



The economic shift towards digital media is forcing publishing houses to move from the print-only business to becoming digital solution providers. However, the key challenge lies in the fact that the customer value perception of digital content is often lower than for print products, despite the fact that digital production and maintenance is often more expensive to produce than print products. How do pricers overcome this challenge and make the shift from print to digital while still maintaining profitability? Hong-May Cheng MSc is a senior director and Arjen Brasz MSc and Joke van Koppen MSc are consultants at Simon-Kucher & Partners in Amsterdam. They can be reached at amsterdam@simon-kucher.com.

How to Manage the Shift from Print Products to Digital Solutions – Profitably

The publishing sector is in a transitional phase. Although the vast majority of revenue is in many cases still generated by traditional print products, the gradual shift towards digital solutions is becoming increasingly visible. This requires publishing houses to move from the print-only business to becoming digital solution providers. Other industries have been successful in comparable transformations; today's customers pay for music downloads from the iTunes store and on-demand movies via interactive TV. Still, the publishing industry at large is having difficulties creating, communicating and monetizing the value of digital content.

(Ehrhardt, 2011).

And yet the opposite is true when looking at the cost of production. Customers expect digital products to be less expensive, but product development, support, hosting and maintenance costs are often higher than for print products. This applies especially when digital content is offered with enriched functionalities and additional content – which is exactly what customers expect.

Publishers have to demonstrate market leadership and pricing power to change this free ride expectation. The shift from print to digital, which has gradually emerged over the last decade, will accelerate in the coming years with major implications for the day-to-day publishing business and its role in the value chain. This requires publishers to understand, create and monetize the value of digital solutions.

This article describes five measures for

The key challenge is that the customer value perception of digital content is often lower than for print products. The perceived value of e-books, for example, is around 30% lower than the printed versions when no additional features are added (*EBooks: Usage and willingness to pay in the US, UK and Germany*)

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value-based pricing and boosting the profitability of digital solutions.

1. Understand and build the premium of digital solutions right from the start

More often than not, digital products in publishing are developed by taking the print product as a starting point for its digital counterpart or substitute. However, simply digitizing print products without making use of the full potential digital has to offer mostly results in a lower value perception by the customer. In these cases, digital is perceived as no more than a low-cost distribution vehicle.

Digital solutions are not driven by the same value drivers as traditional print products. Quality of content and author reputation remain important, but new factors also come into play. They include usability, search ability and other functions related to an online platform (see figure 1: Examples of value drivers in digital publishing).

Every publisher needs to thoroughly understand the drivers that determine customers' perception of the value of digital solutions and rank them by their importance. Understanding these value drivers is crucial to develop the enriched solutions which really justify a premium and tap into customers' willingness to pay. With extra content, functionalities or other added applications, the digital solution will be worth the money.

This means publish-

Figure 1: Examples of value drivers in digital publishing

Value drivers	Importance ranking
▪ Quality of content	
▪ Search engine usability	
▪ Archive function	
▪ Content depth	
▪ Author reputation	
▪ Price level	
▪ Flexibility of offering	
▪ Aftersales process	
▪ ...	

ers need to cut the reference. The print product per se should not be the reference for the digital solution, as is often the case today – in terms of neither content nor price. Customers' buying criteria and usage patterns should be the starting point for the new digital solution. This may involve a radical repositioning, rebranding and re-launch of the digital solution to be able to create a new value position in the portfolio and for the customer.

2. Develop segment-specific, bundled solutions

The transition from print products to digital solutions is for most customers a gradual development in usage instead of a radical change in behavior. In this development, the level of digital adoption gives a very useful perspective to distinguish between customer segments.

Both traditional print-minded readers and fully digital-minded readers can be found, but the majority of customers will be somewhere in between and looking for hybrid solutions.

