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# **The Future of the Retail Advertising**

## **Implications for the Finnish Newspaper Industry**

University of Tampere

School of Communication, Media and Theatre

Department of Journalism and Mass Communication

Media Management

Master Thesis

May, 2011

## ABSTRACT

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Name of the thesis

The Future of the Retail Advertising: Implications for the Finnish Newspaper Industry

Pro gradu

79 pp.

May 2011

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Starting point for this research was the future changes Internet will cause to Finnish newspaper economies. When evaluating the economic importance of future development to newspapers' economies, one of the most important areas is retail advertising and its shifting to online environment. So far Finnish retail advertising has been very much focused on printed newspapers and retailers' online investments have been moderate and conservative. The change is about to happen and this research answers the question of what the future of online retail advertising looks like.

This thesis represents abductive orientation of qualitative research and it has been realized by interviews and focus group methods. The results are based on empirical data collected from twelve managers during 2009-2010 from Sanoma, Kaleva, Aamulehti, Iltalehti, Schibsted Finland, Kesko, SOK and The Finnish Association of Marketing Communication Agencies. Results were analyzed using content analysis, theory of paradigm change in retail advertising and scenario method. During the research process, a theoretical framework of paradigm change from intrusive to exclusive advertising was developed to be used for analyzing the empirical findings. The theoretical framework is based on four different theories: media dual market model, paradigm change theory, mass customization and search theory.

The qualitative research, content analysis and theory formation indicate that Finnish retail advertising is facing significant changes in the future that have impact on newspaper economies. The old dual market model of subscribers and advertisers was based on two products, newspaper and mass audience. The new paradigm of exclusive advertising requires several products: newspaper, mass audience and customized sub audiences. In the future, newspapers operate in two stages: first they amass the audience and next they break it to pieces with online analytics.

This research produced a scenario of exclusive advertising, where newspapers offer ever more customized online advertising solutions to retailers. In order to manage that, newspapers need strong development of online analytics to collect deep data of readers, to be processed for advertisers. Newspapers could also consider developing their consultative role towards retailers' marketing departments. The results of this research support more a sudden change than evolutionary development, and it seems that time for action with retail advertising is at hand.

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## 1 INTRODUCTION

### 1.1 Starting points for research

Barb Palser, the director of digital media in McGraw-Hill Broadcasting, wrote in the summer 2008 that digital media is investing mainly in search marketing, classifieds, and co-operation with Google and Youtube. According to Palser, media companies have transferred the paradigm of the correlation between audience and ad revenues to online world. They taught news rooms to tempt readers and trusted that advertisers would follow. Unfortunately, advertisers have found much more accurate and efficient ways to spend their marketing budgets than mass media. (Palser, 2008.) Display advertising can be bought on extremely popular community sites and a million different niche sites. Advertiser can also use network marketing to spread the message to countless sites. This phenomenon has been described as the *decoupling of news and advertising*. (Pew Research Center's Project for Excellence in Journalism 2008.)

This research studies the future of Finnish retail media advertising in newspapers. The results indicate that Barb Palser's worry is justified; Finnish newspapers are so far the main advertising channel for retailers, but they can lose this position because of Internet. Retailers plan focusing more online, but the development is focused rather on their own web services than news sites. There will also be competitive online channels for news sites.

Online is on its way to become the main media for tomorrow's readers and retailers, but so far retailers' shift to online has been mild. If the slow development continues, newspapers will have time to adopt the change. In order to succeed in this transition, newspapers should develop intelligent digital web and mobile platforms for retailers' adverts. There is also a possibility that sudden change or players shake the retail advertising market. The results of this research rather support sudden and radical change than slow evolutionary development.

The global financial crisis hit the world in the September 2008 and gave the impulse for this research. The crisis deepened the problems of U.S. newspapers, problems which in many cases had existed for years. In the beginning of 2009, the debate of the death of newspapers was raging in the USA and landed from there to Finland. In Finland, it is often rightly remarked that the situation of Finnish newspapers differs greatly from that of the U.S. market. Finnish newspapers are doing very well when compared to the situation in USA or southern Europe, and Finland belongs to the group

of top ten OECD countries with the highest newspaper readership in the world (OECD 2010, p.29.)

In addition to high readership, there is also another protective factor for Finnish newspapers, a factor which is not discussed as much or as often as the strong readership. The factor in question is the high amount of retail advertising in newspapers. Retailers finance Finnish newspaper industry intensively through advertising; top ten retailers spend almost fifty to one hundred percent of their media marketing on newspaper advertising. There is a joke saying that even the hardwood panels of the newspapers' meeting rooms have been paid with retailers' money. Retailers' role in Finnish newspapers' revenue is so significant that any future changes there will have major effect on newspaper business.

Readership and advertising are linked to each other. If printed newspapers reach smaller audiences than before, this weakens their attractiveness among advertisers and eventually decreases advertising. Online news, on the other hand, cannot offer media companies similar revenues as print newspapers at the moment. In online media, advertising revenue is usually the only income source, since readers are not willing to pay for the content (Gustafsson 2005, p.30). There is a threat that we do not see independent journalism in the future if there are no new business possibilities for online news.

No online enterprise has yet generated a stream of revenue to support original reporting for the general public comparable to the revenue stream that newspapers have generated in print....Whether the Internet will ever support general-interest journalism at a level comparable to newspapers, it would be foolish to predict... One danger of reduced news coverage is to the integrity of government. It is not just a speculative proposition that corruption is more likely to flourish when those in power have less reason to fear exposure. (Starr 2009, pp. 28-29.)

David Levy, director of Reuters Institute for the study of Journalism, acknowledges the threats but also sees optimistic elements in the development, especially in Finland. Levy reminds that newspapers are still a huge industry even though they must change to survive. One solution for newspapers could be charging for online news. Levy sees Finnish newspapers in an enviable position. Finnish newspapers have some of the highest levels of circulation, customer loyalty, and wider societal impact in Europe. The reader decline is relatively gradual and comes from a very high base. Still, there are some concerns, as newspaper penetration is eroding in particular amongst the young. (Levy 2010, p.7.)

This study supports Levy's partial optimism. Retail advertising can continue to be a significant source of revenue for online news if newspapers are able to build attractive online solutions for

retailers. However, the results show that newspapers need to act right now, fast and powerfully in order to succeed. Procrastination may offer new players possibilities to seize online retail advertising.

The main result of this research is the new paradigm of retail advertising, which expands the basic business model of newspaper from simple audience gathering to audience analysis and audience design. Online newspapers need amass a huge audience but that won't be enough in the future. After that they need to analyze audience, customize it and break it to sub-audiences equable with retailers' objectives and sell those tailored audience products to advertisers. Success with this shift also helps newspapers to fulfill their journalistic mission in online environment.

## **1.2 Research questions and seminal terms**

The objective of this study is to provide information about a future paradigm of retail advertising for newspaper managers. The research questions addressed are as follows:

- *What does the future of online retail advertising look like from the newspaper industry's point of view?*
- *How is online affecting the linkage between news and retail adverts?*
- *What business effects do we see online retail advertising has on newspapers?*

This research offers some insights to the Finnish retailers' digital marketing plans as well. However, interviewing Finnish retailers about their online marketing strategies has not been the focus of this research. There is clearly need for such study, as well.

Next we define some seminal terms often used in this study. *Newspaper* in this research refers to a periodical printed publication which is published daily. At least some of its editorial content is produced by its own specialist professionals, journalists, and the topics of the newspaper cover all current issues from politics to business and sports. (Wurff & Lauf 2005, p. 4.) Web news production by newspapers is referred to with *online newspaper* or *online news*. Essential feature for newspapers whether print or online is the demand for self-produced content. Google News, for example, is therefore not considered to be an online newspaper but a news content aggregator.

Internet and web are not synonyms. The common definition for *world wide web* means an entity containing all the web pages in the Internet. This entity consists of the html language coded web pages and their addressing system which defines the way pages refer to each other across the Internet. In this study, this collection of web pages is referred to with the terms *web or www*. *Online service, web service or web site* refers to web pages in a particular url (uniform resource locator) address. For example HS.fi is a web service which consists of all the pages and content under that [www.hs.fi](http://www.hs.fi) url address. *Internet* is a larger entity than web, meaning the global network of computers. For example, email marketing belongs to Internet but it has nothing to do with www. In this study, Internet is referred to with Internet, *net* or *online*.

There is no one, well-established definition for the concept of *advertising* among academic research. It can be defined as paid communication by a sponsor with the object of promoting ideas, goods, or services. The two basic aspects of advertising are the message and the medium. Many different media carry adverts, such as press, television, cinema, radio, and online. Advertiser attempts to reach markets or consumers through some facilitating institutions like advertising agencies and media and newspapers being one of the most popular media among local retailers (Batra et al. 1996, pp. 4, 23). In this study, the term advertising mainly refers to *media advertising*, where the medium carrying the advert is also the producer of either informative or entertaining content. Google's search advertising or Groupon's digital coupons are not considered as media advertising in this sense. Neither is retailers' direct marketing through their own magazines, leaflets, web services or mailing lists advertising but direct marketing since it is not paid communication. *Retail advertising* is used to refer to a typical advertising form used by retailers: special offers in effect for limited time. Another term used for this kind of traditional advertising with the target of increasing sales is *product advertising or trade advertising*. It can also be called *tactical advertising* as opposed to brand advertising or strategic advertising.

*Retailer* refers to a company that sells a variety of goods and services to consumers, while wholesalers sell product to retailers. Finnish retailers included in this research are big chains like Kesko, individual entrepreneurs such as Verkkokauppa.com or co-operative retailers such as SOK. Retailers sell their offering to consumers from a certain selling point, which can be either a physical shop or a virtual online store which is the case with Amazon. This research considers all retailing from durable products to food stores. Yet special emphasis is given to the advertising of *daily goods*, meaning the goods consumers buy on a weekly basis at places like grocery stores.



A person reading news and adverts is referred to with three different terms depending on the perspective from which his actions are being reviewed. *Reader* is used when referring to a person reading news either in print newspaper or online service. *User* or *visitor* refers to a person using an online service in general. The term *consumer* is used when regarding a person as a potential buyer of goods.

*Customizing* refers to all marketing that starts from the customer's own needs and interest. There is no one term marketers use when they talk about this. The most common ones are customization, personalization, mass customization, mass personalization, profiling, segmentation, targeting, filtering, tailoring, and one-to-one marketing (Vesanen 2005, p.5). The latter terms are occasionally used in this research, but the term used most often is *customizing*, meaning customized adverts to special customers utilizing online and computer technologies.

### **1.3 The process and structure of the research**

This thesis relies on qualitative research. It uses abductive orientation, content analysis, and scenario planning to build the future vision of online retail advertising. Building theory has been challenging because academic research of advertising is fragmented, and even more so with online retail advertising.

The concepts describing advertising are often disparate and inaccurate and unclear to academic experts and industry professionals. Even the basic concepts, contents and relationships between them are problematic. Conceptual and theoretical problems stem from the fact that there is actually no advertising research. (Malmelin 2003, pp. 12-13.)

Because of these problems, a theoretical framework was developed for this study. The framework is based on Thomas Kuhn's paradigm change theory, Robert Picard's media dual market model, John Pine's mass customization and search theory by George Stigler. Analysis based on this framework indicates we are in the middle of a considerable transition from mass advertising towards customized advertising and decoupling of news and adverts.

Bachelor's thesis "Advertiser's decoupling from journalism and mass communication" (Flink 2009) studied the paradigm change in media advertising with a hypothesis that journalism and advertising are moving away from each other. This master's thesis continues the study of this phenomenon with the focus on retail advertising. For the bachelor's thesis, three media managers were interviewed in

the spring 2009. Five more managers were interviewed during the autumn 2009 and the spring 2010. The results of the research are then based all together on these eight newspaper, advertising and retail managers' interviews from Sanoma, Alma Media, Kaleva, Schibsted, Kesko and The Finnish Association of Marketing Communication Agencies. The sample was formed discretionarily. Companies and their newspapers represent the newspapers most favored and used by retailers in 2010: Helsingin Sanomat, Aamulehti, Iltasanomat, Iltalehti and Kaleva (TNS Gallup 2010). Turun Sanomat belongs to this group too, but was replaced by Schibsted. Schibsted has managed to create significant online business in Europe and has entered the Finnish media market with its Tori.fi –service. Interviewing the online manager from Schibsted was considered to produce more relevant information and Schibsted's online success favored its inclusion among the interviewees.

Based on the interviews, three scenarios were structured for the future of retail media advertising. They were presented to a focus group consisting of two media managers and two retail managers, who had not participated in the individual interviews. The focus group consisted of managers from Sanoma News, Alma Media, Ruokakesko ja SOK. The results from the focus group confirmed the vision that retail advertising is decoupling from news and that the main disruptive forces in this development are consumers' need and ability to find commercial information outside the newspapers, and the retailers' will to interact and serve their customers directly and in a customized way. After the focus group results, the theoretical framework was finalized and the content was analyzed a second time based on that framework. The final scenario of exclusive advertising was edited and the new paradigm of retail advertising produced.

