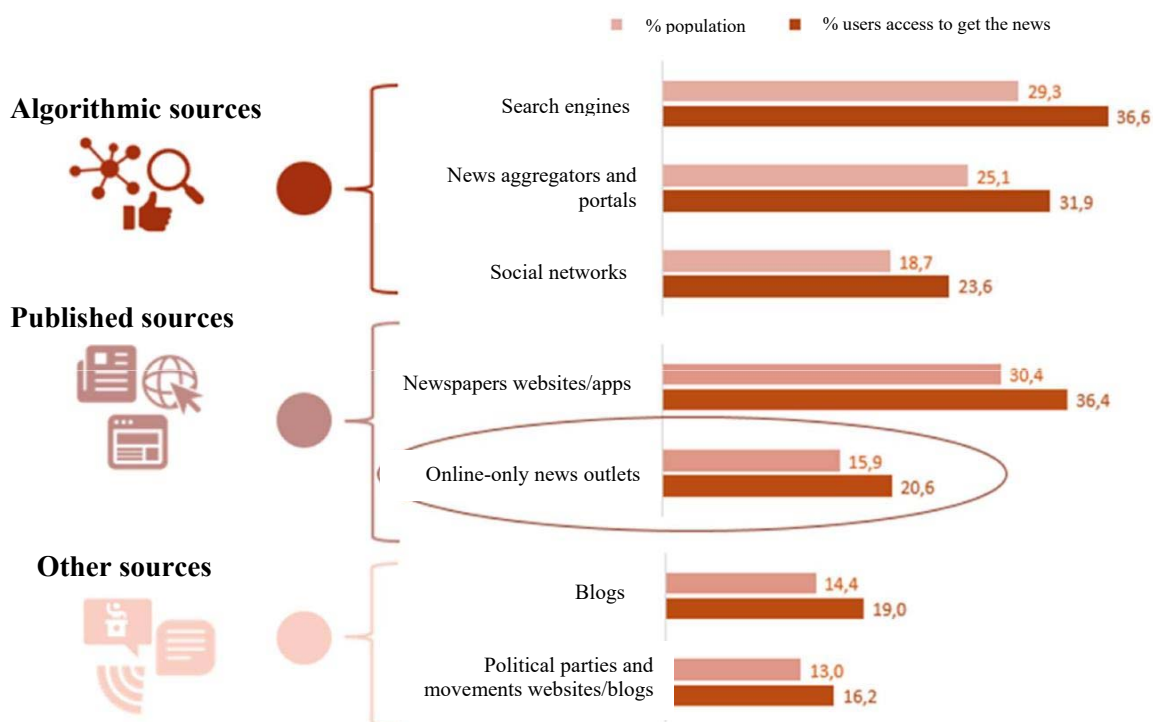
<sup>10</sup> The data presented here refer to comScore's Source/Loss function, which analyses desktop users' entrance and exit from the selected website. When access is not direct as the first step of browsing (Logon), but takes place after visiting a given website/platform (i.e. Google and Facebook), it does not mean that users clicked on a link from that website/platform, but simply that, before ending up on the newspaper's website, they visited that website/platform. Data analysed refer to the entire medium's web domain, not only to the homepage.

<sup>11</sup> Kalogeropoulos, A., Cherubini, F., Newman, N. (2016), *The Future of Online News Video*, Reuters Institute for the Study of Journalism.

<sup>12</sup> On hard and soft news production in a digital world, see Boczkowski, P. J. (2009), "Rethinking hard and soft news production: From common ground to divergent paths", *Journal of Communication*, 59(1), 98-116; Bennett, W. L. (2016), *News: The politics of illusion*, Chicago, University of Chicago Press.

sources and formats can lead to confuse news layers, because often citizens are not able to tell the online newspaper from the platform that carries it. This, when fake or unverified news are circulating, increases the sense of low reliability of the entire online world, with a process in which bad news drive out reliable news (sort of like a Gresham's law, but for news<sup>13</sup>).

Table 1.7 - News sources reliability



Source: Agcom - Report on News Consumption (2018)

It derives that online publishing suffers from a perceived reliability structural problem (only 15.9% of the people consider them reliable, see Table 1.7). This percentage is similar to that of social networks (18.7%), and considerably lower than that of traditional media's online outlets (30.4%).

<sup>13</sup> Gresham's law (XVI century) states that "bad money drives out good", see <http://www.treccani.it/enciclopedia/bimetallismo/>.

## 1.2. ONLINE PUBLISHING AND THE WORLD OF NEWS

In other contexts, especially in the English-speaking world, online-only news outlets are reaching (and in some cases surpassing) the importance (audience, reputation, reliability) of traditional media<sup>14</sup>.

In the USA<sup>15</sup>, where technological phenomena taking place in our news system are usually anticipated, online news access, especially through social media, keeps growing, pulled particularly by mobile devices. Around 67% of Americans gets the news through social media (in Italy, this value nears 40%, see above, Table 1.2) and the gap between traditional and online news consumption is narrowing more and more (which is taking place, with different numbers, in Italy too, see previous paragraph and, in particular, Table 1.1).

In the last five years, there has been a steep growth in online publishing, which has led to a movement of journalists <sup>16</sup>, even important ones, from traditional (especially newspapers) to online media. At the same time, it has been highlighted<sup>17</sup> that online publishing tends to adopt business models which are similar to those of traditional media, imitating their news production routines, partly to achieve greater legitimation and stability. A classic example of this evolution is *BuzzFeed*, which was established in 2006 and became popular with soft news, titles that caught the eye of users and viral videos, and it is now evolving (also) to structured forms of investigative journalism (carried out especially with data journalism techniques).

In Italy, even though there are elements of radical change, especially on the demand side (see previous paragraph with the increase in access through social media), a new industry on the supply side has not been emerging yet.

Particularly, there does not seem to be (yet) a movement of journalists towards new online newspapers, let alone towards more reputable ones. At most, journalists use Internet, and social media especially, as a personal display to be coupled with their job in a traditional newsroom<sup>18</sup>.

<sup>14</sup> See Reuters Institute, *Digital News Report*, 2017.

<sup>15</sup> See Pew Research Center, Kristen Bialik and Katerina Eva Matsa, *Key trends in social and digital news media*, 2017.

<sup>16</sup> Pew Research Center, *State of the News Media 2014: The growth in Digital Reporting: What It Means for Journalism and News Consumers*, 2014.

<sup>17</sup> Lu Wu (2016), "Did you get the buzz? Are digital native media becoming mainstream?", *ISOJ*.

<sup>18</sup> For further details, see the II edition of the Observatory on journalism.

Moreover, on the financial side, online media's turnover, even that of larger ones, is limited and considerably lower than that of traditional media.

Despite that, the news supply of online outlets already has a great degree of differentiation, both horizontal (type of contents) and vertical (quality of news).

There are single-outlet media, both with general contents, addressed to a wide audience and funded mainly through advertising revenues (i.e. the company Ciaopeople, that publishes the *Fanpage* newspaper), and specialised contents, that often address professionals and are mainly funded by selling goods and services (i.e. the company Editanet, which manages the website *Appaltitalia*). Besides those, there are also networks with more than one outlet, offering local news (i.e. Citynews, which includes a number of local news websites, such as Citynews, Romatoday, Romagnaoggi,...) or single-topic specialised news (i.e. TC & C, websites network on a number of Italian football teams).

Italian online newspapers are, therefore, in a particular evolution phase, where their growth on the demand side is not followed by an equally relevant financial growth.

This has obvious implications from the news sources pluralism standpoint as well as from the related one of policymaking supporting Italy's news system.

In the following pages, therefore, this industry's new structure will be thoroughly analysed, understanding its size, features and critical aspects, if any.

## 2. THE INDUSTRY OF ONLINE PUBLISHING

### 2.1 REFERENCE REGULATORY FRAMEWORK

The general regulatory reference for the news system can be found in art. 21 of the Italian Constitution, that protects freedom of thought, which is one of the founding principles of the law system and a basic and inviolable right.

This right includes the freedom of information, which entails, besides an active profile, “*also a passive profile, that is the right to be informed*”, which must be granted through a system of “*pluralism of news sources, free access, absence of unjustified legal hindrances, even temporary, to the free movement of news and ideas*” (Constitutional Court, Judgement no. 105/1972)<sup>19</sup>.

The related principle of news sources pluralism is considered as a “core value” of every democratic system<sup>20</sup>, as “*information, in its active and passive aspects, [...] is [...] a requirement to implement the proper form of the democratic State at every level, central or local*”<sup>21</sup>.

