

Modifying the News Industry with the Internet

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INTRODUCTION

The advent of the digitalization of pure information products has created new opportunities and changes in the information goods markets. The increasing acceptance and usage of the Internet and the decrease of access costs provide a new broad scope of economic activities and business models. These business models are based on the production, distribution, and sale of information goods (Clemons & Lang, 2003), and they have been developed either by traditional incumbents or by new players such as internet intermediaries.

Nowadays in the news industry, writers and journalists can distribute their content directly to the end user. Moreover, new intermediaries, named infomediaries, have emerged providing informational services to their customers (Sawhney, Prandelli, & Verona, 2003). These infomediaries provide customized aggregated news Web content to the market and add value by essentially being cheaper, quicker, more specialized, easier to manage, and with a broader supply than the traditional businesses. As a result, the traditional news industry is changing and it is becoming digital and online. Despite the fact of the importance of these changes for the news and other industries, there is little research about this phenomenon.

Based on empirical data collected from 15 case studies in the online news industry, this article focuses on the two major changes that are occurring in this industry. First, the activities of the value chain that are being modified and integrated. Second, the emergence of new players with Internet-based business models and the portal technology they use to exploit their business models.

BACKGROUND

Virtual Value Chain and Value Creation in the Internet

The impact of the Internet at the firm level has been analyzed using the value chain framework (Porter, 1985) in a number of papers including Koh and Nam (2005), Porter (2001), and Rayport and Sviokla (1995), among others. And the value creation on Internet (e-business) has been studied mainly

by Amit and Zott (2001). As Porter's initial value chain was found more suitable for the analysis of production and manufacturing firms than services firms (Stabell & Fjeldstad, 1998), a virtual value chain was proposed (Rayport et al., 1995). This is based in gathering, organizing, selecting, synthesizing, and distributing information.

Regarding the general impacts of the Internet in the value chain, in the infrastructure activities, the Internet enhances the use of real time information for making decisions. In this sense, the Internet permits the fragmentation of business processes. This allows companies to offer only a few products and/or services, and to concentrate on some essential competences. With this, they can implement cooperation strategies with other businesses to develop secondary activities. Moreover, the Internet allows businesses to develop new or complementary business models. These models are based on the creation of value throughout information use (Rayport et al., 1995). Given this, businesses can create value by substituting the activities of the real value chain with activities of the virtual value chain; the latter being the most efficient and flexible of the two.

Moreover, Amit et al. (2001) studied the value creation in e-business and identified four main drivers for it: efficiency, complementarities, lock-in, and novelty. Efficiency refers to the fact that transaction efficiency increases when the costs per transaction decrease. The greater the transaction efficiency gains to a particular e-business, the lower the costs and hence the more valuable it will be. Complementarities is related to the fact that having a bundle of goods together provides more value than the total value of having each of the goods separately. Lock-in refers to the engagement of the customers and partners with the company and prevents the migration of them to competitors. This creates value mainly by customers repeating transactions (increase of transactions volume) and partners maintaining their associations (lower opportunity costs). Novelty is related to the innovations of e-businesses in the structure of transactions.

**Internet-Based Business Models:
New Intermediaries**

The Internet creates new industries, reconfigures others, and has a direct impact on companies, customers, suppliers, distributors, and potential new entrants (Porter, 2001). Furthermore, it has been argued that with IT adoption, more opportunities exist for market transactions than for transactions conducted in a business hierarchy (Malone, Yates, & Benjamin, 1987). IT reduces transaction costs, brings customers and producers together, and promotes electronic markets (EM) characterized by the elimination of traditional intermediaries. Accordingly, Benjamin and Wigand (1995) proposed that electronic commerce leads to the elimination of traditional players from the value chain with direct buyer-supplier interaction. For example, newspaper companies can provide news to the consumer using the Internet without the newsagent participation. This phenomenon is called disintermediation, *displacement or elimination of market intermediaries*, enabling direct trade with buyers and consumers without agents (Wigand & Wigand, 1997, p. 4).

In contrast, EM also offers intermediation opportunities for new players that connect buyers and suppliers and enable price searches (Bakos, 1991, 1997). For example, *Google* offers a news service to their users putting together sources such as *Reuters*, *Bloomberg*, or *Washington Times*. These new types of intermediaries are named *cybermediaries* (Sarkar, Butler, & Steinfeld, 1995). They are associated with new business opportunities related with the development

of various intermediation functions on the Internet. These intermediaries may create value by aggregating (*bundling*) products and services that traditionally were offered by separate industries (Bakos, 1998).

NEWS INDUSTRY VALUE CHAIN

The traditional value chain of the news industry has different stages: creation (news stories), selection and certification (picking news and stories), production (printing), distribution (shipping to retailers/selling), and consumption (reading the paper) (Clemons et al., 2003). Nowadays news is a digital product, and incumbents, such as newspapers, magazines, and others, can redesign their processes using IT. With this, they can deliver the product directly to the readers. In addition, the role of companies is changing with Internet adoption, and these players are redefining the value chain. For example, traditional distributors normally are not present in the virtual value chain of the industry, and new distributors are emerging as infomediaries. These new players are Web news aggregators, blogs, and Web news services, among others. Its function is mainly packaging and delivering content to the readers. Therefore, in the virtual value chain associated to this industry the following stages can be identified: content creation and production, content packaging, distribution, and consumption (Clemons et al., 2003; Werbach, 2000) (see Table 1).

Table 1. Characteristics of the stages of the news industry value chain.

Stages of the Value Chain	Main characteristics
Content creation and production	Freelance journalists, magazines, weeklies, news agencies or other communications media.
Content packaging	The packagers or aggregators, also called WCAs, provide creator's content to the distributors or readers.
Distribution	Different companies or individuals are developing this role in the virtual value chain such as incumbents (audiovisual firms, news agencies, newspapers, and magazines, among others), WCAs, web news services, business websites, and readers/freelancers through blogs.
Consumption	The end-users of content, those who use the information, are the readers. These might be firm employees, independent professionals or Internet users interested in the subject.

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