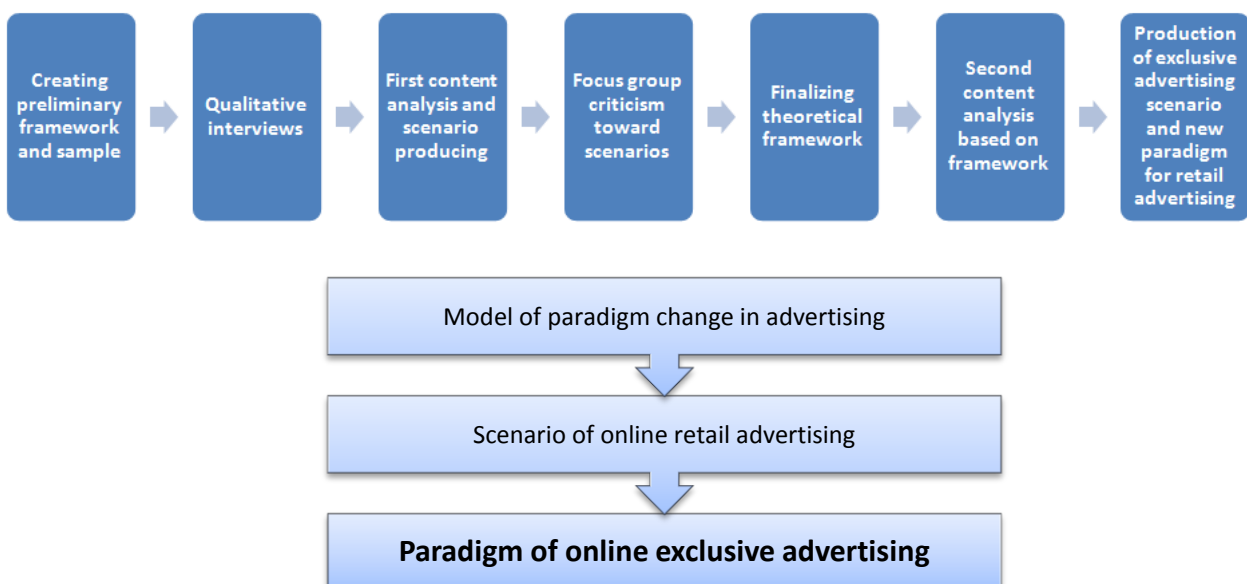
This thesis is divided into three main sections. The first section describes the critical role of advertising for newspapers and the special role of retail advertising for Finnish newspapers. It also gives background and historical information about advertising and previous research related to retail advertising. These issues are discussed in chapter 2. The first section should help the reader to get on the map about the trends in newspaper advertising.

The second section describes the theoretical framework of the study and the different theories it is based on. After that, the used methods are opened. Chapters 3 and 4 form this second section.

The third and last section opens the empirical research. It starts from chapter 5 and it also includes chapter 6. Chapter 5 describes the empirical findings of the interviews and the focus group. Chapter 6 answers the research questions about the future of online retail advertising and its effects on newspapers. Finally, conclusion and implications for further research are discussed in chapter 7.

This study has produced three main results on the theory level based on empirical research. The first result is the theoretical framework of paradigm change of advertising presented in the beginning of chapter 3. This framework can be used further to analyze different kind of commercial media platforms, the character of their advertising, and the relationship between their content, adverts and readers.

The second result is the main result of this thesis. It is a new paradigm of online retail advertising, exclusive advertising. The new paradigm does not repeal the current paradigm of dual market model, but deepens and refines it with the concept of exclusive advertising, where heterogeneous target groups are formatted based on homogeneous audience, and where adverts turn into relevant content. This new paradigm is described in chapter 6. Third, the empirical results of this research produced the future scenario for newspaper retail advertising. This scenario is a narrative interpretation of what kind of challenges newspapers are facing on their way to shift retail advertising from print to online. This scenario is narrated in chapter 6.



*Figure 1.1. The abductive research process and the results of the thesis.*

## **1.4 Media economics research**

This study operates between media economics research and retailing research, but its focus is on media economics. Media economics is a fairly new research field of mass communication which emerged in the 1970's and developed in the 1980's. Media companies do not have their own laws for economics since economics' principles are the same to all enterprises despite their industry. Media economics studies how economic, financial and regulatory pressures affect a variety of communication activities, systems, organizations, and enterprises inside media industry and how these pressure the operation of direct media companies. (Albarran & et al. 2006, p. 23.)

The research of mass communication was born from the disciplines of sociology, history and political science and literature criticism. Among these disciplines, the newspapers' financial role has not been in focus. Due to the growth of media industries and advertising, interest to media financing has increased. One milestone for media economics was the year 1988 when the publication *The Journal of Media Economics* was established. Its editor Robert Picard, one of the most important researchers of this field, acts now as a director at the Reuters Institute at the University of Oxford. Earlier he launched the Media Management and Transformation Centre at Jönköping Business School and started and ran the Media Group at the Turku School of Economics in Finland for several years.

Robert Picard distinguishes three different traditions in media economics: theoretical, applied and critical. This research represents applied tradition, which emerged from business economics and management departments at universities and from researchers for communication industry associations. (Albarran & et al., 2006, p.29.)

Studies using this tradition have explored consumer and advertising trends, specific firms or the industries as a whole. Significant researchers of this tradition in addition to Picard are such as Ben Compaine, Alan Albarran, Alison Alexander, James Owers, and Rod Carveth.

## **1.5 Previous research**

There are traditionally two opposite directions of academic research for advertising. One is the critical research and the other is market oriented research. Critical research rises from social sciences and semiotics and if simplified, is interested in how we are cheated by advertisers. Market

oriented research originates from business sciences and is focused on practical problems of marketers and companies, and how advertising benefits their business. (Malmelin 2003, pp. 175-180.) In this thesis it is not relevant to review that research history as a whole, and nor does this study represent purely either of these directions. Comprehensive review of the research focused on print advertising on newspapers and magazines was recently published in *Journal of Advertising Research* 50<sup>th</sup> anniversary issue (Nyilasy & et al. 2011, pp. 167-175). The first Finnish dissertation on advertising is Päivi Hovi's research on advertising visual development from 1890's to 1930's, which was published only in 1990 and studied the phenomenon from the view of art history.

Despite the fact that advertising has been studied in many different research disciplines, it has not managed to create a tradition and perspective of its own, where it is studied not just through single adverts, campaigns or effects but as an established part of the society. Instead of narrow views, researchers could study advertising in relation to other industries like media and popular culture, and also in relation to its producers, advertisers themselves. (Malmelin 2003, p. 182.) This study approaches the retail advertising as a playfield between newspapers and retailers.

Some foreign and Finnish studies are worth mentioning in this context and more are listed in the table at the end of this chapter. Online newspaper customizing was studied by Teemu Santonen in his dissertation. Santonen studied the online customization of Finnish newspapers in 2004 through a survey concerning 46 online newspapers. The results of the survey indicated that customization could offer business success for online newspapers, but the level of customization at that time was low because the content was not suitable for customization, customization was not seen profitable, and users were not interested in it. (Santonen 2004, p. 63). The overall summary was that the path from mass production to customization is not straight and easy.

Another study with the focus on online advertising was conducted by Technical Research Center of Finland VTT in 2008. Researchers interviewed 30 players inside the advertising industry both in Finland and abroad and described the development of Finnish advertising to 2013. According to the study, online will offer consumers more choices, which means advertising must be more relevant for users than today. Interviewees expected that networking and content sharing sites will manage to increase their role as an advertising channel. Search advertising is expected to continue to be strong, because it helps advertisers to reach consumers close to the purchase decision. Also product comparison and recommending is becoming more popular. (Viljakainen et al. 2008, pp. 91-92.)

Researcher	What was studied?	Seminal results
Chuck Martin (1998)*	Dynamics of digital publishing	There are nine dynamic changes emerging in publishing industry due to Internet. Newspapers should either focus on high traffic, or customized audience.
Teemu Ylikoski (2003)*	Access Denied: Patterns of consumers' Internet information search	There are six Internet seeker typologies and one of them is retail seeker. Use of the Internet does not always ease consumer's purchase decision, because the data can be fragmented and controlled by the marketers.
Nando Malmelin (2003)	Literacy of advertising and its' development	Advertising lacks academic research tradition. Its research has been narrowly focused on either business oriented research or social sciences or semiotics. The whole picture of advertising as established role in society is missing.
Teemu Santonen (2004)*	Customization of online news	Customization is still on a low level but could offer business success to online newspapers. Customization learning process for newspapers is not easy.
Mirjami Lehtikoinen (2005)	Consumers' interest towards daily groceries and their promotion and communication	Consumers have relation towards the whole product group, not just a single product. Consumers can be interested in daily grocery promotion if it produces value to them and is in line with their ethics..
Webtrends (2006) ref. Ailawadi & et al. (2009) p.51*	The usage on online marketing among online and multichannel retailers in USA	E-mail marketing was ranked as the most important activity followed by search engine marketing and search engine optimization.
Viljakainen et al., VTT (2008)	The future trends of Finnish advertising towards year 2013	Social media advertising, search advertising, comparison and recommending are expected to grow.
Helsingin Sanomat (2009)	How 18 to 70 year olds living in the Helsinki metropolitan area follow advertising and especially retail advertising?	Printed Helsingin Sanomat is so far the most important channel to follow advertising in Helsinki area. The most important reason to follow advertising is to monitor prices. HS and Internet were equal sources of information when planning purchases.
Australian Center for Retail Studies (2010)*	Australian retailers' online marketing	Majority of retailers have online presence, but do not sell online. Selling online and online marketing was seen as an opportunity for the majority. Several barriers complicate online retailing, the main one being the integration of systems with an existing business model.
Smilehouse and Klarna (2010)	Challenges of Finnish online retailers	Marketing is the biggest challenge for online retailers

\* in English Table 1.1. Review of research related to online retail advertising and their results.

The research of online retail advertising operates between retailing, advertising and media economics. The table 1.1 is a review of the studies both from marketing, communication and retail research which have produced relevant information about online retail advertising.

There is not too much research on retailers' effort in new media since most of the online retailing research has focused on consumer purchase behavior. Some reports studying retailers' online marketing trends published in USA and Australia support the view that email marketing and search have passed traditional advertising as the most popular marketing tools among retailers. Yet online advertising is still unfamiliar to retailers, while traditional advertising offers proven results. The greatest challenge to fully utilize online marketing is the integration of existing business systems to online. (Webtrends 2006 ref. Ailawadi & et al. 2009, p.51, Australian Center for Retail Studies 2010.)

## 2 RETAIL ADVERTISING

### 2.1 Overview of global newspaper advertising

The future marketing behavior of retailers is one of the most puzzling subjects for the media and advertising industry at the moment. This chapter gives an overview of the global newspaper advertising situation, and then describes the development through which advertising has become the main revenue source for newspapers. Finally, the current role of retail advertising for Finnish newspaper is presented.

A recent study (OECD 2010) shows that newspapers in many OECD countries are suffering a decline in advertising revenues and reductions in titles and circulation. At the same time online advertising is just starting to gain foothold in retailers' marketing mixes and it is likely retailers will increase their online activities in the future. The economic crisis has amplified this downward development of newspapers. However, there are significant differences between countries. Finnish newspapers are not nearly in as difficult a position as US newspapers, as advertising generates nearly 90 percent of the newspapers' revenues in the US. The print advertising market has also started to decrease in the US more severely than elsewhere.

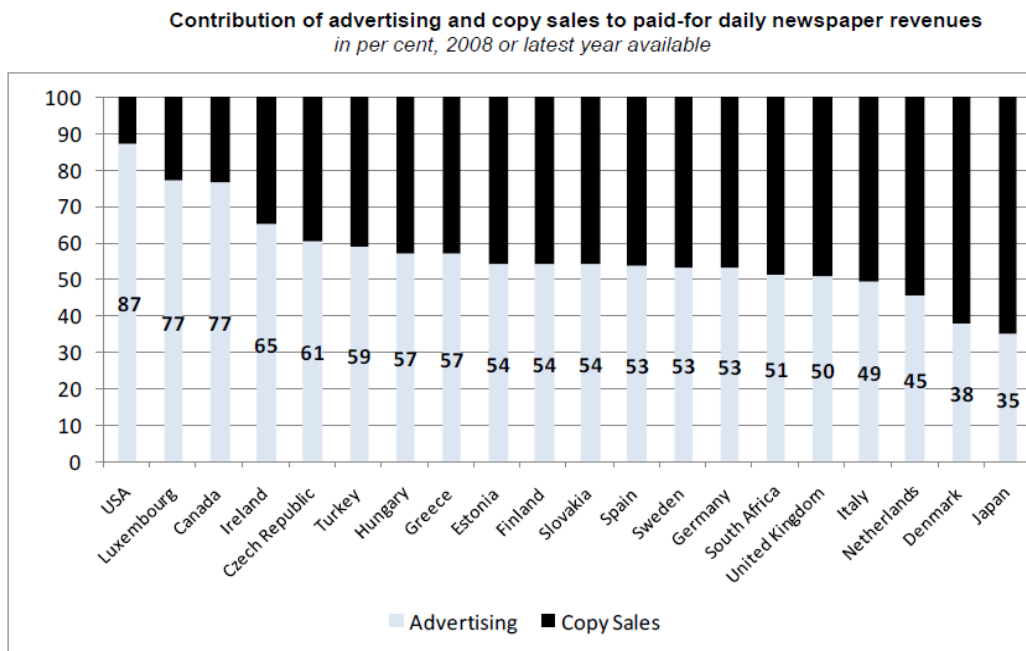
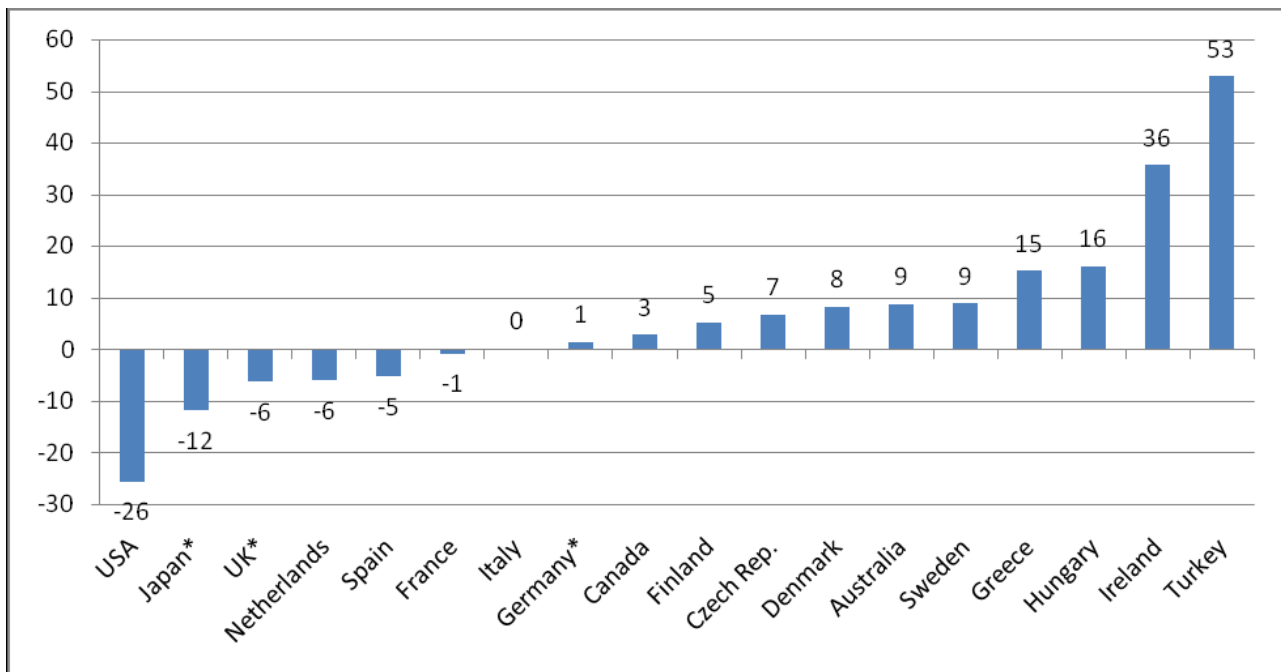