Online news is a core element of the news system, given that, as broadly expressed by AGCOM on the matter (see Chapter 1), digital media offer a greatly wide and varied selection of contents that meet consumers’ personal interests in the wider context of the web as a medium, a forum and a place where public opinion is built.

For online-only news outlets, the reference regulatory framework is the same as print media. The most relevant acts are law no. 416/1981 (first organic act), later modified and complemented with laws no. 67/1987, 250/1990 and 62/2001.

This set of laws, together with other scattered acts, also supported the press by providing for a funding system, direct or indirect, which has been recently improved with law no. 198, October 26, 2016. This law defines online newspapers with well-defined requirements for the first time. Moreover, the Legislative Decree no. 70, May 15, 2017 redefined the regulation on direct funding for newspapers and periodicals publishers, providing for following implementing decrees

<sup>19</sup> Italian Senate and Parliament Services. Re-definition of the law on direct funding to newspapers and periodicals publishers April 2017 Government Act no. 407 art. 2, paragraphs 1, 2, letters from a) to g), and 8, from law no. 198, October 26, 2016. *Schede di lettura Dossier XVII legislatura*, April 2017.

<sup>20</sup> Constitutional Court, Judgement no. 826/1988.

<sup>21</sup> Constitutional Court, Judgement no. 348/1990.



addressing implementing matters. They were issued by Italy's Prime Minister on July 28, 2017. After a first analysis, the new law on funding seems influenced by the approach that favours the traditional media industry. The main goal is to support print-to-digital migration, instead of supporting all online sources growth (especially new ones, which, as seen in the previous Chapter, have a worse reputation than traditional sources).

Another important reference is the legislative decree no. 177, July 31, 2005 (Tusmar) which provides for online advertising revenues, which are the main source of income for online publishers. AGCOM yearly analyses advertising revenues as part of its activities for the protection of pluralism<sup>22</sup>.

## 2.2 ECONOMIC FEATURES OF THE INDUSTRY

Besides the regulations just mentioned, the environment in which online media operate has a few defining features.

As highlighted in the Sector inquiry on Internet<sup>23</sup>, changes under way are so quick and broad that they revolutioned the structure of the news industry globally, acting on access obstacles, products life cycle, income sources, costs structure and on the very nature of the profession of journalist.

In facts, the industry in which online newspapers operate highlights the very features of Internet, that can be summed up, first and foremost, with the presence of few to no barriers to access and, on the other hand, many obstacles for the development of news publishers. Easy access facilitates the creation of many outlets, thus generating plenty of contents, even much varied, that can meet the needs of niche readers. This greatly increases news supply. However, on the other hand, audience fragmentation and the existence of positions of power in online markets (advertising revenues, e-commerce, app stores,...) makes the financial growth and sustainability of news supplies very hard<sup>24</sup>.

This is why Internet is an example of two-faced market, in which operators provide contents and services to users and advertising spaces to advertisers. Between these two faces,

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<sup>22</sup> On this, note that the regional administrative court of Lazio, in a judgement dated 02/14/2018 on the appeal no. 7964/2013 presented by Google Ireland Ltd. and Google Italy S.r.l., underlined that the lawmaker provided that “... revenues from online advertising are to be considered among those relevant for the verification of pluralism in the advertising market”.

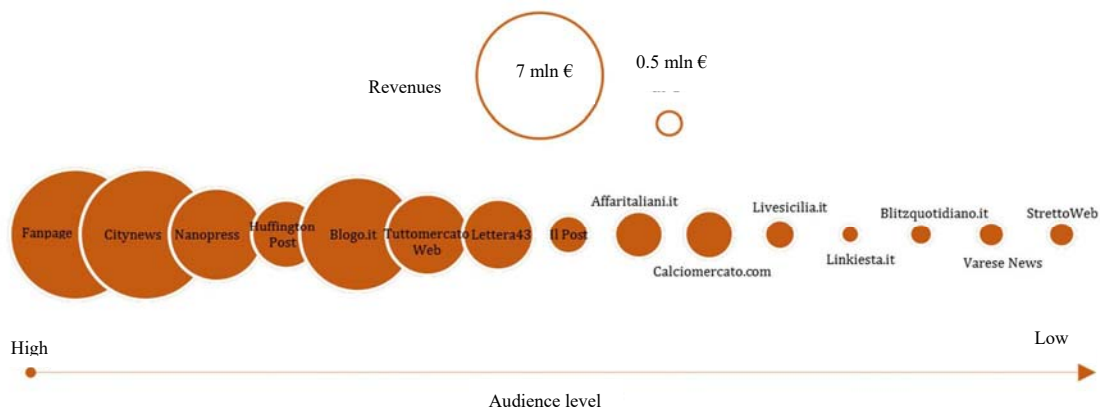
<sup>23</sup> Cf. [Sector inquiry on Internet and News in Italy](#).

<sup>24</sup> Webster J.G. & Ksiazek T. (2012), The dynamics of Audience Fragmentation: Public Attention in an Age of Digital Media, *Journal of Communication* 62, pp. 39-56.

there are both positive and negative cross-network externalities. As a matter of facts, the more users access media, the more advertisers will be willing to pay, thus generating a positive externality on advertisers' demand. On the other hand, the presence and number of advertisements on web pages may be a negative externality on users' demand when adverts are perceived by users as bothersome or "intrusive". Besides, cross-network externalities can have different intensity. Therefore, content providers may benefit from charging nothing to the side that generates the highest externality.<sup>25</sup>

Online news is generally free, so the value creation for digital contents is mainly based on generating an audience to sell information to advertisers. This leads to a direct relation between users reached and economic size of online media, as well as to what has been defined online as "a long tail of small companies" (Table 2.1)<sup>26</sup>.

Table 2.1 - Economic size of main online newspapers by audience



Source: Audiweb, Internet Ranking Total and Audiweb Survey In-app Facebook, November 2017

The problem of concentration becomes particularly felt in the online news industry, because media find themselves fighting over their main income source, that is advertising, with the competition of platforms<sup>27</sup>.

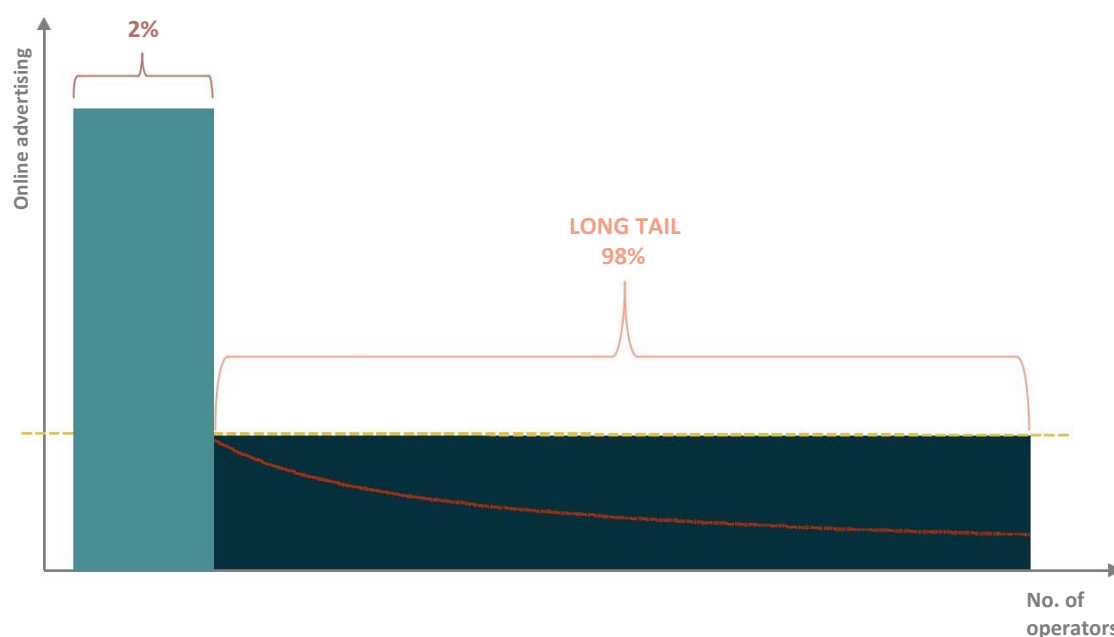
<sup>25</sup> For further details on this topic, see the [Sector inquiry on Internet services industry and online advertising](#); see especially paragraph 1.3.

<sup>26</sup> J. Sonia Huang & Wei-Chin Wang (2014) Application of the long tail Economy to the Online News Market Performance, *Journal of Media Economics*, 27:3 158-176.