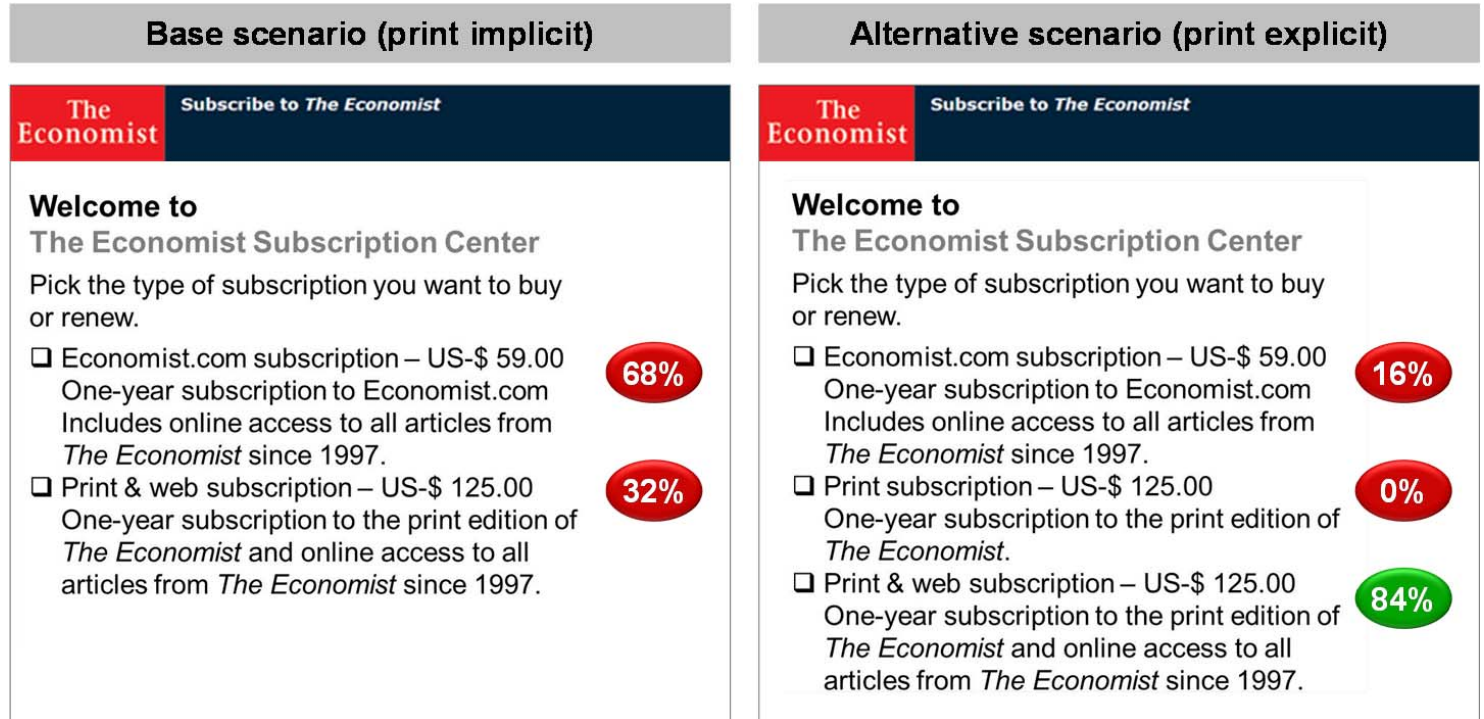
They still want to be able to read the newspaper at the breakfast table, but within the same subscription have access to a full database of content when searching for a specific article online later that day.

Differences in digital adoption between customer segments and the need for hybrid solutions are often neglected in publishers' portfolio build-up. Every publisher should have a clear view of its customer segments, their needs, their current and future size and their will-

Figure 2: Example of customer segmentation based on digital adoption

Customer segments:	Level of customer digital adoption			
	I Print-minded (Arthur)	II Digital starter (Charlotte)	III Digital-minded (John)	IV Fully digital (Lisa)
Brief description	Uses mainly print but also some digital	Uses both print and digital materials	Uses mainly digital materials	Uses only digital materials
Customer insights	"I want to work with print materials mainly, but now and then I use digital materials."	"I want to use digital materials where I can, but for some occasions I rely more on print materials."	"I want to work with digital materials, but print materials must be used in certain instances, too."	"I want to work with digital materials only."
Segment size in 2012	20%	60%	15%	5%
Segment size in 2015	5%	50%	35%	10%

Figure 3: Example of behavioral pricing



ingness to pay (see figure 2: Example of customer segmentation based on digital adoption).