Figure 2.1. The share of advertising in total revenue of newspapers, OECD, *The World Association of Newspapers, 2010, p.35.*



Newspapers' reliance on advertising has been growing over the years in most OECD countries. Prices for advertising in newspapers have actually been going up and newspaper advertising market has been growing strongly during the last decades despite the growth in online advertising. According to OECD, this refers to the strong market power of local newspapers. (OECD 2010, pp.35-36.)



*Figure 2.2 Advertising revenues for paid dailies percent change from 2004 to 2008 (or to 2007 when marked by \*), OECD, The World Association of Newspapers, p.37.*

The figure above can give too optimistic a picture if one looks just at the development in the Nordic countries. The share of advertising going to print newspapers has been declining during the 21<sup>st</sup> century in many countries. The shift from print to online is already very much true in classified ads like real estate, job and car advertising, when services such as Craigslist, Totaljob and Autotrader have become popular. (OECD 2010, p. 36.) Classifieds' shift from print to online has caused huge income losses to newspapers, and this is especially true in online intensive countries like the US and the UK. In United States classifieds contributed 19.6 billion dollars, which was 40 percent of total newspaper ad revenues at that time according to the Newspaper Association of America. In 2009 total classified revenues had dropped 56 percent to just 6.2 billion dollars, which is less than one-third of the 2000 level. (Sass 2011.)

If retail advertising developed in a similar way, newspapers could lose even more incomes. Despite the fact that online advertising spent on newspaper websites is scheduled to grow, it cannot replace print advertising. PricewaterhouseCoopers has estimated that global print advertising will decline from 104.8 billion US dollars in 2008 to 83.5 billion dollars in 2013, a 4.5 percent annual decrease and the proportion of total newspaper revenues accounted for by print advertising will fall from 57 percent in 2008 to 51 percent in 2013. (PricewaterhouseCoopers 2009).

## **2.2 History of newspaper advertising**

The link between retailers and newspapers is said to be one of the oldest unchanged business models during the last 200 years. The role of advertising as a revenue source for newspapers has only grown during the 20<sup>th</sup> century. In the online world adverts are often the only income source for newspapers.

Advertising is the part of the commercial mass communication that is connected to the capitalistic production process. Adverts appeared in the first newspapers as early as in the 17<sup>th</sup> century and the practice was firmly established in the American and European newspaper by local businesses. Advertising as a specific industry started in the United States at the end of the 19<sup>th</sup> century and expanded gradually to Europe. The advertising agency institution was soon developed in both continents. Media commercialized through advertising and it started to operate in two markets: for readers and for advertisers. (Picard 1989, p. 17; Chapman 2005, p.84). Advertising is in many countries the most essential source of revenue for newspapers as well as for commercial television and radio. (Picard & Sauri 2003, p. 29.) This is also true in Finland.

Newspapers owe a great deal to the steam engine. In the 18<sup>th</sup> century, newspaper production was slow and poorly paid work. Invention of the steam engine accelerated the newspaper production process. Printing press was separated from the work of journalists and publishers. This enabled faster production, larger capacity, and lower unit costs per copy. The price of newspaper in relation to populations' income level dropped, so that what was formerly a luxury item became popular among the middle class. The 19<sup>th</sup> century railway network expansion provided widespread distribution and circulation growth. (Chapman 2005, p. 30-31.) Potential readers of news and ads must be able to read. States' education policies forced entire populations to read, which has had remarkable positive effects on newspaper industry. This education work created markets for the mass media and newspapers.

The development of industrial consumer society increased advertising's role to manufacturers and marketers. Yet it was not until the beginning of the 20<sup>th</sup> century that newspapers started to view their readers as consumers (Chapman 2005, p. 84). The history of advertising is essentially linked to the development of mass production, production capacity and mass communication technology. When production capacity exceeded spontaneous demand, the need for marketing increased. Advertising industry in its current form can be traced to the birth of corporate capitalism, where companies have a powerful bargaining power in the market. (Hemanus 2002, pp. 48-49.)

Karl Marx had a vision of media's task in a capitalistic world as an accelerator of product circulation from stores to consumers. The role of the media in the circulation process is selling transmission capacities. On the other hand, they play a role on a more general level, at which they are used for accelerating the circulation of commodities and reducing the turnover time of capital. (Fuchs 2009, p. 387.) "The chief means of reducing the time of circulation is improved communications. The last fifty years have brought about a revolution in this field, comparable only with the industrial revolution of the latter half of the 18th century. (Marx & Engel 2009, p. 71.)

In its early days newspaper advertising lacked the respect of the public but newspapers accepted adverts due to the significant incomes they generated for the papers. Over time adverts have become the cornerstone of newspaper business. Advertising forced newspapers to make their content more commercial and visual, and the financial importance of advertising for newspapers just continued to grow. Advertising gave rise also to a new advertising agency industry which does business between manufacturers, advertisers, and the media. (Chapman 2005, pp. 84-87.)

After World War II, the triumph of consumerism continued and television turned into a main media, threatening the position of newspapers. Commercial television strengthened the position of advertising industry, and this channel became solely dependent on advertising revenue. Newspaper circulations started to decline almost everywhere else in the world except Japan. (Chapman 2005, p. 225.) Advertising became one of the most powerful forms of communication globally in the 20<sup>th</sup> century. Adverts have entered to public spaces and invaded every sphere of human life from art to sports. Liberation of media from national regulation has strengthened the role of advertising. PR agencies became popular in the 1990's and they launched new ways of advertising, such as product placement and sponsorship. (Chapman 2005, pp. 257-258.) Today almost anything can be advertised from parties to presidents, trade unions, religions, ideologies and environment. Even on

an individual level we talk about marketing oneself for instance in the social media.

### 2.3 Retail advertising in Finnish newspapers

In Finland, newspaper advertising is the largest group of the advertising market, which makes the Finnish advertising market different from the South European or the North American market, where television has typically the greatest share of the total market. However, newspapers' share of the Finnish advertising market is decreasing, and last year online was already the third biggest advertising channel in Finland. Even though online advertising is half the size of newspaper advertising, it is growing faster than newspapers, magazines, or television.

The online development has been huge when compared to the year 2007, the last good year before the financial crisis in 2008. In the year 2007 the whole market was about the same size as it was in 2010 but the shares were different. Three years ago Finnish newspapers and free sheets had 52.5 percent market share and, online generated only 4.7 percent of the advertising money. In 2010 the share of online was 15.3 percent and newspapers and free sheets had dropped 10 percent. Television market share has remained the same. Online has gained markets from both newspapers and magazines.

#### Finnish media advertising 2010 1346,9 milj. €

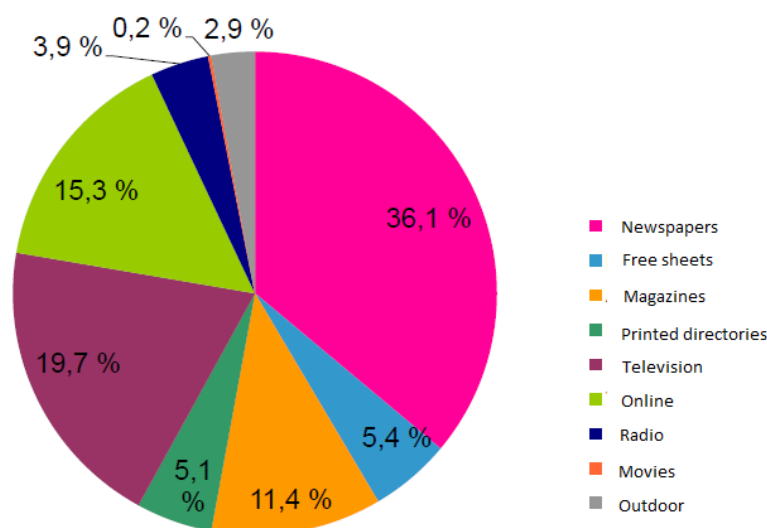


Figure 2.3 Finnish media advertising 2010, TNS Gallup.

Development in 2009 and 2010

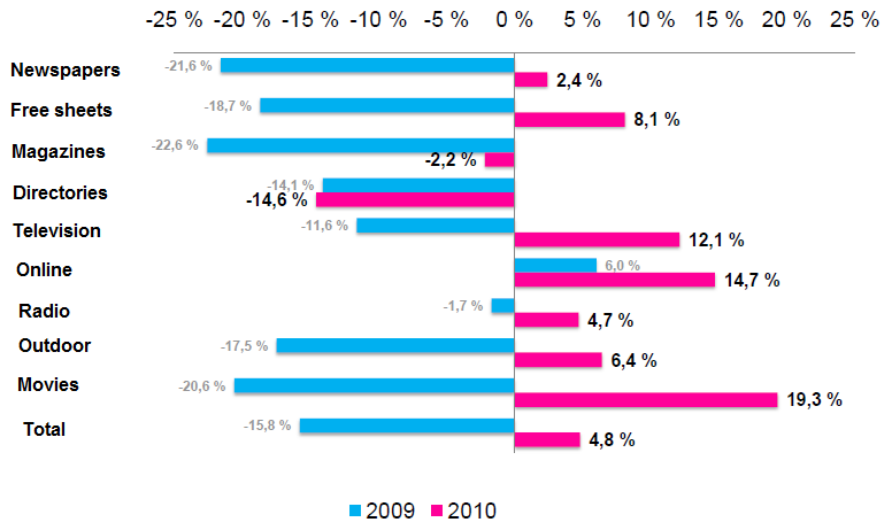


Figure 2.4 Advertising development in Finland 2009 and 2010, TNS Gallup.

Retail industry is the biggest advertiser in Finland, generating 24 percent of the advertisement revenue stream for Finnish commercial media. Retailers’ ad revenue has therefore a significant role for newspapers. Last year, retailers advertised in Finland with almost 350 million euro. The sum is huge when compared to the net profits of the whole Finnish retail industry, 440 million euro in 2009 (Federation of Finnish Commerce, 2011). Retailers spend nearly 80 percent of their net profits to advertising. Even marginal cost savings in advertising budgets mean net profit improvements for retailers.

Media advertising by industries in Finland 2010

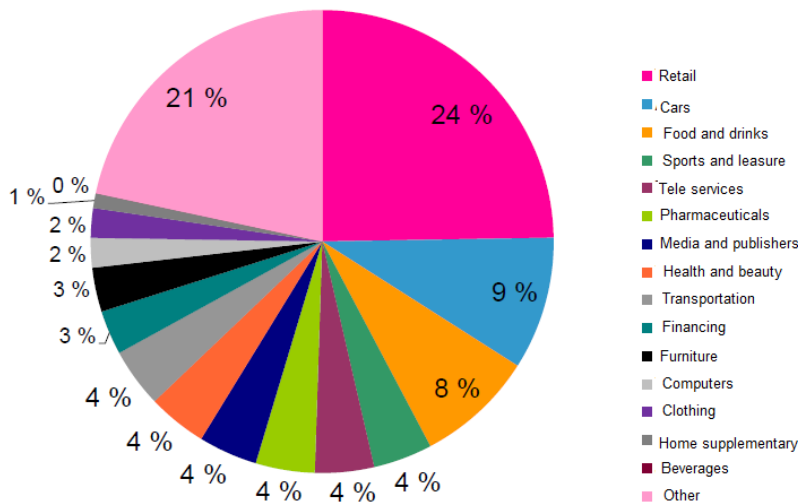


Figure 2.5 The industry shares of advertising in 2010, TNS Gallup.

According to market figures of TNS Gallup, the biggest retail advertiser K-Citymarket spent 23 million euro on media advertising last year, but only a fragmental portion, 43 000 euro, was directed to online, which was not even one percent of the total media market budget of 23 million. These numbers are just estimates by TNS and not calculations from Kesko, but definitely retailers in Finland are still far behind other industries with the money they spend on online advertising. The share of online of the total media market is over 15 percent, but among retail advertisers it is between zero to one percent.