<sup>27</sup> According to a IAB survey (IAB internet advertising revenue report 2017, *An industry survey conducted by PwC and sponsored by Interactive Advertising Bureau*, December 2017) the greater growth of

If we sort media by online advertising revenues, we can see a marked unbalanced trend (typical in power law distributions), in which the head is made up by 2% of the media (which manage about 80% of all online advertising in Italy<sup>28</sup>), while the tail by the remaining 98% (Table 2.2). In dynamic terms, the presence of network externalities (direct, indirect and cross-network) lays the foundation for a way of development in which, generally, those that manage to stay on top of a certain turnover threshold (dotted line in Table 2.2) will grow, while the others will get more and more away from the head of the distribution.

Table 2.2 - Online advertising revenues distribution in Italy (2016): unbalance and long tail



On the other hand, considering the open and decentralised nature of the web, as previously underlined by AGCOM<sup>29</sup>, the need arose for platforms that guided users in browsing, such as search engines, content aggregators (portals) and social networks to share information. These platforms, besides those that directly produce news, are more and more important to citizens, both to stay informed and build an opinion, and also to steer their choices, from the consumption of

<sup>28</sup> This number indicates gross advertising revenues. If we consider advertising revenues without amounts returned to third parties, the number shrinks down to about two thirds.

<sup>29</sup> [Inquiry on Internet services and online advertising](#), cit.

goods and services to which party to vote. Particularly, horizontal services are the real gateway to the web, and are therefore a fundamental hub for online media to gain traffic and give value to their services (see Chapter 1, par. 1.1).

As for online news supply, factors leading to a very unbalanced distribution (aka power law) are many and can be traced back to a reduction of production and distribution costs (on the supply side) and research costs (on the demand side)<sup>30</sup>. The first factor is the “democratisation” of production tools (higher availability of cameras due to the spread of smartphones, greater access to editing softwares and how easy it is to create a website or upload videos on video sharing platforms), which generates more producers and, accordingly, more products, and leads to a greater supply of contents, thus enlarging the distribution tail. The second factor is that distribution costs are cut, which lets users access even niche products more easily. This strengthens, even on the demand side, the existence of the long tail. The third is the possibility to use customised algorithms that filter queries according to users’ preferences, and show them both mainstream (the head) and niche contents (the tail).

As a few authors have highlighted, this model will likely lead to unbalanced outcomes, since high levels of consumption distribution mean less income<sup>31</sup>. In this context, the increase in financial resources distribution concentration can take advantage of economies of scale, since the industry of online news<sup>32</sup> is mainly based on advertising revenues as source of income and needs high levels of audiences to be profitable.

Therefore, in the following paragraphs, the online news supply will be analysed in terms of web-native publishing industry structure, behaviours adopted by these entities (especially in terms of positioning, aka horizontal and vertical differentiation strategies), as well as related performances<sup>33</sup>.

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<sup>30</sup> Anderson, C. (2006) *The long tail: Why the future of business is selling less of more*. NY Hyperion.

<sup>31</sup> Elberse A., (2008), Should you invest in the Long Tail?, *Harvard Business Review*. Enders A., Hungenberg H., Denker A.P, Mauch S., (2008), The long tail of social networking: revenue models of social networking sites, *European Management Journal*, Vol. 26, issue 3 p. 199-211.

<sup>32</sup> Huang J. S. & Wang W.C, (2014) Application of the Long Tail Economy to the Online News Market: Examining Predictors of Market Performance. *Journal of Media Economics*, 27:3, 158-176.

<sup>33</sup>Given the type of analysis, the classic SCP paradigm (Structure, Conduct and Performance) has been used. It was first published during the 1930s (by Edward Chamberlain and Joan Robinson), then developed by Bain in the 50s and then extended to marketing strategies by Michael Porter in the 80s.

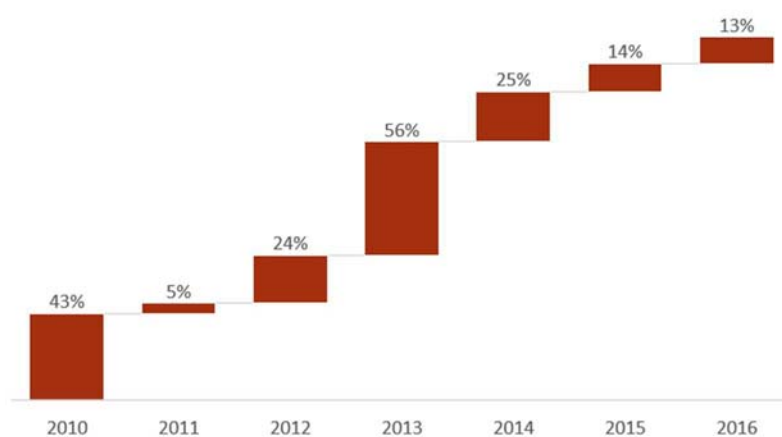
## 2.3 ONLINE PUBLISHING INDUSTRY STRUCTURAL ANALYSIS

### i) The structure of the industry

The industry of online publishing, as already mentioned, is hard to outline and constantly evolving. This is essentially due to a relative lack of access barriers, both legal and, particularly, financial. As a consequence, each year new entities enter the market with new forms of communication, while others quickly get out of it (also due to the many obstacles to the development of these media).

In the last few years, many new entities have been registered. This significantly increased the number of companies that work in this industry (Table 2.3). Instead, it is harder to estimate the outflow of such entities, that often cannot even be registered, given their little size - very often, they are micro-companies managed by a single individual, perhaps a journalist previously working at a traditional newspaper, a jack of all trades that acts as businessman and news director - and the high “mortality rate” of most of them, especially in the first stages of their life.

Table 2.3 - Increase in number of companies by year ( $\Delta$  % compared to previous year)

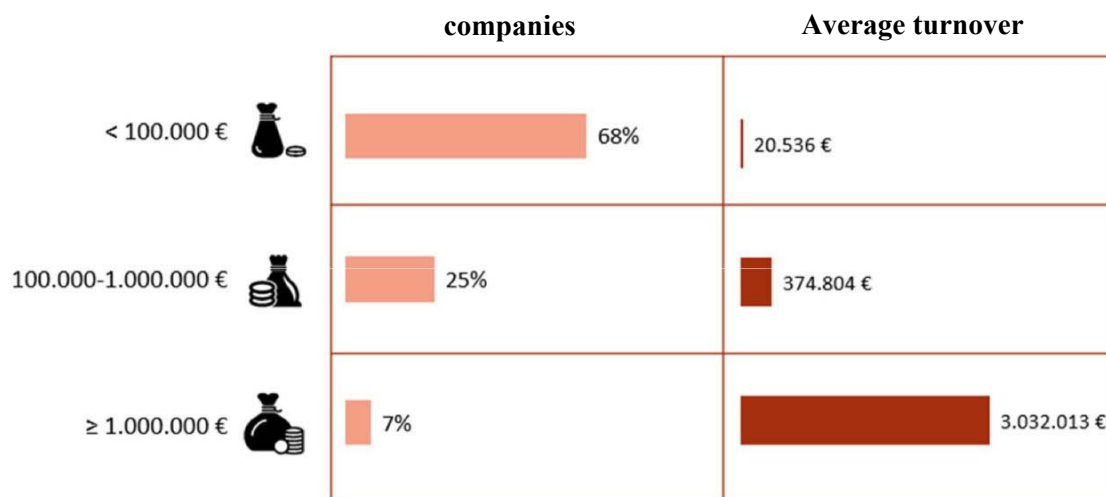


AGCOM has estimated well over a thousand online media; many of them come from traditional media, especially from newspapers and periodicals. As for web-native media, they can be estimated around the 800 units.

The yearly average revenues for these media is 337,806 euros, but the turnover class distribution is so differentiated that this average value is little more than a number and does not really describe the features of the industry. In facts, as previously shown for online economic activities (see Table 2.2 again), in the case of online publishing too the distribution looks unbalanced (even though much less than in other industries, especially those where online platforms operate).

In the case of online publishing, we can say that the “long tail” of distribution accounts for 68% of all the active entities in the industry, companies that have an annual turnover under 100,000 euros (Table 2.3). The average turnover for this part of the industry is about 20,000 euros, which shows the existence of many media which are more amateur than commercial. As previously mentioned, they are often micro-companies which owner, often a former journalist that comes from traditional media, acts as a jack of all trades (businessman, news director,...) and does it for passion rather than profit<sup>34</sup>.