This segmentation is the starting point to develop segment-specific offerings and portfolios. Each offering presents the best possible bundle of print and digital, and exactly taps into the willingness to pay of the segment in question.

Publishers may have to address white spots in the portfolio to meet customer needs that are not answered by the current product offering.

This approach will also help to prevent product development for a very small customer base which will never become profitable.

Furthermore, having a crystal-clear product migration path from print to digital gives customers an outlook toward their own 'next step'.

3. Re-invent your price model

The revenue models of many publishers are driven by prices that have developed organically over time, regarding both

customer subscriptions and business advertisement. Once-off transactions are the dominant payment model: books or magazines are sold as individual units and the buyer can use the content indefinitely.

The transition towards digital solutions opens up possibilities for new price models in which usage and payment are much better aligned – and much more flexible. Selecting the revenue and pricing model is the most important part of the pricing process because it enables the publisher to extract the value delivered, synchronize payment with consumption, overcome customer buying constraints, bypass psychological thresholds, control the level of transparency and differentiate from competitors, to name just a few – and all without creating an administrative or technological burden for the internal organization.

Instead of taking the print product, the usage and search behavior of customers should be the starting point for new price models and metrics. Digital solutions are not restricted by physical boundaries or distribution.

At the basic entry level, "freemium" models can be applied that provide free but limited access to a selection of content or functionalities. This whets customers' appetite for enhanced content and functionalities, which are accessible through more premium and paid options.

At the paid level, publishers need to consider bundled solutions that provide access to a variety of content, based for example on themes, years or specialisms. These solutions allow customers to access content without having to browse through individual titles, but with the convenience of an entire content domain at their disposal.

4. Communicate and sell your value

In the shift from print to digital it is essential to set the price anchor of digital products right from the beginning. This requires products to be introduced at the right price level right from the start. After a product is launched, it is very difficult, if not impossible, to increase its price significantly.

At the product level, publishers must

therefore develop enriched digital solutions for which customers really want to pay to ensure that customers perceive the digital category as a valuable alternative to print, with new features and added value.

In terms of pricing, publishers need to use insights and lessons from behavioral pricing wisely to make sure that customers perceive the price of digital in the way they want them to. The essence is that in many cases, price perception has very little to do with price level.

Figure 3 illustrates this point. In a buying process customers evaluate and compare several options. Here we compare the take rate of two scenarios. In the first scenario only two options are offered: either online subscription or online and print combined. In the second portfolio three options are listed, the second obviously being the least appealing from an economic viewpoint. Interestingly, adding an option that nobody will take increases the sales of the better but more expensive offer.

5. Tap into new services and revenue streams

The publishers' role in the publishing process and value chain is changing. All aspects of the current business model are or will be affected. Customer relation-

ships will intensify, product portfolios will be transformed, the role of services will increase, and the route to market will change dramatically.

In this changing market environment publishers have to create a clear vision and define their value proposition. Which markets and segments should they focus on? What product or service offerings do they need to develop? And how can these offerings be monetized profitably?

The most important challenge for publishers will be to move away from being product-oriented and towards focusing on customers and solutions.

Relatively new to most publishers is that digital solutions open up opportunities for additional features such as enriched functionalities, hosting of content, helpdesk, training, advisory and consulting, system implementation, support services and maintenance that they can add to their portfolio offering. These services can possibly be covered in service-level agreements (SLAs). A clear trend can be identified here: the movement away from once-off sales towards more solution-oriented and recurring subscription sales, including additional services.

Conclusion

It is clear that the publishing industry is in a transitional phase. The most important challenge for publishers will be to move away from being product-oriented and towards focusing on customers and solutions. This requires deep insights into customer needs, value drivers and willingness to pay.

In the new digital market landscape publishers need to choose which customer and product segments to believe in, and to set out a clear monetization strategy to follow this route in a profitable way.

To do so, most publishers will have to step out of their comfort zone and specialism they may have cherished for centuries, and into the now. They need to act quickly to prevent the "digital content is free" mentality from becoming

the new market convention in the industry.

The migration towards digital products and pricing strategies should be a top management priority, not held back by historic publishing processes and structures but driven by a clear future vision of changing customer behavior and possibilities of the digital world.