Unit : 000€	Total media budget	Online advertising	Share%	Change%
K-CITYMARKET	23 241	43	0	1 329
PRISMA	16 014	32	0	78
MASKU KALUSTETAL	12 133	30	0	114
K-SUPERMARKET	10 299	61	1	-32
SUOMI-SOFFA	9 431	no online advertising		
ANTTILA	7 998	326	4	-10
K-RUOKAKAUPAT	7 485	24	0	-61
S-MARKET	6 826	22	0	-22
INTERSPORT	6 490	55	1	-42
EXPERT	6 415	80	1	35

*Table 2.1 TOP 10 Finnish retail advertisers' online investments in 2010, TNS Gallup.*

Retailers are still very much focused on newspapers; the share of newspaper advertising among top ten retailers varies from 48 percent to 95 according to TNS. Television is their other main media with advertising shares varying from zero to 50 percent. But when comparing the figures of 2010 to the year 2008 on the next page, one may see signs that nearly all of the top retailers have growth in their online marketing investments, or have started to do something in online if their earlier investments were zero.

000€.	Media budget	%	Internet	%
K-citymarket	25 606	8,9	9	0
Prisma	15 038	5,2	16	0,1
K-supermarket	11 217	3,9	59	0,5
Masku Kalustetalo	10 431	3,6	0	0
Lidl	7 892	2,7	34	0,4
S-market	6 528	2,3	0	0
K-rauta	5 805	2	3	0,1
K-ruokakaupat	5 796	2	40	0,7
Eurosmarket	5 732	2	0	0
Expert	5 702	2	154	2,7

*Table 2.2 TOP 10 Finnish retail advertisers' online investments in 2008, TNS Gallup.*

This development is most likely to continue. Survey indicates that retailers are going to strengthen their online presence (Australian Center for Retail Studies 2010). For example email marketing among U.S. retailers reached its top high last year (Responsys 2011). Finnish retailers, too, are most likely to explore and expand their online marketing, and follow consumers to online world. This will have effect on their newspaper advertising investments. The most undesirable vision from the newspapers' point of view would be retailers starting to invest heavily in their own online services, or together with manufacturers building cross-industry web services. Another challenging scenario is the use of social media and other services such as Google, Facebook, Twitter or Groupon reducing retail advertising in newspapers.

## 2.4 The problematic future

Newspapers and retail advertising have faced great technological changes over the last 50 years. From the golden age of mass market we have moved towards more targeted, more individual use of media forms. From mass media we have shifted to the era of niche media, and at the moment we are living in the era of participatory media.

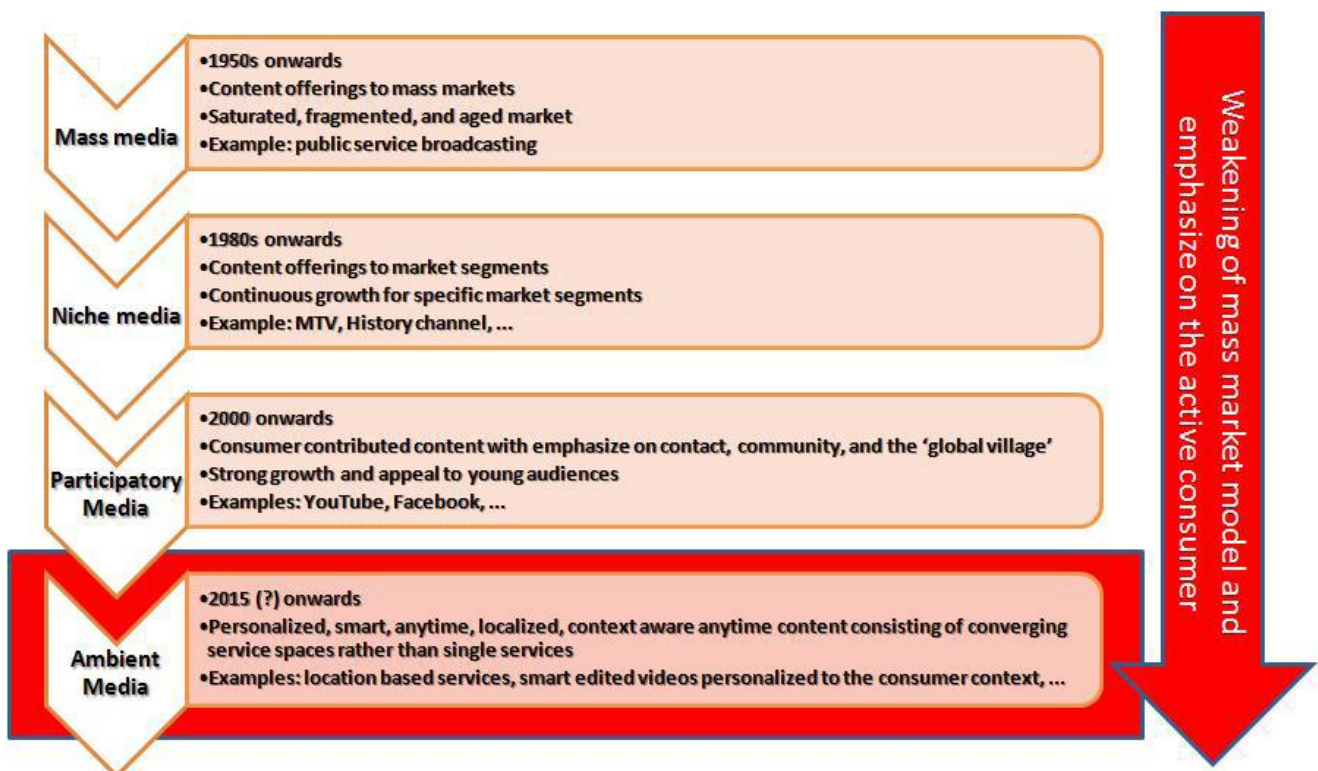


Figure 2.6 Ambient media by Artur Lugmayr 2010.

Future media researchers see the next one already emerging, an era called ambient media, which is something that surrounds us and intuitively responds to our needs. It is media personalized to extreme extent. There are even predictions of rise of Matrix-like biomedias beyond that when media creates synthetic worlds which are undistinguishable from the real world (Lugmayr 2006, p.3.)

All these changes continue to have great effect on newspapers and retail advertising. Technological shifts have enabled newspapers to deliver contents to wider and all the more targeted audiences than ever was possible before. One of the most significant innovations to news media has been the rise of Internet, which has dramatically boosted news distribution and access to content (Chapman 2005, p.247). In the future, news, books, music and films are viewable online over Internet. One might imagine that in this era of extremely efficient delivery channels, newspapers should not worry. Distribution is cheaper and faster than ever, content is replicated for free, and growing proportion of the world's population is literate and has an access to Internet. The conditions for mass advertising should be better than ever.

Actually Internet is a threat to news business. Content value has inflated because it is so easily and freely available and only few have succeeded to sell online content profitably. Delivery technologies also affect retail advertising. The reasons why local marketers initially entered the newspapers are not as relevant as they used to be. Earlier, newspapers had the printing machinery, distribution channels and the audience. Now the barriers between retailers and consumers have been removed. The same reasons that make the news production and delivery cheap are also true for advertisers. There are also other popular services, where a retailer can reach a wide audience. The big issue concerning newspapers is what is happening to retail advertising and to whose pockets retailers' euro are directed in the future? If retailers direct their marketing money to their own web services or to companies like Google, Facebook and Groupon, newspaper profit margins are in danger to shrink.

Francisco Pérez-Latre from the University of Navarra has studied the paradigm change in advertising. In his article *The Paradigm Shift in Advertising and Its Meaning for Advertising-Supported Media* (2007), Pérez-Latre explores how the role of adverts as a marketing tool is changing, how advertisers are changing their behavior and how all this is affecting commercial media. According to Pérez-Latre, advertisers are struggling at the very moment to understand audience media consumption changes and attention value changes of commercial messages. Pérez-



Latre advises media companies to help advertisers to adjust to these changes if they want to maintain their position in the communication market.

Many newspapers reach much bigger online audiences today in the participatory media era than they ever did with the print mass media era. However, only few have managed to commercialize this audience in a profitable way. Publishing 2.0 –blog analyzed the problem of New York Times in 2007. That year NYT had over 13 million online readers average. The 5-day circulation for printed newspaper was just slightly over million and Sunday circulation 1.5 million. Publishing 2.0 calculated that NYT's publisher News Media Group's total ad revenue in 2007 was 484 million dollars, which included an online share of 51 million. Figures include some local newspapers, but Publishing 2.0 assumed with good reason that NYT ad revenue is divided the same way, 90 percent from print and ten percent from online. That is to say, completely opposite to audience figures. Comparison gets even harder, when online ad prices are compared to print ad prices. Publishing 2.0 tried to compare job advertisements during one month in print and online. In print, the price would be 157,000 US dollars and online 7,500 dollars. (Karp 2007.)

Finnish newspapers have the same problem as New York Times. In this research respondents say that cheap online prices in Finland go back to a tradition created by the television, where online was sold as a giveaway to TV spot. Online market is also undeveloped because of its young age. We may presume that methods for online advertising will mature, if the basic logic of selling the audience still works on the web. If mass advertising does not function with online news in a similar way, or if news are not able to gather the wanted audience, the whole business model of mass advertising is threatened.

Online audience is problematic because it can come from anywhere and be whatever. One contact through search engine and reading one article can be worth nothing to the advertiser. Finnish media researcher who follows NYT.com constantly is irrelevant to Manhattan retail store. A big challenge to newspapers is therefore to produce better data of their online audience to advertisers. Retailers still operate very much locally and as long as this is the case, retailers will target their messages to the audience that is physically reachable.

If retailers expand their online operations due to growing online shopping, the problem of non-synchronicity with retailer and audience might be solved. In the fall 2010, the Finnish department

store Stockmann opened their online store targeted to all Finnish people from Utsjoki to Hanko. Now it makes sense for Stockmann to advertise also in regional newspapers like Lapin Kansa. The online visitor from Vaasa reading HS.fi news can also get an impulse to order something from a Helsinki-based retailers' online shops.

In a study of 300 online and multi-channel U.S. retailers about key trends and online strategies, results indicated that retailers are shifting away from price-based promotions to engage loyal customers and towards relationship marketing initiatives such as email marketing and search engine marketing (Webtrends 2006 ref. Ailawadi & et al. 2009, p.51.) Similar results were found in research among Australian retailers in 2010 (Australian Center for Retail Studies 2010). It showed that retailers are at the moment unsure of how to allocate their money within the online. Traditional advertising offers proven returns, but online is still unfamiliar. According to an Australian study, 86 percent of retailers indicate they would increase their digital spend over the next three years. Email and search marketing were the top marketing tools among Australian retailers and ahead of traditional advertising. Other studies suggest that online medium offers great potential for customized promotions targeted to individual consumers, enabling mass customization as opposed to mass marketing in the physical world. There are, for example, tools such as dynamic digital coupons whose value may change over time and which are offered to consumers entering a web site depending on their behavior. (Kannan & Kopalle 2001, p.66.)

Retail researchers Venkatesh Shankar, Marie Hollinger, Kusum Ailawadi, Naveen Donthu, Dinesh Kauri, and J.P. Beauchamp have presented five research questions related to retailers' online marketing strategies that still need to be answered (Ailawadi et al. 2009):

1. *How do the effects of communication and promotion differ between the traditional and the new media?*
2. *How should retailers formulate their Internet promotion strategy?*
3. *Retailers and manufacturers need better models of relative allocation of marketing budget toward traditional and new media.*
4. *How should retailers leverage the social media promotion efforts of brand manufacturers?*
5. *Should retailers set up their own social networks?*

Other questions that remain unanswered are for instance how the effects of communication differ between print and online? If newspapers are largely intrusive and new media is more user-demanded, does it mean that promotion through the new media is likely to be more effective? Should retailers push their promotions on their websites and proactively email those on email lists? (Ailawadi & et al. 2009, p. 51.)

Even further in the future, we can expect new ambient media advertising solutions to start dominating the market. Ambient media is something that surrounds us and negates the concepts of push and pull marketing. Ambient technology is intuitive to use, it recognizes us wherever we are, and it is expected to affect greatly advertising in particular. This kind of ubiquitous media offers new advertising solutions for retailers, such as smart wallpapers and location-based services in stores, entertainment services, or intelligent homes. (Lugmayr & et al. 2009, p.337.)

There are several reasons for retailers to boost their usage of ambient media. One is the expected decline of traditional print media and retailers' need to find alternative solutions. Another is retailers' great demand for sale communications inside stores, where actual purchase decisions are made. Third is the very precise audience targeting that ambient media enables. Ambient advertising can bring retailers' adverts in the immediate vicinity of the consumers in a pervasive way. Some examples of ambient advertising could be mobile advertising based on consumers' physical position, adverts on the backs of receipts, or digital screens in physical spaces recognizing passing consumers. These kind of solutions will be new competitors to traditional newspaper advertising and will not make it easier for newspapers to keep their share of retailers' marketing budgets.

Over the course of 200 years, advertising has become the main source of revenue for Finnish newspapers. An analysis of the role of advertising in newspaper publishing and the share of retail advertising in Finnish newspapers has shown that today newspaper industry is strongly dependent on retailers' marketing money. At the moment, retailers are building their online marketing strategies. It is likely that retailers continue to increase their online investments, but all that money will not be targeted to online newspapers, but also to retailers' own web services and to other services such as social media and search engines. In the further future, different ambient media solutions inside stores will start to appear into the retailers' marketing mix.

Advertising as a marketers' need to communicate with consumers is about to continue as such also in the future. Retailers will continue to exploit every possible means to reach consumers in appropriate situations. But when and how this communication happens is very much in flux. For the future of newspapers, it is critical how they encounter these challenges and new possibilities for retail marketing.