Table 2.4 - Companies by turnover class (%) and average revenues by class



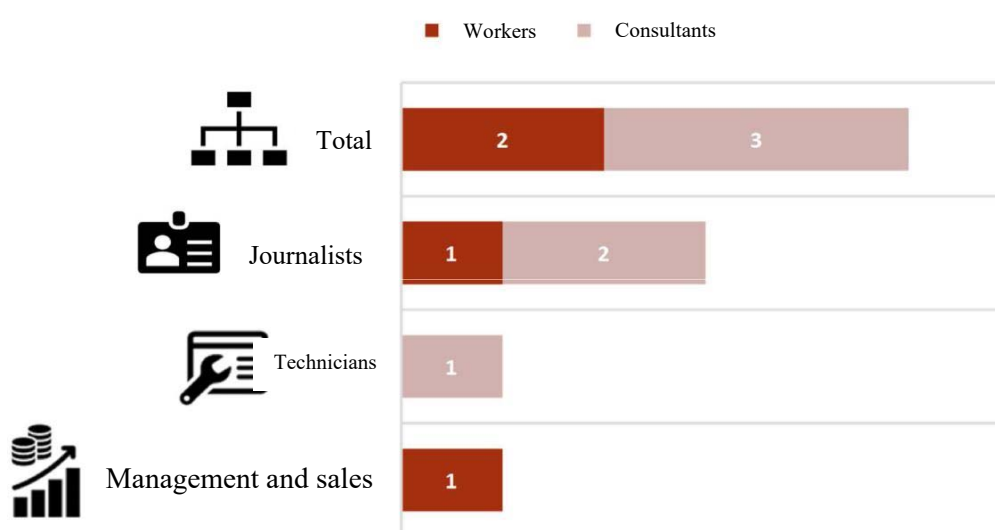
The “head” of the distribution is made up by 7% of online media that have an average annual turnover of about 3 million euros. In the middle stands a quarter of entities which have an annual turnover of between

<sup>34</sup> In some economic industries (wine, for instance) a difference is made between amateur businessmen (that is, they maximise their utility) and commercial businessmen (they maximise company’s profits). The presence of the formers greatly affects the balance of the market, in terms of active companies’ distribution, their behavior, products and services supply and prices to the public.

100,000 and a million euros (averagely over 300,000 euros). In both case, they are structured commercial companies.

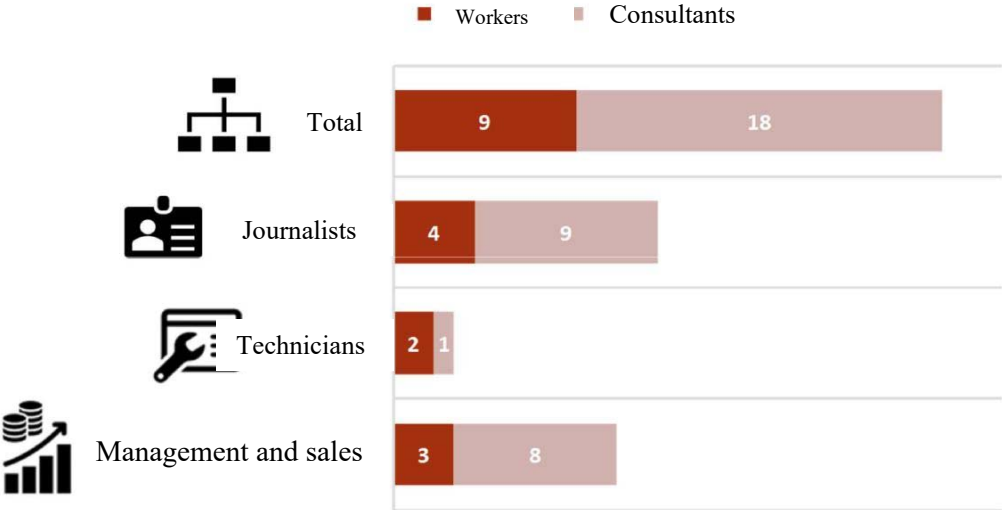
What previously said is supported by the analysis of the companies' structure, which changes significantly depending on size and nature of the company. "Amateur" media, generally, include two individuals: the founder-journalist and one in management and advertising (often local) sales. There are then three freelance consultants, journalists for the best part (two), and an IT technician (to create the news outlet, be it a website or an app).

Table 2.5 - "Amateur" media company structure (turnover <100,000 €)



The structure of commercial media is completely different. They usually have 9 workers and 18 freelance consultants. The company structure not only has an absolute impact, but also gives more importance to those roles that support news services: commercial roles (sales and management) and technical and IT roles (website and social networks admin, multimedia experts).

Table 2.6 - “Commercial” media company structure (turnover >100,000€)



To conclude, as for online publishing work organisation, what has been found in previous surveys has been confirmed<sup>35</sup>. The work is organised according to a horizontal model, in which the pace is determined by the need to ensure timely news coverage. An executive figure (journalist-director) is generally helped, without go-betweens (such as editor, editor-in-chief, correspondent, etc.) by others, that may or may not be journalists. Each of them has multiple tasks and is able to manage different processes in the publishing workchain (writing, editing, video editing, photography). Newsrooms cannot afford experienced editors that do not take part in the news production process any longer.

**ii) Online media strategies**

In highly competitive industries, both for the product supplied (in this case, online news) and for the main source of income (online advertising), companies try to gain power on the market (and so generate a production costs mark up) by differentiating the product.

There are two types of differentiation strategies: horizontal and vertical. The former is about product positioning, the latter about quality choices.

<sup>35</sup> In particular, Sector inquiry on News and Internet, cit.

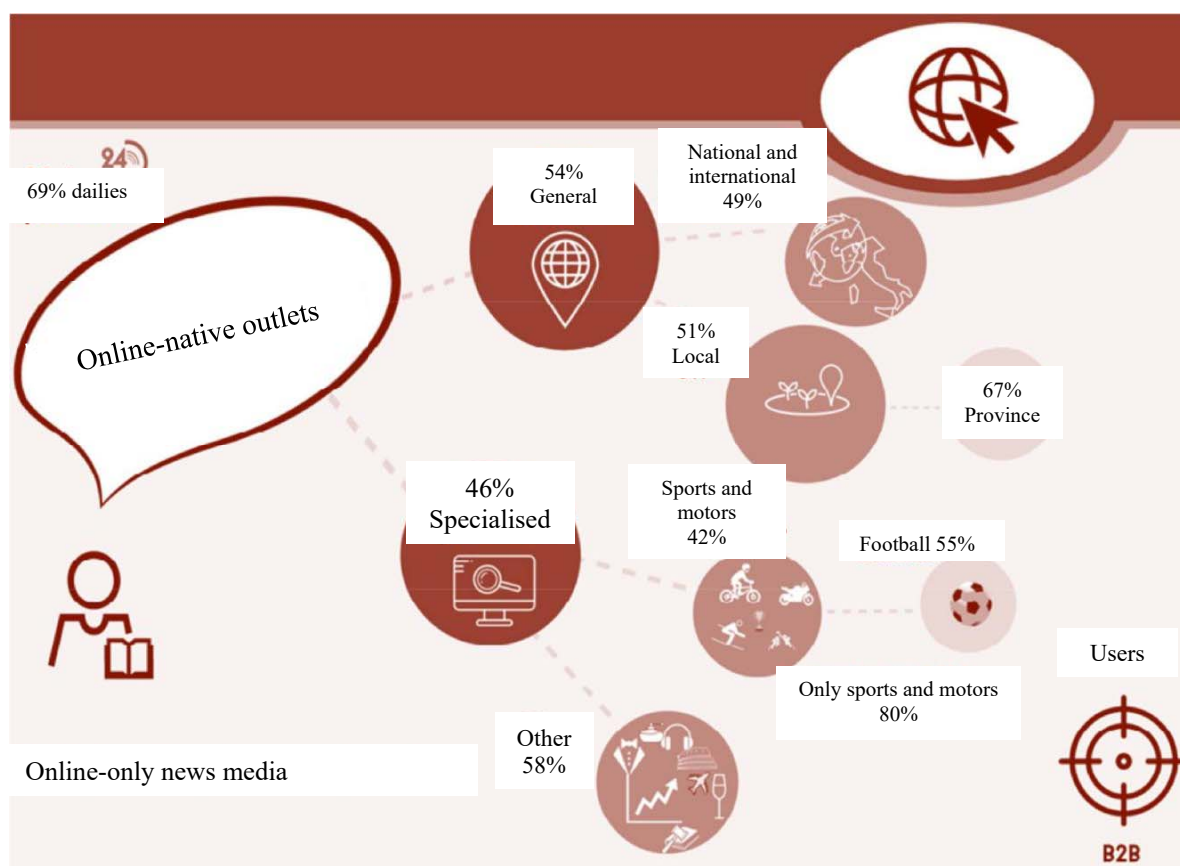


### Online media horizontal positioning: the editorial line

Among online media, there are news outlets, both political and specialised<sup>36</sup>, and other outlets which seem more of a professional tool rather than a news source, with similar features to those of a database. In this sense, the variety is so wide that it embraces journalists that go private and become publishers and outlets managed by professionals (non-journalists), that can convey specialised information<sup>37</sup>.