### 3 THEORY OF PARADIGM CHANGE IN RETAIL ADVERTISING

#### 3.1 From intrusive to exclusive

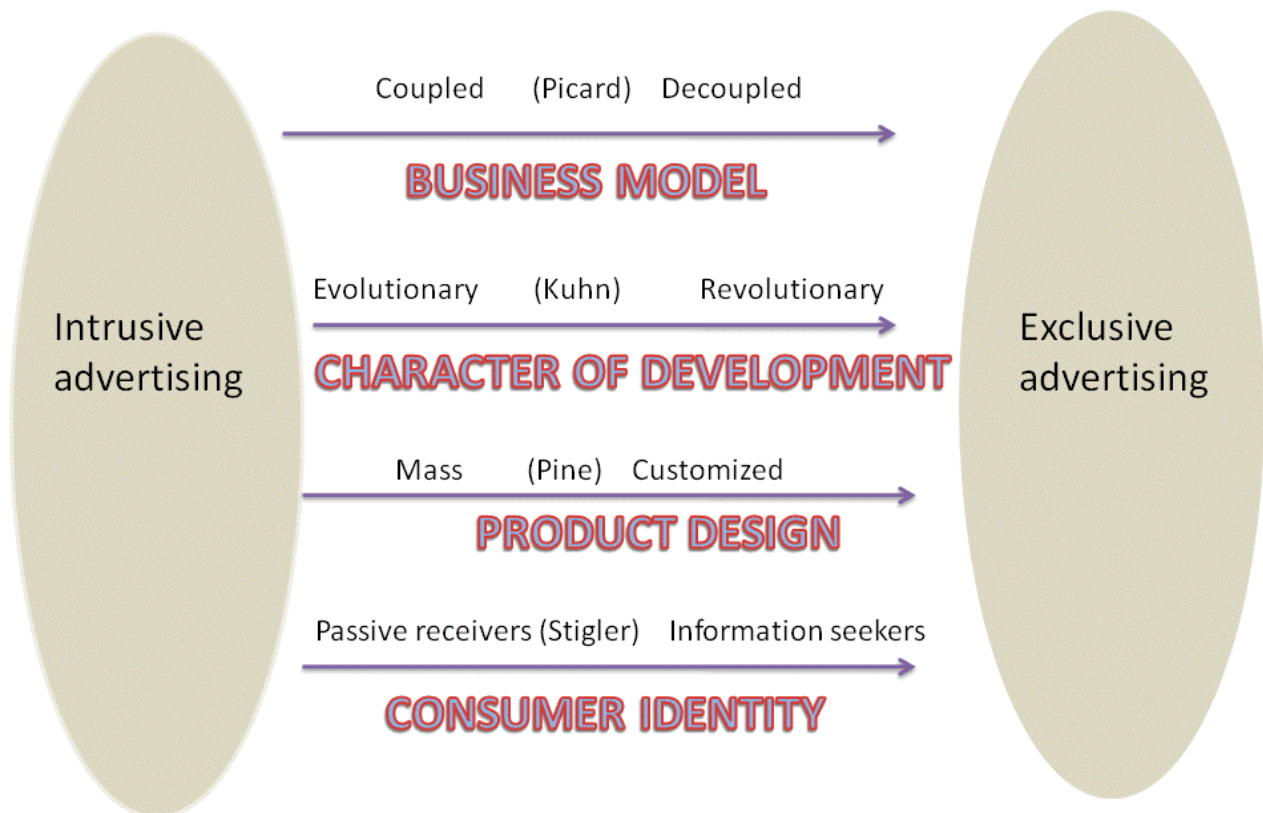
Advertising is in crisis. Advertising is dead. These headlines and questions have been common in different seminars among advertising and media industry in the 21<sup>st</sup> century (Futurelab 2009, Cushman 2010). Researchers have talked about this change and even about death of advertising very much in the 21<sup>st</sup> century (Pérez-Latre 2004, p. 41). Some think that future marketers will not be using traditional advertising tools at all. This does not mean that marketers will stop communicating with consumers, but that they would not necessarily use traditional advertising channels, and that the need for advertising agencies could decrease dramatically.

In the traditional dual market model, a newspaper first gathers audience by using the journalistic product and collects money from the audience with subscription fees or single copy sales. Then the demographic data of the audience is analyzed and this refined audience is sold to advertisers. This model can be called the paradigm of newspaper advertising, *dual product market* model (Picard 1989, p.17). In online, the dual market of mass media has transformed mainly to single market. It is similar to commercial television or radio ad market, since on the web it is very rare that mass media generates significant income from subscribers. Some newspapers have started trying to sell electronic news to reader devices, but it is too early to report the results of those experiments. Selling audience to advertisers is still the main revenue source for media companies in online world. Newspapers have recognized this threat, and some plan to build pay walls around their content. There is a fear that Internet can destroy their business, if companies are not able to shift their monetizing models to online.

At the same time, we are living in the middle of a great transition from mass production to mass customization. In a physical product-based value chain variable costs are high, search costs are high, and promotion is static. In a digital information-based value chain search costs are low, products are dynamic and mass customized, shipping costs are zero, and promotions targeted. (Kannan & Kopalle 2001, p.65.)

There are two distinctive features of new online media: it is interactive and digital (Winer 2009 p. 110). This also has effects on newspaper publishing and especially on advertising. Shankar and Hollinger (2007) have divided this new media advertising to intrusive and non-intrusive. The next

figure presents the theoretical background of this research. It illustrates transition caused by Internet from physical newspaper economic system of *intrusive advertising* to virtual world and new paradigm of *exclusive advertising* existing in digital environment. This model is based on the concept of newspaper business model, paradigm change, search theory and mass customization.



*Figure 3.1 Paradigm change from intrusive to exclusive advertising.*

The 200-year-old business model of newspapers, intrusive advertising, consists of coupling news and advertisement together to mass audience. It has been efficient for retailers, print houses and newspapers to put all the content to the same product and format because printing on the paper is an expensive and complex process. In the golden era of mass production and mass culture, the audience did not have too many options, and newspapers were a great way to reach the large audience.

Today's consumers are active information seekers, advertising is becoming customized, and news and advertising are decoupling, since audience now has numerous options to find information because of the Internet and excellent search tools. Some of those optional online services are

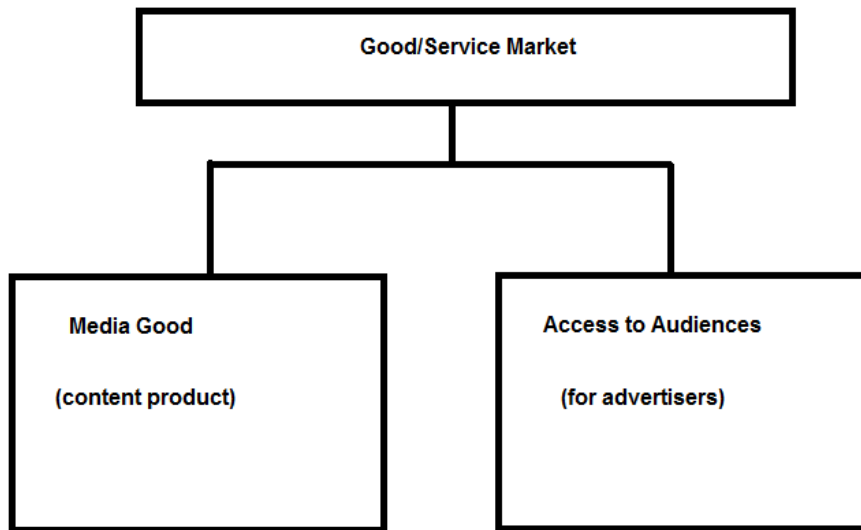
provided by traditional newspaper companies, but there are also other independent service providers and big global competitors such as Google and Facebook. Information technology has enabled industrial production to produce customized products with reasonable price, and this customization is reaching the advertising production as well. This is strengthening the decoupling of news and advertising when different search and personalization technologies are offering competitive ways for promotion other than just selling space next to news. When moving from left to right in this figure, the more revolutionary the change will be. On the right side is the new world of exclusive advertising waiting for us.

This model is based on the thoughts of four great thinkers: Robert Picard's dual market model, Thomas Kuhn and his concept of paradigm change, George Stigler and search theory and Joseph Pine and mass customization. Picard's theory reviews the business model of newspaper from the perspective of media owners. It also enlightens the dual product quality of newspaper, where printed paper is the physical product but the audience is the ultimate product for advertisers. Kuhn's theory of paradigm change is used to analyze how this dual market model is in change and what is the character of that change. Is it evolutionary or revolutionary? Since the audience is the ultimate product of advertising process, Joseph Pine's thinking of mass customization is used to analyze the effect of mass customization on this audience product. An essential question for newspapers is how to produce mass customized audiences for retailers. Finally, the retail newspaper advertising is viewed from the consumers' perspective and through the change of their consumer identity. Next, each of these theories and their contribution to this model are presented more specifically.

### **3.2 Dual market model**

In commercial newspapers, journalistic or entertaining content and commercial messages are packaged together and delivered to audience. Newspaper monetizes first the media product and then the audience. This business model became truly popular and profitable in the 20<sup>th</sup> century:

“In economics terms, media industries are unusual because they operate in what is called a *dual product market*. They create one product but participate in two separate good and service markets. Performance in each market affects performance in the other. (Picard 1989, p.17.)



*Figure 3.2 Elements of media good/service markets by Robert Picard 1989, p.18.*

The first market for newspapers is information market, where newspapers try to get as many readers as possible around their content. Online newspapers do not differ from printed newspapers in this sense. The only difference with printed and online newspapers has been that printed newspaper collects subscription fees from this information market, but online newspapers have not managed to or wanted to do that in most cases.

The second market is advertising market, which is based on the audience collected from the information market. The audience or access to audience becomes the second product, and that is sold to marketers. This advertising market can be divided for example in brand advertising, retail advertising, and classifieds. For online newspapers, advertising market is often the only source of revenue since news are offered free. In that way online newspapers' business is similar to commercial television and radio.

As discussed earlier, advertising has become through industrialization, mass production, and consumerism the most important source of income for mass communication. The modern mass communication system would collapse without advertising, since there is no other revenue source that could replace advertising as a sponsor for mass communication at such scale of revenue streams mass advertising has offered (Gustafsson 2005, p. 18). Mass advertising has been efficient, cost effective, easy, and low risk business for newspapers. Newspapers' content production in the form we know it today could not exist without ads.



During the decades of mass media from the early start of commercial radio in the early 1920's to the release of the first World Wide Web browser in 1992, the practice of marketing was focused largely on selling mass products to mass audiences via mass media. (Vollmer 2008. p 30.) Newspapers or other commercial media content has been an intermediate product needed to produce the audience, the ultimate product that is sold to advertisers. Retailers especially have used newspapers in their advertising since they need fast-paced media because of fast sales cycle. The figure on the next page illustrates the dependence between these two industries.



*Figure 3.3 Linkage between newspapers and retailers.*

Internet has produced disturbing data for this paradigm, since in online, newspapers' revenues mainly come from adverts. Financially it means online newspapers are operating in single market. At the same time retailers have new potential online platforms for transmitting their messages to consumers. Retailers can also build online services of their own and digital direct marketing services. For instance email marketing is expected to grow strongly among retailers in the coming years.

Consumers can find information about news and products elsewhere than just in printed or online newspapers. Classifieds have already decoupled from journalistic content to web services of their own. In services like Etuovi or Oikotie it is difficult to separate the information market and the advertising market because *the adverts are the content* themselves. If news content is no longer necessary for building such services, other parties can also build such platforms. Now real estate agencies are launching their own web service in Finland as a competitor to Etuovi.com and Oikotie.fi. Similar development has occurred earlier in Sweden, where real estate agencies' online service Hemnet.se is the most popular housing service.

While real estate and car classifieds have shifted to online, the significance of retail ads in newspapers has just increased. The quality of data in the retailers' adverts, searchability, and its significance to consumers' everyday life will play a vital role in the development process between retail ads and news. If consumers start to consider retail advertising as independent content, the risk rises that the linkage between news and adverts weakens.

The dual market business model as a dominant paradigm has worked exceptionally well for decades and generated huge profits for newspapers. Now internet has produced disturbing anomalies to that logic, and there are signs of decoupling of news and ads. The important question is how this fundamental paradigm of commercial media is changing and what effects it has on newspapers.

### **3.3 Kuhn's theory of paradigm change**

There is theory of paradigm change that can be used to analyze the change of dual market model, characteristics of this change, and the degree of its revolution. The theory was developed by Thomas Kuhn and its foundation lies in sociological-critical philosophy of science and in progress theories of development of science. Thomas Kuhn created the theory of scientific paradigm shifts, which helps us to understand changes in thinking within a scientific community. Kuhn represents non-realistic and relative theories concerning the development of science. (Niiniluoto 1983, p. 221.) Here Kuhn's theory is applied to retail advertising to reconstruct a new paradigm for retail advertising and in order to understand the resistance of a new paradigm, which is the essential feature of paradigm revolution.

Kuhn has definitely been one of the most significant thinkers among science philosophers in the 20<sup>th</sup> century. Kuhn's theory of paradigm changes criticizes the classical idea of science

development as a cumulative process. The concept of cumulative development sees new scientific information cumulating on the top of the old one. So development of science is a sort of accumulation of truths. Philosopher Bernard Chartres formulated this idea as early as in the 12<sup>th</sup> century:

We are like dwarfs on the shoulders of giants, so that we can see more than they, and things at a greater distance, not by virtue of any sharpness of sight on our part, or any physical distinction, but because we are carried high and upraised by their giant size. (Dutton 1991, p.37.)

Accumulation theory has been criticized because it ignores discontinuities in the development of science (Niiniluoto 1983, p.207). The concept of paradigm change was created by science philosopher Thomas Kuhn in the 1960's. With paradigm Kuhn means a model which determines what can be researched at all. It also determines accepted research questions that are asked about a research object. Paradigm can also include the typical way to interpret research results, the research methods and tools. Paradigm is a sort of an orthodox archetype of research, which sets the standards for new research. This kind of method for problem solving based on earlier studies is considered to be the normal development of science. Paradigms work well in a stable universe, but they become useless when they cannot explain unexpected results.

Close historical investigation of given specialty at a given time discloses a set of recurrent and quasistandard illustrations of various theories in their conceptual, observational, and instrumental applications. These are the community's paradigms, revealed in its textbooks, lectures, and laboratory exercises (...) Despite occasional ambiguities, the paradigms of a mature scientific community can be determined with relative ease. (Kuhn 1996, p.43.)

Kuhn suggested that the development of science does not proceed linearly, but with jumps, through paradigm changes. When a researcher starts to generate unusual results which do not fit the existing paradigm, the results are denied. Denial continues until the existing paradigm ends up in a crisis. Kuhn found a pattern for inventing a new phenomenon. First we become aware of abnormal findings, then follows gradual recognition of a new phenomenon both empirically and conceptually, and thirdly, paradigm and methodology changes, which is often related with resistance. (Kuhn 1996, p.62.) Kuhn thought that in fact the whole perception process of human beings for new things follows the same pattern.

When abnormal findings occur, scientists try to modify the old pattern ad hoc in order to be able to include the results in it, rather than show willingness to abandon the old paradigm (Kuhn 1996, pp.77-78). Kuhn names the paradigm change *scientific revolution*. He used the word *revolution*

since he thought scientific revolution has many similarities to political revolution. Both require growing awareness of things not working properly anymore. Awareness can lead to a crisis which is often the requirement for the invention of something new. There is also a community having the power and resisting new visions in both cases. In political revolution, this community is the dominating elite, while in scientific revolution it is the scientific community (Kuhn 1996, p. 92).

When applying Kuhn's model to newspaper retail advertising, an essential question is whether the paradigms of retail advertising change when moving from print to online. If the business concept of online retail advertising is operating online similarly to printed newspapers, the shift from paper to web will be evolutionary rather than revolutionary. But if the 200-year-old business model of packing news and ads together is not operating online, we are likely to face revolutionary development. In that case, newspapers need to find new ways of doing business in online world other than contextual advertising.

Kuhn restricted his theory to natural science and urged not to apply it on social sciences. He saw social sciences in a continuous multi-paradigm stage, constantly debating over fundamentals. Yet Kuhn's theory has been applied to social sciences and criticized for that, especially by another great philosopher of science Karl Popper and many of his followers. One critic of our time, Steve Fuller, points out the problems of expanding Kuhn to social sciences, saying that despite Kuhn's great success among humanities and social sciences, Kuhn himself showed nothing but ignorance toward these fields. (Fuller 2003, p.21-22.)

Despite the criticism of applying Kuhn's notions to social science research, he has useful lessons for Finnish newspapers to pay attention. One lesson is that one of the main methods through which science has grown has been the identification of anomalies and an attempt to bring them under covering laws. Nelson Polsby has said that even though social sciences have not reached a stage of development comparable with the hard sciences, Kuhn's notion of scientific revolutions filled with conflicts seems helpful also there. (Polsby 1998, p.205.) In newspapers and in commercial media in general, the dominant logic has been that large audience automatically brings in large advertising revenues. Examples such as NYT.com online profits and lost classified advertising have disturbed this logic.

In social sciences paradigms are structured by political and social ideologies (Niiniluoto 1983, p.214). This observation of institution power, ideological battle, and legitimized resistance is something Kuhn has to offer to newspapers and retailers. In newspaper industry paradigms are maintained by economic power structure. Big newspapers, advertising agencies, and media agencies have interests to resist the new paradigm of advertising, since they all have a great deal to lose in the new online world, even if also a great deal to win. Retailers, too, resist changes in fear of the consumers' power and the transparent competition of online environment. Despite the resistance, the anomalies have continued to grow and denial is not fixing the problems. If newspapers cannot ahead of this change and capitalize it, it is more likely that revolutionary development of retail advertising will exclude both of these industries.

In the traditional paradigm of mass media business, the successful physical product automatically generates the second product, the large audience, which brings the wanted revenue stream to the media house. But examples such as NYT.com's advertising money have shown that this model is not automatic anymore. Something has happened to the audience product. Next we analyze how it has changed.

### **3.4 From mass production to customization**

The concept of mass customization is used to analyze the changes in the audience product. In Picard's model, the mass audience is the second product based on information market product. Not much has been done to this audience product during the last decades of newspapers. The product design of online news content has however proven not to be a sufficient way to bring enough money to newspapers. They also need to rethink their second and ultimate product, the audience. How can the audience be designed more lucrative to retailers? How can newspapers create customized audiences for retailers? This issue is reviewed through Joseph Pine's thinking.

Inventing mass production caused the rise of the industrial society in the 18<sup>th</sup> century. Products were produced by electricity with low costs for homogenous consumers, when earlier production had been customized by craftsmen, which was expensive. Capital and energy intensive mass production tried to automate processes to the highest extent possible in order to lower the unit costs as much as possible, enabling the economics of scale.

John Pine has listed several characteristics of mass production. Such are specialized machines,

focus on the process of production, division of labor, continuous technological improvement, flow, focus on low costs and low prices, economies of scale, and product standardization. (Pine 1993, pp. 11-15.)

This has also been the case with retail advertising. Producing advertisements to consumers through print is an expensive process, and it has been relevant for retailers to use an existing channel, newspapers, in their advertising process. The case has been similar when looking it from the perspective of newspapers: the production of audience product has meant great investments for newspapers in the form of print machines and high skilled journalist work force. This expensive and heavy process has produced a mass audience product which cannot be modified easily.

Mass production is not agile to respond changing needs and wants of consumers or retailers. Mass production has also caused an oversupply of many products and services which may compete with each other only by advertising or pricing. This oversupply has naturally helped newspapers' economies and increased their ad revenues, but the competition of consumers' attention has also undermined the effectiveness of advertising.

A paradigm change in industrial production from mass production to mass customization has already started and is continuing. People in the information society see themselves as individuals and want to consume accordingly. Mass production era is said to have come to an end because now we have interactive technologies through which customers can be a part of the product design and create their own products. Mass customization offers customized products and services to individuals at a sufficiently low price. It transfers the focus from buying on price to buying on satisfied at a competitive price.

An ultimate case of future customized production is single tailored products. In the future it is possible that an individual may design or customize his or her own product, and each product is produced as an individual item. Technology such as 3D blueprinting cuts costs, enables getting rid of production lines, reduces waste, allows shapes that conventional techniques cannot achieve, and enables the production of a single item quickly and cheaply. (The Economist 2011.)

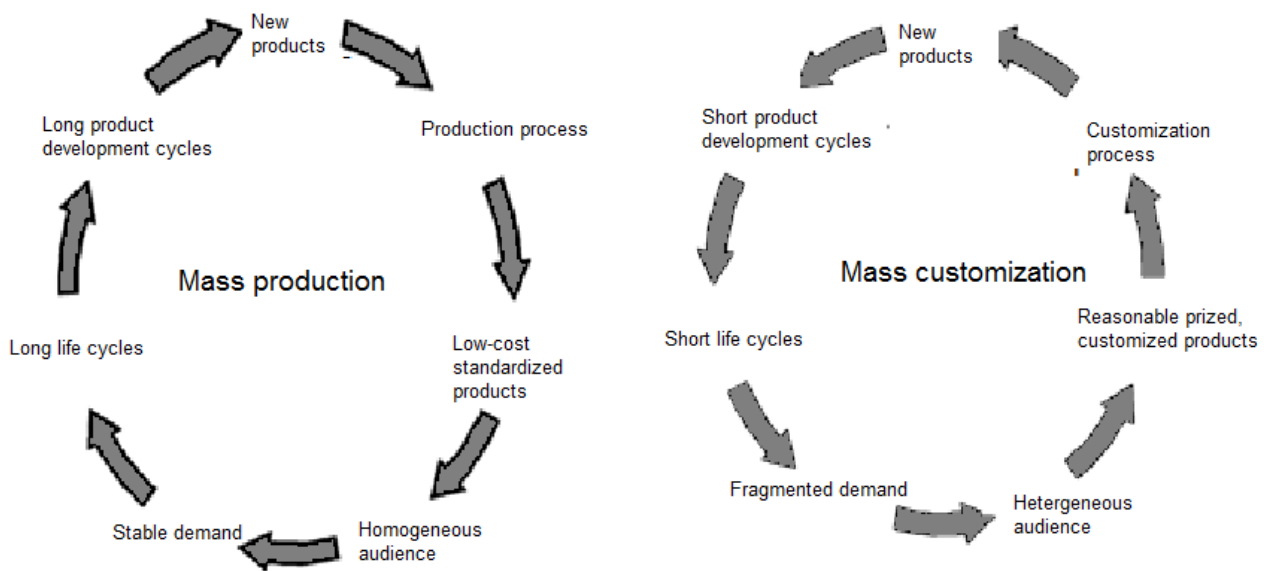


Figure 3.4 The cycles of mass production and customization adapted from Pine 1993, pp.27,45.

Mass customizing has started to affect also retail advertising and newspapers. Retailers do not want to buy just bulk audience anymore but want tailored contacts, too. All loyalty programs, behavioral advertising, and customer clubs are forms of customized marketing. Some of them have existed before, but the web is a new powerful channel to truly execute digitally tailored advertising and direct marketing. Mass production and mass advertising is not ending suddenly, but it will become less dominant as customized products and customized audiences emerge next to it.

Chuck Martin presented an interesting model in his article “Nine dynamics of future publishing” more than ten years ago. Martin forecasted that there will be two potential business models for digital publishers, which form the shape of the letter U. He named it Digital Estate U. On the left side there is a traditional mass media model with big audience and low advertising prices. On the right side there is a business model of customization with lower traffic but high advert prices and profound knowledge about consumers. (Martin 1998, p.141).

The model assumes that media on either side of the U can succeed, while those in the bottom of the U are in danger to fall out of the business. Martin also makes the distinction between database of content and database of individuals. The mass media has focus on content database and customized media on customer data.

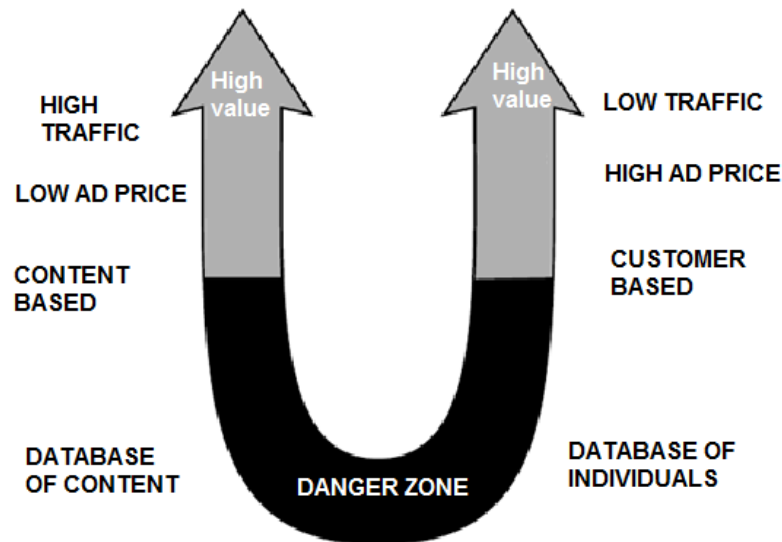


Figure 3.5 Digital Estate U model adapted from Martin 1998, p.141.

In Martin's model, the traditional dual market model of newspapers operates in the left side of the U letter. The more quality content newspaper has the more traffic it gets and the more successful it is. On the right side there are specified magazines, targeted television channels and other targeted media, where the value of individual viewer or reader is high.

Martin's model presents very good insights about online publishing, but it misses one of the main characteristics of online environment, which is customization based *namely* on huge masses. In 1998, Google and search was not as big a factor in Internet as today, but in 15 years Google has created the present paradigm on online where algorithms, crowd sourcing and data mining are directed towards masses to generate profile information. This Google-way of doing is in line with Pine's customization where technology is used to provide information to an extremely targeted niche group. With newspapers customization means that based on high traffic due to database of quality content, newspapers create database of individuals. This database is used to build customized audiences in order to offer customized solutions to retailers and other advertisers. Successful newspapers are neither right side, nor left side of the U but have two feet standing on each side: one on mass audience and the other on mass customization.

In the old paradigm of dual market model, audience is presented as passive receivers to whom advertiser gets access through the newspaper product. In the next review we will see that audience also plays an active role in the search of information.



### **3.5 Passive audience became information seekers**

The search axis of the theory is related to audience's consumption of retail newspaper advertising. On this axis, we have on one side marketers pushing information to consumers, and on the other side consumers pulling information about products and services, their availability and their prices, doing comparisons.

Many reader surveys indicate that advertisements are some of the most popular pieces of content in newspapers and next to news as a second reason why papers are subscribed. Thanks to Internet, consumers have really learned to find information related to purchases. They are no longer dependent on information provided by retail advertisement, but can compare stores and products online. This will be even more true in the future, when Finnish retailers deliver their offerings to their web sites. Passive audience has turned into information seekers since in the online world finding information is easy with search engines.