Online media horizontal positioning includes at least two publishing aspects: one is content-related and the other is geographical. The former relates to the type of topics treated, the latter to the reference geographical area of contents published (Table 2.7).

Table 2.7 - Online publishing horizontal specialisation: contents (general vs. specialised) and geographical area (national vs. local)



<sup>36</sup> Over two thirds of online media (69%) declares to be of the newspaper type. Most of them define themselves as “online newspaper” according to the new regulation (law no. 198, 10/26/2016).

<sup>37</sup> C.W. Anderson, E. Bell, C. Shirky, (2012), *Post-industrial Journalism: Adapting to the Present*, Tow Center for Digital Journalism, *Columbia Journalism School*.

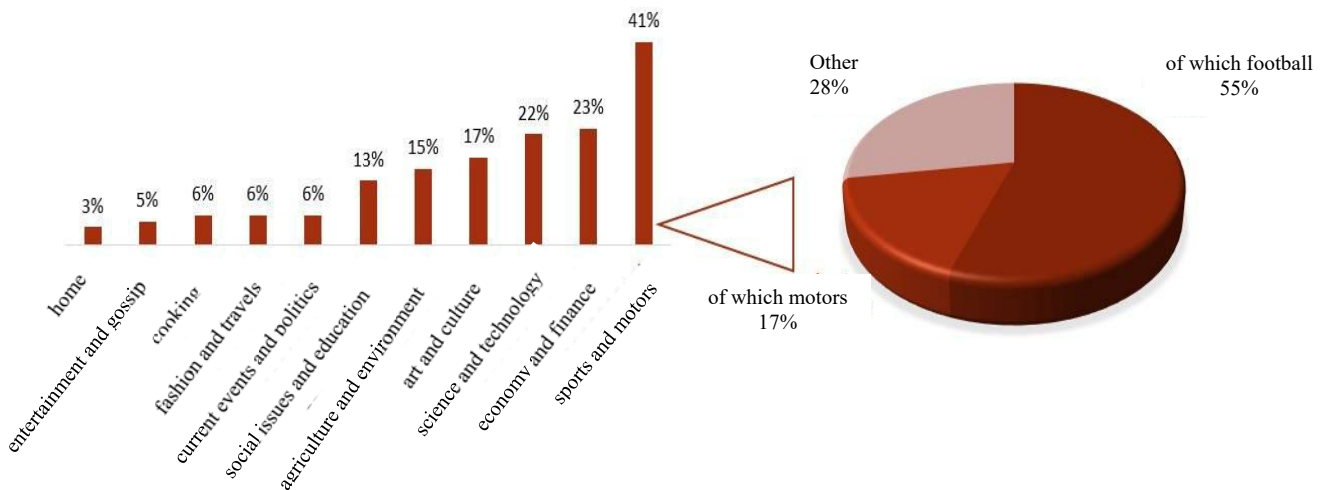
As also highlighted in international surveys<sup>38</sup>, since users can choose contents from different outlets, there is no longer the need to use a single product; therefore, in many countries, general outlets have been decreasing and more specialised outlets have grown.

From the publishers' standpoint, specialisation, as already said, enables to further differentiate (horizontally) contents and, therefore, gives the opportunity to have a (small) advantage in a highly competitive world.

In numbers, AGCOM estimates that little more than half the online outlets (54%) is of the general type, while the remaining (46%) is more specialised.

Among the specialised outlets, the most popular topic is sports (14% of outlets), followed by finance (23%) and science and technology (22%). Besides, most sports outlets (55%) deal with football topics (55%).

Table 2.8 - Topics treated by specialised online outlets



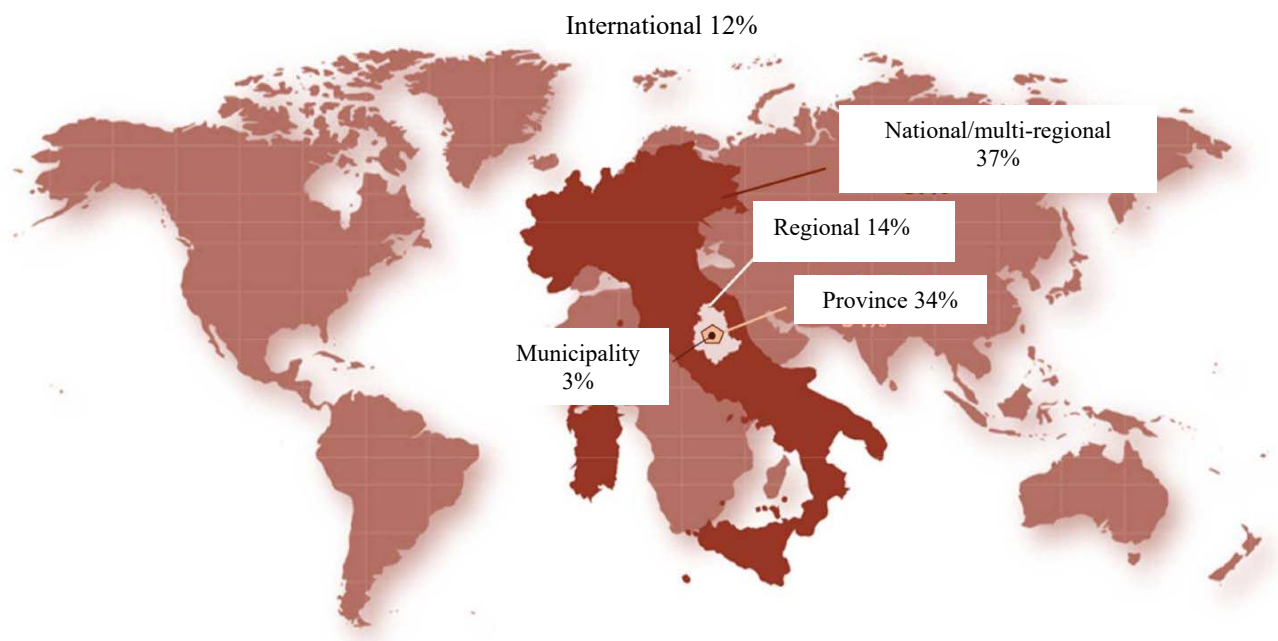
Even the so-called general outlets (in contents) can differentiate, and they do it essentially through two factors: ideological and geographical positioning. While the former is often a feature of print newspapers and related websites, online outlets usually differentiate in geographical terms (Table 2.9).

Over half of them (51%) has, in facts, a local profile. Particularly, the survey underlines how the reference geographical area is more often a province (34%), rather than narrower areas (municipality, 3%) or wider areas (region, 14%). This shows, all things being

<sup>38</sup> Reuters Institute, (2017), *Digital News Report*, cit.

equal, the existence of a minimum optimal geographical area for online outlets, which is a province.

Table 2.9 - Geographical area



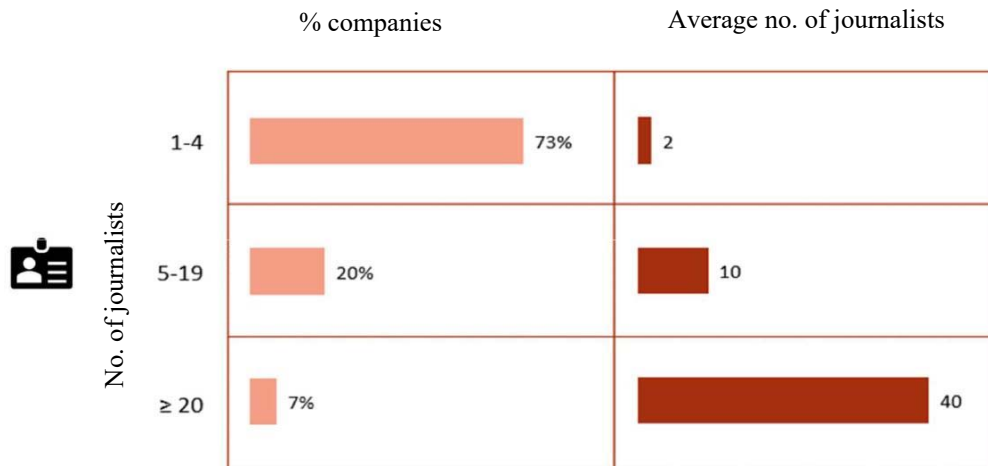
### ***Online outlets vertical positioning: the issue of quality***

Another aspect of online media positioning is the investments that affect the quality of products supplied to the audience.

One of the aspects is, of course, the recruitment, as an internal worker or a freelance consultant, of journalists. Table 2.10 highlights again the existence of an unbalanced distribution of online media which is almost the same as the previous one on publishers financial resources (see Table 2.4): only 7% of companies has more than 20 journalists, and little over a quarter (27%) has 5 or more. On the other hand, 73% of companies make up the “long tail” of media that have, on average, two journalists (including freelance consultants).

In the end, a strong relation between financial resources and investments can be noted. The shortage of adequate resources, coupled with the unbalanced distribution of online advertising (see Table 2.2), often prevents online media from adopting a business structure and so from investing in the profession of journalist.

Table 2.10 - Companies by number of journalists



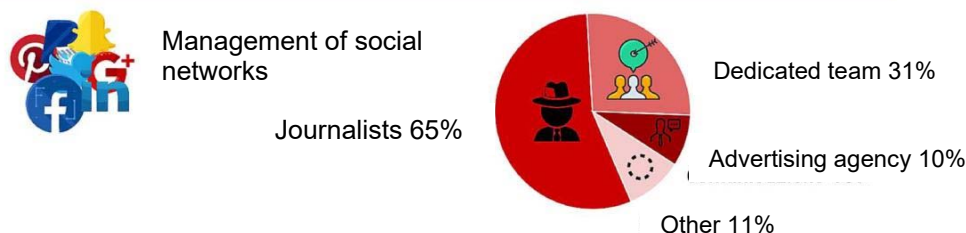
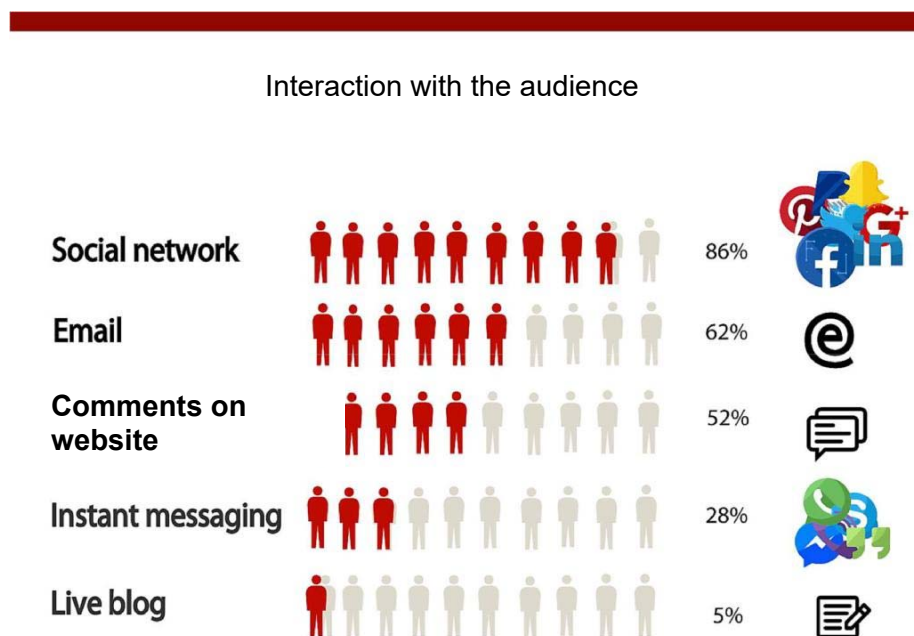
The other side of the coin concerns technology. The lack of technicians in online media staffs, even when of larger size, has been previously highlighted (see Tables 2.5 and 2.6).

Even when we deal with investments in technological equipment, the survey carried out by AGCOM highlights the shortage and simultaneous concentration in few (large) online media: in the last fiscal year, 93% of all investments in technology has been made by less than a third of online media.

On technology again, social media have been registered as the most popular means of interaction with readers, and in 65% of cases, when technicians are lacking, social networks are directly managed by journalists.

Facebook is the most used social network (91% of outlets), followed by Twitter (75%), YouTube (51%) and Instagram (39%), while instant messaging and live blogs are barely used.

Table 2.11 - Online outlets means of interaction with the audience



### iii) Economic performances analysis

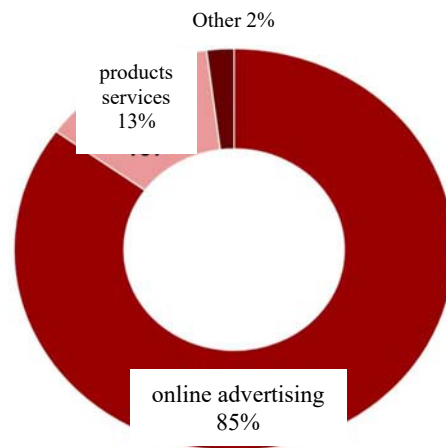
The industry structure analysis showed an unbalanced distribution, typical of the web industry, in which we can see a “head” made up by a few fairly-large companies and a “long tail” made up by a crowd of small and micro companies. To deal with high level of competition, both on products and financial resources, media adopt news differentiation (especially editorial) strategies. The outcomes of this “market game” inevitably affect online media economic performances.

First and foremost, Table 2.12 shows how most (85%) online media are funded mainly with online advertising. Such result is in line with international

evidence<sup>39</sup>, which shows how online-only news outlets are not able to profit on the user side, and so forced to grant free access to their news, funding them almost entirely on advertising<sup>40</sup>. Such result seems to be linked to the low popularity of online publishing brands (see Chapter 1), that makes it impossible to charge users to read news on websites.

Only 13% of online media offers pay contents. These are exceptions which concern hyper-specialised outlets (legal databases, news on public tenders, taxes and regulations, rather than scientific news), addressed to an audience made of professionals (lawyers, notary publics, accountants,...), whose willingness to pay for specialised news, being it linked to core aspects of their jobs, is clearly higher than that of normal users.

Table 2.12 - Online outlets main funding source



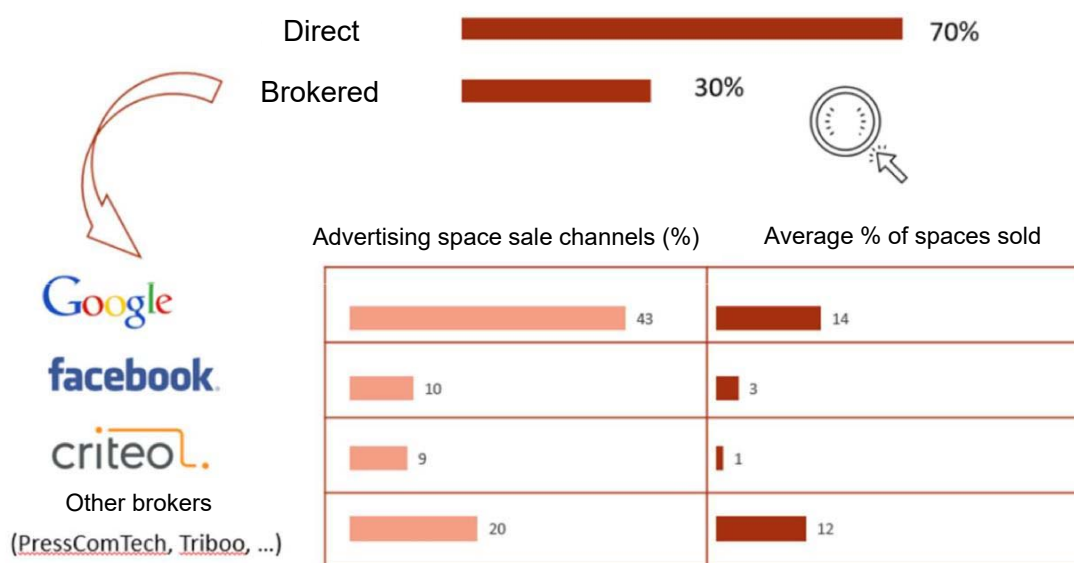
If we segment online media by company economic size (cf. Table 2.4), we can see that small and micro companies are even more dependent on advertising (90%, compared to 77% of larger companies, that is with a turnover of more than 100 thousand euros).

<sup>39</sup> A research by the Reuters Institute for the Study of Journalism and Oxford University (Cornia, A., Sehl, A., Simon F. and Nielsen, R. K. (2017). *Pay Models in European News*) based on a sample of 171 among the main news companies in six European countries (including Italy) shows how virtually all online-only news outlets (97%) grant free access to their news.

<sup>40</sup> A small percentage (2%) of online media is funded with government funds and/or private donations.