The Nobel-winning economist George Stigler stated in his search theory (Stigler, 1961) that by investing time or money to the search of information, an individual can gain economical benefits. Search theory has been modified by many researchers and it has been applied to unemployment people looking for job as well as to consumer theories about how consumers are looking for the best product available. According to search theory, the higher the expected benefits of search, the lower the focus on price of search. According to Stigler, the one price market will occur only where the cost of information is zero. This rarely is the case because information is often scarce and costly to obtain. So, instead of one price market, there is distribution of prices. Furthermore, the more variance with prices, the more is invested in searching for information.

Because of Internet and search engines, dramatic change has occurred with price information and costs of search. The search has become much more easy, faster, and cheaper than earlier. This means that even slight variation in prices is quite easily observed by people. But newspaper advertising or catalogues are no longer the place for price comparison: the place is Internet. Internet together with Google and other search engines has enabled audience to find information. The business model of newspapers and retail advertising therefore ought to expand to contain the role of active consumer looking for commercial information about products, even low price products such as daily goods.

Finnish retailers have already started to build their own online shops which contain price information. and this development is likely to continue in the coming years. When Finnish retailers are fully online, newspaper advertising will not have as significant a role as today in delivering price or other product information to consumers. Even though retailers themselves are not always too pleased with the fact that consumers compare their products, services and prices online, it is the reality they have to live with. National, geographical, or physical boundaries no longer protect Finnish retailers from foreign competition when consumers actively seek online offerings.

From newspapers' perspective, retailers should be seen as competitors to newspapers' retail advertising. But they lack to do this if they cannot take account of and appreciate consumers' wish to receive commercial information. Advertising originally lacked the respect of the public and newspapers and was accepted to papers only because of the money it generated. This kind of thinking is still alive in the industry. Newspapers still have much to do until they start to see their advert offering as a relevant content to their readers.

The theoretical framework of paradigm change in retail advertising was developed to study the changes of this business model. Building the framework has offered some insights to the research questions of this master's thesis. The dual market model has defined the common business logic of newspapers. Thomas Kuhn's theory of paradigm change then helped us to identify anomalies in the newspaper business and its dual market model. The theory of mass customization gave us insights about the changes in the mass product design and especially how the audience product can be customized. Finally the changes of audience behavior were analyzed through search theory. Based on this review we see that we are moving from intrusive world of advertising towards exclusive advertising where adverts are becoming more relevant content and are served to consumers in a more elegant and tailored way. They need to serve consumers' need for information. For newspaper managers, the future of retail advertising looks much more competed, complicated and laborious than ever before. Creating great content will not be enough in the future online world. The focus needs to be shifted to the design of the audience product.

## 4 METHODS

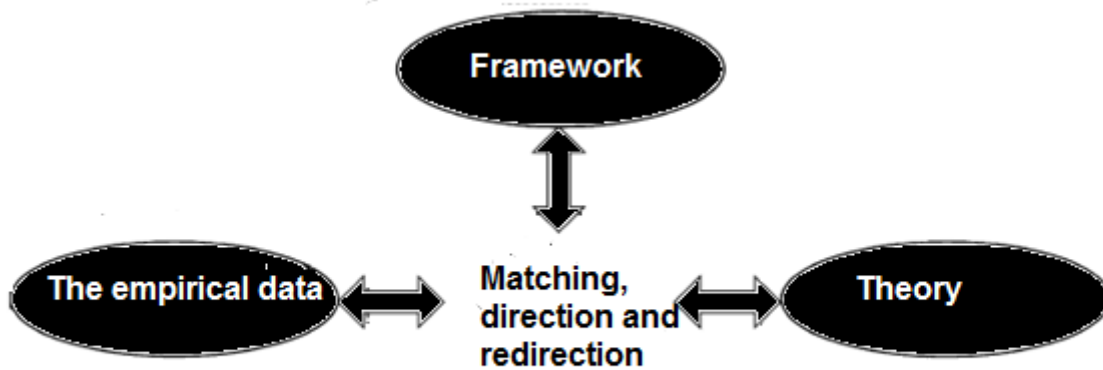
### 4.1 Abductive logic and systematic combining

This thesis is based on abductive approach and applies the method of systematic combining where researcher combines framework, the empirical world, the case, and theory (Dubois & Gadde 2002, p. 555). This chapter opens the methodology of abductive logic and its relatives, deductive and inductive logics, and explains how abductive logic is used in this thesis.

Abductive reasoning refers to reasoning which seeks the best explanation available. Abduction tries to explain the premises by guessing or with the help of the available evidence. Abductive reasoning is not deductively valid because the available evidence can conclude also to a different conclusion, and it is hard to qualify which conclusion is the best since the conclusions are not driven from the premises logically. Abduction can be a very useful way of reasoning in the creation of a theory on an unknown topic. In those cases, good guesses can be a good starting point for theory formation.

This was also the case with the topic of this research. In public discussion about the future of newspapers there have been ideas that something will happen to retail newspaper advertising because of online. In the beginning of this research there was also a hint that these changes could be related to the way consumers look for information and to the fact that everything must be searched. As a result of the research process, abductive approach produced a theory of paradigm change of online retail advertising from intrusive to exclusive, as presented previously. There was no clear theory in the beginning, but a sort of preliminary theoretical framework. The final theory was only finalized as one of the last steps of the research.

Systematic combining is a method process which combines theoretical framework, empirical fieldwork and case analysis evolving simultaneously through the research process. Systematic combining is particularly useful for the development of new theories. (ibid.) This was also the case in this research.



*Figure 4.1 Systematic combining adapted from Dubois and Gadde 2002, p.555*

Abductive logic was developed due to some flaws of its predecessors, deductive and inductive logic. They are the two most commonly known methods in qualitative research. Deductive logic means philosophical reasoning from a known, general level to specific facts. Usually this means reasoning from theory to concrete details. The definition of the relationship between variables is directed by previous research, earlier theories, and intuitive logical thinking of the researcher. A theoretical model achieved by this process then directs the data collection and analysis on an empirical level. (Grönfors 2008, p.14.)

In social sciences, deductive research has emphasized theoretical reasoning. This line of research therefore favors surveys, where questionnaires are formulated in the direction of the researcher's theoretical framework. This kind of approach was not relevant in this research since it represents qualitative research.

In contrast to deductive approach, inductive analysis is logical reasoning from details to generalizations. A good example is building a theory on the basis of empirical data. Induction is usually related to purely qualitative, unstructured research methods. Even though qualitative methods can be used in deductive research as well, surveys usually do not work with inductive research since their use requires some theoretical model. Empirical data is therefore used for theory formulation and not for testing or verifying it. (Grönfors 2008, p15.) A critical phase for the researcher is the classification of the data in order to be able to create categories or features on the basis of the material. The researcher needs to find correlations and relations between different

sectors of empirical data, or to find features that represent the collected data as well as possible.

The concept of inductive research has been criticized since in most cases, the researcher does have some idea or clue upon which he goes to collect the empirical data. Such clue-driven research is known as abductive reasoning, the method used in this research. It states that new scientific discoveries are possible only when findings are generated based on some clue or principle, not only on the basis of observations. The clue can be very vague and intuitive, but it allows the researcher to focus his attention on something he believes will bring new knowledge of the phenomenon. The researcher can get his clue either from empirical interviews, or from previous research or theories. The clue can be abandoned or modified through the whole research process. There can also be several or contradictory hypotheses. (Grönfors 2008, pp.17-18.)

Abductive method is used in this research to create possible future scenarios for media companies and retailers. Since there is not yet an established model of retail online advertising, deductive reasoning was not an option in this research. Neither is this research purely inductive, since there was the idea about decoupling of advertising and news because of Internet which has directed the focus of the researcher.

## **4.2 Empirical data**

Empirical data for this research was gathered in two steps: first by the means of individual interviews and then from a focus group. Eight managers were interviewed separately, three of the interviews having been conducted earlier for the bachelor thesis research. Six of the individually interviewed managers worked as media managers, one operated in advertising industry, and one worked for a retailer and was responsible for media advertising budget. The managers were Editor In Chief, Managing Director of newspaper company, Managing Director of online company (later refers to as an online manager), Sales Director, Development Director, Development Manager, Marketing Manager and Advertising Manager. Three of the managers were interviewed in the spring 2009 for earlier research of paradigm change in advertising (Flink 2009) and five more during 2009 and 2010. The managers worked for Sanoma, Alma Media, Kaleva, Schibsted, Kesko, and The Finnish Association of Marketing Communication Agencies. The newspaper managers represent retailers' mostly favored and used newspapers in 2010: Helsingin Sanomat, Aamulehti,

Iltasanomat, Iltalehti and Kaleva ( TNS Gallup 2010). The managers from Kesko and The Finnish Association of Marketing Communication give the voice of retailer and advertiser, but the focus is on newspaper organizations. Two of the managers were women and six were men. None of the people asked to interview refused the invitation. The focus group consisted of two media managers and two retail managers, who were not the same persons as in the individual interviews. All interviews were conducted in Finnish and translated to English. The sample was considered to be satisfactory both by Jyrki Jyrkiäinen, PhD, and Professor Hannu Kuusela from the University of Tampere.



*Table 4.1 Empirical interviews for the research.*

Altogether here is a sample of different media managers operating in different positions and in media companies of different sizes. Some companies have more regional focus and some operate nationally or internationally. Media managers from television business were not included in this research, since the main focus of this research is how retail advertising is being transferred from newspapers to online. The interviewees and focus group members are given anonymity. Most of them have a director status and they work for competing companies. They were assumed to be able to talk more freely knowing that their names will not come up. After all, the identities of these people are not important when trying to illustrate the future of online retail advertising. Interviews were conducted in Finnish and recorded with a Nokia E71 phone. The interviews were transcribed and copies were sent to all interviewees whether they had asked for them or not. None of them

made any corrections to the content. The interviews were analyzed by the method of content analysis, and based on that analysis, three scenarios of the future were built.

Another critical part of this empirical research was the focus group consisting of two media people and two retailers' representatives to whom the results of the individual interviews were presented. This two hour panel was carried in November 2010 at Sanomatalo and was videotaped. The members of the focus group were Development Manager from Sanoma News; Sales Manager from Iltalehti, Alma Media's tabloid newspaper; Online Manager from SOK, and Marketing Manager of commerce marketing from Ruokakesko, the grocery unit of Kesko. The original plan was to have six representatives participating, including one from Schibsted and one from Stockmann, but these two were unable to participate due to illness. Still, the group represented two of the biggest commercial newspaper companies in Finland as well as two of the biggest retailers. Just as was the case with the individual interviews, none of the invited people refused to participate. Some were not able to come themselves but wanted someone else from their organization to join the conversation.

The overall feedback was that this kind of dialogue between media and retailers is needed and important and that there has not been systematic development between these two industries. Three scenarios based on the individual interviews were sent to the debaters a week before the meeting. In the conversation, the main points of each scenario were presented as a tool for debate. The participants were asked to give criticism of each scenario, and finally to present their own views about the future development.

### **4.3 Framework**

In deductive research, the researcher should use tight and prestructured framework, and a loose and emergent one in inductive research. Dubois and Gadde advice however that theoretical framework should rather be tight and evolving at the same time. (Dubois & Gadde 2002, p.558.)

The framework in this research consisted of a questionnaire including eight questions asked during the interviews. These questions attempt to frame the relationship between the two industries, retailing and newspaper publishing. They also include the idea that online is affecting advertising and audience. The questionnaire was created with the help of Professor Gregory F. Lowe from the

University of Tampere. Eight questions were a number that was assumed to be manageable in a reasonable time. Most of the interviews lasted an hour and a half. Here are the questions of the interviews covered during the conversations.

- 1. Could you describe the relationship between retail sales and advertising based media?*
- 2. Is there something unique in retail advertising compared with other types of advertising?*
- 3. Please describe the ideal platform for delivering commercial messages to consumers?*
- 4. What are the major trends in retail advertising today?*
- 5. How does the web effect advertising revenue for media companies? What are the new business models for media in the internet era?*
- 6. Is the concept of a mass audience still relevant, and why?*
- 7. What is 'audience' in the context of internet media?*
- 8. Could you describe top three priorities for development in online advertising?*

Since this is a qualitative study, the interviewees were free to bring up other issues and notions, too, and the researcher has tried to be as reflective as possible. With some interviewees, for instance, there was a great deal of discussion about the digital marketing of retailers. When looking at the questionnaire after the interviews, it now seems quite satisfactory. The length of the questionnaire is quite good, but one question about consumer and reader behavior could have been included. Fortunately, those issues came up in the conversations quite naturally.

#### **4.4 Scenario method**

The results of the study are presented through a scenario model. The scenario method was chosen because it gives the freedom to describe potential paths to the future without stating that the future will definitely resemble one of the scenarios. The future of retail advertising will definitely include elements other than any of the scenarios in this research state and can have elements from each of these. One of the seminal works on scenario method is Peter Schwartz's *The Art of the Long View*, where he presented his thoughts about scenario planning he had developed while working at Shell and responsible for the oil giant's future planning.



Scenario is a tool for ordering one's perception about alternative future environments in which one's decisions might be played out. Alternatively: a set of organized ways for us to dream effectively about our own future. Concretely, they resemble a set of stories, either written out or often spoken. However these stories are built around carefully constructed "plots" that make the significant elements of the world scene stand out boldly. (Schwartz, 1991, p.4.)

Schwartz emphasizes that scenarios are *not* predictions. "It is not simply possible to predict the future with certainty. Rather, scenarios are vehicles for helping people learn. Unlike traditional business forecasting or market research, they present alternative images." (Schwartz 1991, p.6.)