Considering the importance of advertising for online media funding, AGCOM dedicated a specific insight to online media advertising space sale channels. Table 2.13 shows a few results.

Table 2.13 - online outlets advertising sale channels



For starters, most of the advertising (70%) is directly sold through online media's own sale channels (an agency and/or agents). This is especially true of local news outlets, where the percentage for directly sold advertising reaches even 90%. In this case, the local nature of advertisements enables the medium to have a direct relation both with users and advertisers. Generally, even at national level, the pressure of the competition exerted by online platforms on advertising spaces prices pushes media to sell them on their own<sup>41</sup>.

Secondly, if advertising is brokered, brokering is carried out through Google's ad network, which carries about 15% of all online media advertising. The

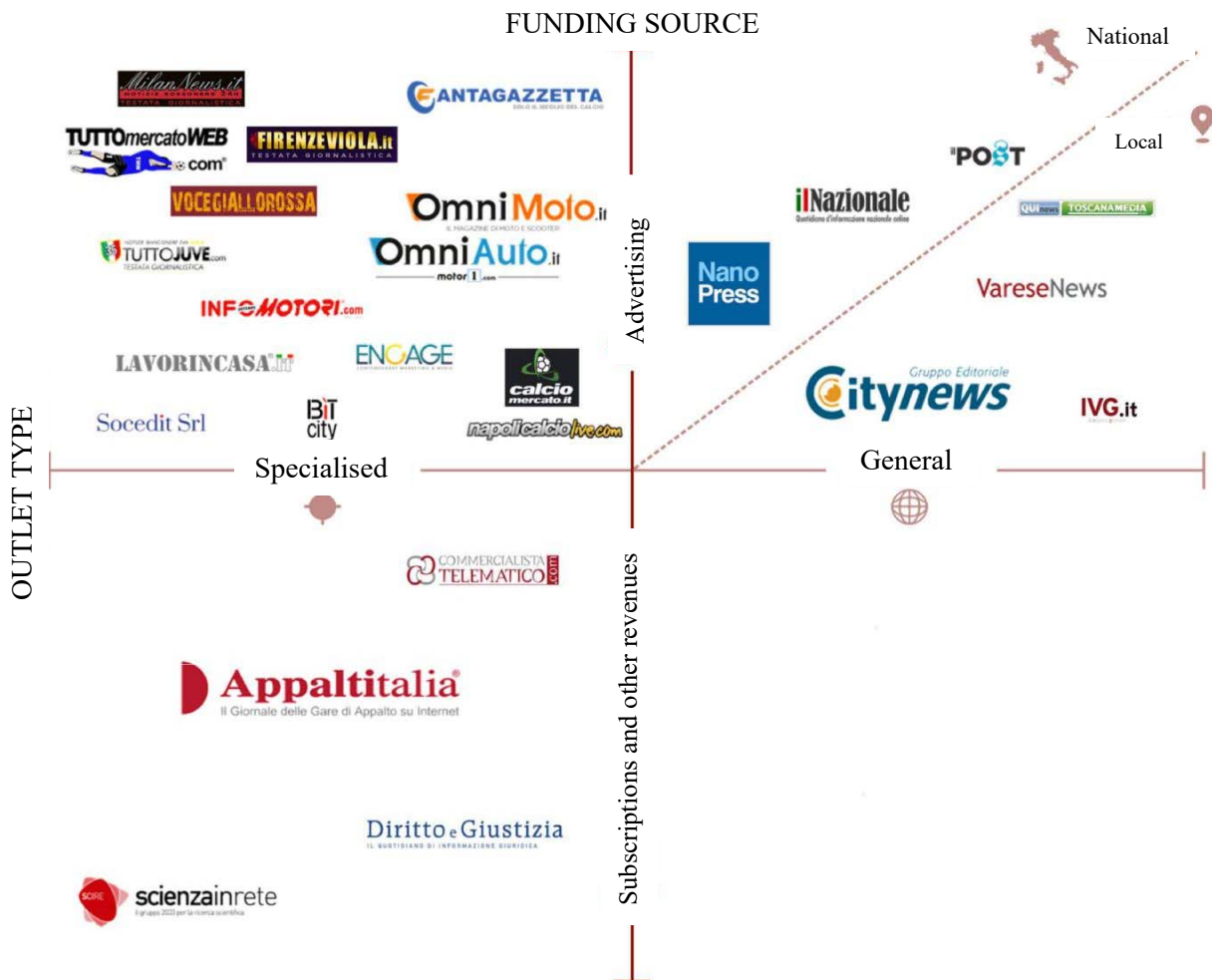
<sup>41</sup> Likewise, online media rely more and more on video contents because they can be sold at a higher price.

rest is up to Facebook (3%), Criteo (1%) and other brokers (PressComTech, Triboo,...)<sup>42</sup>.

**iv) The industry of online publishing: an interpretation**

In the light of what previously said, the industry of online publishing can be interpreted with a simplified model that takes into consideration the main features of the system (Table 2.14).

Table 2.14 - Online publishing: editorial positioning and funding sources



<sup>42</sup> Many local news outlets, being their geographical areas too narrow to be of interest for national investors, entrust the national part of their advertising revenues to agencies, such as PressComTech, which aggregates them into advertising networks.



Firstly, online media business models are divided into two types. On the one hand, most outlets offer free services and rely on revenues from online advertising. On the other, there are (few) entities that push users to pay by offering specialised contents to professionals (3<sup>rd</sup> quadrant in Table 2.14).

To date, there is still no offer that is able to push normal users to pay for general news (in fact, the 4<sup>th</sup> quadrant is empty). If even traditional media find it difficult to profit from their online news when they offer online services to users<sup>43</sup>, then online-only outlets, which show a lesser reputation and brand perception (see Chapter 1), cannot go this way at the moment.

Therefore, online news is only funded essentially through online advertising. In this context, differentiation strategies enable online media to find themselves an audience and, in some cases, a direct relation with advertisers. Specialisation can be content-related (2<sup>nd</sup> quadrant) or geographically-related (lower half of 1<sup>st</sup> quadrant). In both cases, to increase their size, media sometimes merge into local or specialised news outlets networks.

In the case of national general outlets (1<sup>st</sup> quadrant, upper half), news differentiation is generally ideology-related. However, in this case, the high level of horizontal differentiation of print newspapers and their related websites saturates many markets and niches. In this case, online outlets, also considering their vocation, can differentiate by using the typical tools of the web (especially online platforms).

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<sup>43</sup> On this, see again the [Sector Inquiry News and Internet in Italy, business models, consumption and professions](#). See especially Chapter 5.

**Box 1 - A case study: Fanpage**

Outlet: Fanpage

Publishing company: CIAO PEOPLE S.r.l.

Established: 2006

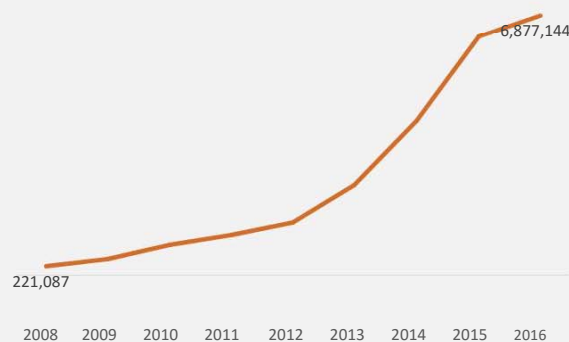
Besides the quantitative analysis carried out in the rest of the Report, the complexity of this analysed case calls for a qualitative insight too. More precisely, for our case study, we chose this online-only news outlet based on a few particular features: their news is successful with the audience, they use new news distribution techniques (especially through online platforms), their investments and economic returns.

As shown in Chapter 1 (Table 1.4), the general outlet Fanpage not only reaches top levels of online audience, but also, and more importantly, widely uses social media, managing to reach broader and broader sections of audience<sup>44</sup>.

In fact, Fanpage achieved its success also thanks to their knowledge of how social media work and therefore how viral their videos are (according to Google Analytics, 98 million views/month). It is present on all the main entertainment social networks (Facebook, Twitter, YouTube, Instagram, Google+) and it reaches over 41 million fans on Facebook and 50 million views/month, besides 450,000 YouTube subscriptions and 25 million views/month.

The Ciaopeople company is among the few in the industry that has a turnover of over a million euros (see Table 2.4). Precisely, according to the company's financial statement, as of December 31, 2016, they registered an annual turnover of € 6,863,809, which is 9% higher than the previous year (Table 2.15).

Table 2.15 - Revenues trend



Source: Company's financial statement

The company is, for the Italian market, significantly large, with about 100 people working for it (among internal workers and freelance consultants). From the analysis of their structure (Table 2.16),

<sup>44</sup> Fanpage is also internationally renowned: in its report "The Future of Online News Video", the Reuters Institute puts it among the world's top positions for engagement, with specific reference to videos posted on Facebook.

what stands out is the presence of technicians and multimedia experts (49%) and journalists (45%).

Table 2.16 - Structure

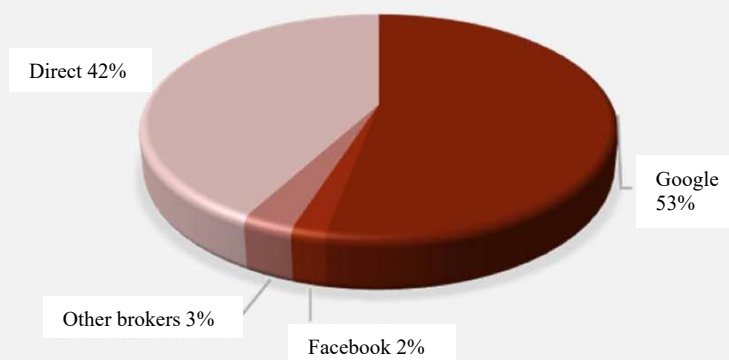


Fanpage relied on video communication. As a matter of facts, while contents have not changed much over time (30% politics and current events, 25% football, 20% entertainment and 25% others), what has changed is the type of contents published, with an increase in the number of videos added to text news. The outlet produces 10-15 videos daily.

What's more, Fanpage's presence on social networks determines its success. It relies on a team of over 20 people to manage social networks and uses both Facebook's Instant Articles and Google's AMP.

The use of online platforms is also evident in the choice of advertising spaces sale channels (58% total, 53% through Google alone; Table 2.17). However, it is interesting to note how a significant and increasing part is sold through their own agency (direct sale channel).

Table 2.17 - Online advertising sale channels (%)



### 3. CRITICAL ASPECTS AND FUTURE OF THE INDUSTRY

The world of news is constantly evolving in a harmonised way. Each day that passes, online news are more and more important. In a recent report, AGCOM already highlighted changes under way on the demand side in news consumption, particularly referring to how citizens get the news online<sup>45</sup>.

On the supply side, news production and distribution are going through new processes, encountering structural obstacles, especially when finding income sources for journalism activities. AGCOM often focused on traditional media supply, even online<sup>46</sup>, as well as on the role that online platforms have been playing in this matter<sup>47</sup>.

In this report instead, a new part of the Italian news world, which is still quite unknown, has been analysed: online-only news outlets supply. The analysis outlines, for the first time, an accurate picture of the industry, highlighting features and critical aspects.

Despite being an extremely varied industry, due to a high product differentiation, a few general features of the system have been identified in the report. For starters, there are few large companies (the so-called “head” of the distribution) and many small entities (“long tail”). This particular distribution (aka power law), typical in many web markets, is due to the presence of few entrance barriers and, conversely, many obstacles to the following economic development of media.

The issue of news funding and the so-called online media business model has been analysed in this report. The report shows that news differentiation (especially horizontal) is of paramount relevance (see Chapter 2, paragraph 2). Online media have been specialising naturally, by type of contents and reference geographical area. Content specialisation, in particular, lets a few media push groups of users to pay, especially professionals, even though online news is almost entirely free.

In particular, online-only news outlets still have, compared to traditional media, a minor reputation and brand perception. This makes it impossible to fund news, especially those on current events, by having users pay for them.

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<sup>45</sup> Cf. [Report on news consumption](#), February 2018.

<sup>46</sup> See the [Sector Inquiry News and Internet in Italy, business models, consumption and professions](#) referred to in resolution no. 146/15/CONS.

<sup>47</sup> Cf. [Sector inquiry on online platforms and news system](#).

This said, online advertising acquires a crucial value for online news. Differentiating contents, specialising in a geographical area (a province, often), merging outlets (smaller ones) in advertising networks and using social media to make contents go viral are all market strategies that have guaranteed the survival of the industry.

However, the industry has structural critical aspects, both related to online news and to the industry itself.

The former, as highlighted many times in the report, have been often analysed by the Authority, that, besides reporting them to the Parliament and the Government<sup>48</sup>, has also started to draft a proposal for a regulation to face, with a bottom up approach, at least part of them<sup>49</sup>.

This report focuses, instead, on online media industry market failures.

Firstly, the industry shows, also for reasons of legacy, less popularity and reputation with the audience. This aspect is especially critical in an industry, such as that of news, that relies solely on the trust between medium and reader. In this case, the situation is worsened by the fact that these outlets often use online platforms to reach their readers (see Chapter 1). If, in the short term, the use of search engines and social networks brings traffic and audience to media, in the long term, however, it could slow down the success of new publishing brands. Since users access news through online go-betweens, they often do not associate the news to the related medium, but to the platform instead.

The report has therefore two goals: one is for AGCOM to analyse and get to know the industry, and the other is to make this industry known by all the stakeholders - from the lawmaker to the citizens - in order to widen the common knowledge about the array of sources that make up our whole national news system.

The first goal is accompanied by another, concerning policies. In facts, the sector inquiry cannot leave aside the assessment of the consistency of State actions with the goals set (news pluralism). On this, we have to observe how the eligible recipients of government funds, stated by the lawmaker (see Chapter 3, paragraph 1), may be forced to rule out their online-only news outlets. In facts, if they own one, in order to receive the funds, its contents, or part of them, must be pay-content. This report (see

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<sup>48</sup> See, among others, the presentations of the [Sector inquiry on News and Internet](#) and the [Observatory on journalism](#) at the Senate of the Republic.

<sup>49</sup> For further details, see also the recent institution of the [Technical Board to guarantee pluralism and information reliability on \*online\* platforms](#).

for instance Table 2.14) has shown that online outlets' news is almost entirely free, funded through online advertising revenues.

What's more, all around the world, online outlets offer their news for free, while the existence of a pay-issue is a feature of traditional media, which take on the web with a mixed supply. This could create a funding system that, instead of supporting a plural development of (new and old) news sources, will help a few traditional media take on the web. The risks, already mentioned by AGCOM<sup>50</sup>, are serious static and dynamic allocation shortcomings.

It is necessary, instead, to focus on the new needs which are arising in the country and on new ways to meet them. Online news requires different skills compared to traditional media, such as the ability to make the most of new tools and platforms and the interaction with users. In this sense, the possibility to build virtual communities of users suggests new models of organisation, not only for the news but for society too, and shows the potential that online outlets could have for the entire digital world.

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<sup>50</sup> See AGCOM's 2012 Annual Report (p. 115 for a few general considerations) for an economic assessment of previous policies on direct funding to publishing (p. 147), radio (p. 134) and TV (p. 128).

## **METHODOLOGICAL APPENDIX**

The Report has been mainly drafted on the basis of the results of the Observatory on online publishing. The survey, carried out through a questionnaire addressed to online-only news outlets media that do not operate in other fields of communication, started in June 2017 and ended, with the last notices submitted, in November 2017.

The questionnaire (here attached) was drafted together with ANSO and USPI, that joined and advertised the initiative to their members. It is divided into two parts: one concerns the company and the other concerns the outlet. The first section refers to the publisher: general data, size, access to government funding, funding received and investments made. The second section contains data on the topics treated by the outlet (that can be general or specialised, national or local); how much of the content is internally produced and how much obtained from third parties; the importance of audio-visual contents; the implementation of content customisation algorithms and source verification automatic tools; processes relating to advertising revenues; management of the interaction with readers.

The questions submitted have been drafted following an international survey, both to find precedents, if any, and to give more context to the analysis.

Moreover, accurate efforts have been made to outline the survey and define the target. The questionnaire was made available on AGCOM, ANSO and USPI websites, so that anyone operating in the industry could take the survey. After the publication, there was a massive communication campaign, followed by an intense operation in which it was explained why the Observatory carried out the survey, which was to inquire the sector, rather than confirm any previous knowledge.

Participation was satisfactory, considering also that it was the first inquiry ever for this industry. After careful verification and identification of the subjects that took the survey, the outcome was that valid answers came from 141 web companies publishing a total of 189 online outlets. It is a sample accounting for 11% of active companies, as of July 2017, which noticed the COR about publishing online-only outlets (but may also publish print newspapers) and for 18% of the target composed by companies publishing only online outlets (but may also work in other fields of communication). The sample, therefore, represents a significative percentage (almost 20%) of the target, that is online-only media that do not work in other fields of communication.

This analysis, moreover, has been integrated, where necessary, with data from outside sources (including Chambers of Commerce, companies' financial statements, etc.).