Scenarios can be constructed in many ways since the scenario method is flexible but its methodological status is uncertain. Usually there are at least two scenarios, but often more because only two scenarios easily end up being a good and a bad one. Schwartz lists certain steps of the process. First one must identify the main issue and the key forces of the environment. Then the researcher must gather and hunt information related to the topic. After that he can rank key factors and driving forces of the future, which is often the most critical and difficult stage. After that the scenario logics are built, sort of a plot of the scenario, and scenarios are presented with a more narrative style.

When starting this research, there was a clue about the future of the retail advertising. After individual interviews, some key factors defining the future were pointed out, and the drafts of the three scenarios were built and presented to the focus group. One should be aware of ending up with three scenarios since people are likely to find the middle scenario to be the most likely. Despite that threat, three-scenario-model was used because the empirical data and theory framework supported such treatment. Fortunately, when the scenarios were presented to the focus group, the participants did not fall to this middle-scenario-trap.

After the interviews and the meeting of the focus group, all the gathered data was combined to form a theory of paradigm change in retail advertising by systematic combination. In the final stage, the chosen scenario was refined using the driving forces of the theory framework and rewritten in a more narrative style.

## 5 RESULTS

### 5.1 Business model

Next are introduced the results of the eight individual interviews which are the basis for building the scenarios. The interviews are analyzed through the theoretical framework presented in chapter 3. The four axis of the paradigm change are business model, character of development, product design, and consumer identity, which are also chosen as the driving forces of the scenarios. The findings of the interviews categorized under these axes are presented first and then the actual scenarios and focus group criticism towards them.

Advertising seems to work best in a reliable media and in a stable environment represented by a quality newspaper. This linkage was something that many of the interviewees commented on in my thesis. This is also the reason why Facebook has credibility problems among advertisers: marketer does not like the idea that he cannot know the environment around his advert. The interviewees listed many elements of the printed newspaper that please retailers: they have great value for the reader since they are typically subscribed personally and the neutrality of the content like independent journalism improves the effectiveness of advertising. Some managers also commented on social media being hyped too much.

Adverts are essential content of a newspaper. People want to read them on the paper. One of the interviewees mentioned that readers think adverts are more pleasant on the paper than in online. First, they help consumers to receive the newspaper product cheaper and second, especially promotion adverts contain information money worthy to readers. Many Finns pay great attention to grocery ads and follow special offers actively. The linkage between news and adverts is strong and the base for the dual market model of newspapers.

The question of context is relevant in online world, too. However, the managers noted that even though context still matters in online advertising, the context can be something else than journalism and the linkage between news and adverts may differ from print. Development Manager describes this as follows:

“A tricky issue is the way the advertising is imported into the context so that it is relevant to the consumer. Print news have nothing to do with adverts. Advertisers want food advert on one page and the recipes another, but it does not work psychologically that way, because reader thinks that it is paid content. People are more receptive when there is no link. Studies suggest that in online maximum CPR (Cost Per Rating, method of comparing different media forms by relating costs of advertising units to audience ratings) comes when you move from golf story couple steps forward and then the advert hits you. This gives the highest click rates. Google has a superior technology here.” (Translation M.F.)

Advertising Manager believes that context still has significance in advertising, but sees community sites as a new important platform for advertisers

“There is no journalism but there is context. One central reason why advertisers avoid Facebook despite its huge amount of users is randomness. Nobody wants your ad to show up on a racist site just because a machine has raffled you a proper audience. Then, things you’ve ordered have more meaning to you and people spend more time with them. This explains why subscription based paper has higher ad prices than free sheet even if they have same circulation and reader base. The first has a more valuable context. Most of the ads are shown next to some other message. We have next to journalism ads, next to social content ads, Google-ads. Context still matters.” (M.F.)

Stores’ decision about online direct marketing will have effect on newspaper revenues. “We are naturally interested in whether these big retailers SOK, Kesko and Stockmann see that they do not need media at all in the future. Will they make their own sites a hub of all the offerings?” pondered Development Director.

If retailers focus on their own online solutions, it will mean shrinking media budgets. But competition for consumers among direct marketers is tough. If retailers cannot get traffic to their online services, they are forced to use other marketing channels, like newspapers.

Many newspaper managers forecast the appearance of freemium models to online news, where reader gets basic headlines for free but has to pay for the rest of the content. If this is about to happen, it will probably affect the business of online news too. If some news sites are about to stay free, like Uusisuomi.fi, they have a great possibility to increase their audience significantly.

Retailers might also find new ways to serve consumers and the role of discount advertising could decrease. Retailers might invest more in stores to make them informative, experimental and amusing places. Big digital screens and concept design stores are some examples of this kind of development. If the actions in the actual store are emphasized, also the grocery industry can focus their marketing to store actions away from media marketing.

One change of business model of newspapers is the shift towards performance-based advertising. If performance-based advertising models like CPC or CPA are becoming more popular it means more of the risk of advertising is shifted to the publisher. “It becomes more targeted, which is more expensive. It’s about advertising networks and e-leads, no ad impressions. It becomes performance-based, rather people buying something and not that they saw something”, Online Manager analyzed, but thought that banners still have a role also as brand adverts.

The business model of newspaper is clearly still working, and advertisers value the content of independent journalism. The contextual advertising is not dying, but new channels and forms are born next to the newspaper to compete for retailers. Retailers are pondering, how much to invest in their own digital channels, and that money is likely to be away from their media budgets.

## **5.2 Character of development**

The axis “character of development” describes the revolutionary stage of change. The more left we are, the more evolutionary development the transition from print to online is, and there is no radical change of business logic. The more right one moves, the more revolutionary the change becomes. Evolutionary development means traditional business laws of print retail advertising operating also in online environment, and online news will continue to be the best environment for retail adverts. If development was rather revolutionary, the business logics of retail advertising would change profoundly and the online news would lose their role in this value chain.

A few managers working with print newspapers were supporting the view of the fairly stable development. They saw that online advertising and social media grow, but traditional media is still the best way to reach the consumer. The main argument for the stable scenario is related to the constant need of retailers to advertise and the proven concept of newspaper as an advertising platform. Finnish retailers are also very conservative with their marketing choices and do not want to take risks. These newspaper managers commented that the penetration of Finnish newspapers is good and will stay good, which means print advertising remain an economical way for retailers to reach the consumers.

A manager from Aamulehti mentioned that Finland is still actually an underdeveloped market of advertising and we should rather expect a growth of newspaper advertising instead of decline. He summarized his vision: “Many advertisers have started to repair a scooter bike from the wrong point. They have started to change media choices and look for all kinds of new solutions. Most, however, they should consider the contents of the message.”

Opposite views came from those managers working more focused to online environment or marketing. They see that newspapers have now an overemphasized role in Finnish retail advertising and that newspapers are forced to give up some of their retail ad share to online. Many of those forecasts also stated that the share of media advertising in the retailer’s marketing mix decreases when retailers start to invest more to their own services. Manager from Schibsted described retailers’ ideas:

“Kesko told us what means of communication and promotion is most interesting from customer's point of view. They want to understand how to segment, how to forecast demand and how to target different messages to different groups which vary greatly even inside Helsinki. How to boost warehouse circulation? They say traditional print works ok to a certain level but there must be other ways to activate people. The big supermarkets are ok with coffee package sale offers. But how do you manage selection smarter in local shops to local users? Mass media is not the answer here. Then came the examples of direct mail and where is it going. Is it transforming to a html or variations? The print doesn’t bend to that.”(M.F.)

The same manager pointed out that other than media service providers, such as Groupon, are really able to challenge media advertising.

“These daily coupon deals are coming from USA and they are revolutionizing this model. They build e-mail lists of people who are interested in discount and promotional offers. Exciting businesses which were built from zero to several hundred million turnover just in few years and make continuous, good results. This is just going to a different position, from friend to friend. You are interested in something with an offer minus 50-70 per cent for a couple of days. I tell it to my friend, and it can end up with a number of interested customers. The cost for retailer is the difference between buying price and the bid price. For some luncheon place it can mean 3000 customers queuing on their door. This way entrepreneur can market the place when they don’t have money for mass media and the cost is marginal compared to advertising. They engage people, they take coupons, they get their personal information and can start direct marketing themselves. These have possibilities because advertising is pretty damn expensive compared to what you get from it as results or sales. This is done because it is simple and there are platforms like email and Facebook. Could some retail brand dare to launch new things through this, get people excited and spread the word?”(M.F.)

Groupon, Google or other purely online operating companies might also have better resources than media industry to develop superior online advertising technologies.

The question of character of development brought up views supporting both evolutionary and more revolutionary development. Those newspapers working closer the old paradigm of printed newspaper seemed to support more evolutionary picture and those focused on online environment or outside the newspaper industry like the manager from MTL had more radical thoughts. They were also the ones predicting emergence of totally new players not known yet. This goes hand in hand with Kuhn's thinking that the ones in power are the ones not willing to admit the paradigm change.

### **5.3 Product design**

Mass advertising is based on economics of scale. It has been rational for both retailers and newspapers to wrap their messages to one package and send that same package to as many readers as possible. Now computer technology and web technologies enable, at least in theory, customized messages to readers and delivering messages cost-effective and fast. Yet producing adverts is still very much a complex process from retailer to advertising agency to repro proof and to print. The information adverts contain is not in a digital form, since adverts are just dummy pictures. These many different stages in advert process make it still fairly stiff and heavy.

Many interviewees mentioned in some form the idea that newspapers could start selling solutions to advertisers, not just space or clicks. Newspapers can become consultants of marketing especially to small and medium sized retailers. They can create new time and location based advertising forms for regional retailers which are more effective. Or they could offer online self-service ad desks for retailers.

Newspaper managers acknowledge that in order to succeed they should help retailers to improve their business: decrease wastage, fasten circulation and predict demand instead of just shouting one message to everybody, but the reality is still far from this. Customized messages are underdeveloped at the moment. Customization was seen as expensive by the interviewees but at the same time as something that needs to be developed. Retailers for example cannot utilize their loyalty programs fully because of the undeveloped personalization technologies. Online Manager describes the challenge:

“Media houses should consider how they can help retailers to improve customer loyalty. What other things they can offer, other than just ‘with this you get one million Finns on Sunday’. But their products don’t bend to that yet. Things should always be tailored a bit today, but they don’t think that way. They still have a long way to go to solve customer problems. Today we talk about electronic customer relations. It can mean CRM (customer relationship management) and analyzing online visitors, if newspapers just realized to collect that information. Should I pay x cents from mass media or 20 times x cents if I reach only people, who have read car stories? How to tailor exclusive products for the advertiser? If someone manages to build this from scratch, shouldn’t big media houses too, who have all prerequisites to do it much faster? But it requires a different way of thinking than just selling display advertising to customers.” (M.F.)

Newspapers could help retailers to improve their customer loyalty by offering retailers direct marketing tools built on their huge customer data base. This kind of thinking was most developed among the people interviewed from Sanoma. Sanoma actually has already launched some products for tailored messaging, like Sanoma Uniikki.

A great deal needs to be done on retailers’ side of the value chain, too. Marketing Manager analyzes:

“Retailers collecting a lot of information about consumers’ behavior are just in the beginning on the road to really understand the causal mechanisms for why someone wants something or why something is proposed to someone. There will be mobile shopping lists and Amazon-like contextual recommending like ‘those who bought liver pate also bought this wine.’”(M.F.)

Building customized online retail advertising poses challenging technical problems. Large, fast changing product data bases and price information complicate building data rich and always updated online retail advertising. If Finnish sites are unable to produce such information, consumers can end up on foreign sites. The product information in fast moving goods is particularly difficult to manage.

“The missing part is the product database. SOK knows that people are coming to their website when they are looking for bikes, but their website does not offer product knowledge. This is the missing link in the value chain. People’s purchase process starts from impulse; let’s say from a TV insert and then they go to find information on the web and usually end up to foreign services. Finnish retailers are in danger, because they do not have their own product information and online stores. Early adopters buy from the German online store, but what happens to the large mass?”(M.F.)

This question was asked by Development Manager, who mentioned yoghurts as one product example, where sizes and tastes change rapidly. Retailers are accustomed to advertise a couple of days ahead, but currently online should be considered a week or two forwards.

Another challenge is the standardization of online ads. Development Director thinks that the solution could be that media industry, retail industry and manufacturers create together common shared standards for online retail advertising processes in Finland. Buying online advertising can also be difficult, especially for small and medium sized retailers. Click-based or CPM models are difficult for those, who are not professional ad buyers.

The theory of paradigm change in retail advertising implies that in the future mass audience product will be customized with the help of information technology. Retailers want more tailored contacts and more efficient advertising. The interviewees seemed to acknowledge this development, but saw many obstacles on this path, one of the main challenges being the management of digital product data.

#### 5.4 Consumer identity

Most of the interviewees still believe the concept of mass audience to survive in the future, which supports the evolutionary development from print to online. One fact supporting evolutionary development is consumer behavior viewable on the list of the most popular web sites in Finland. The following list shows (Alexa.com, 2011) that seven of the TOP20 sites are editorial media sites.

TOP 10	TOP 11-20
<ul style="list-style-type: none"> <li>• Google Suomi</li> <li>• Facebook</li> <li>• Google English</li> <li>• YouTube</li> <li>• Iltalehti</li> <li>• Wikipedia</li> <li>• Iltta-Sanomat</li> <li>• YLE</li> <li>• Blogger</li> <li>• Windows Live</li> </ul>	<ul style="list-style-type: none"> <li>• Helsingin Sanomat</li> <li>• Yahoo!</li> <li>• MTV3</li> <li>• Nordea</li> <li>• Suomi24.fi</li> <li>• Twitter</li> <li>• Kauppalehti</li> <li>• MSN</li> <li>• Telkku.com</li> <li>• Taloussanomat</li> </ul>

*Table 5.1 List of most popular web sites in Finland, Alexa.com 2011.*

One interviewee pointed out that media sites have fairly stable positions in this list, which shows that media companies have managed to collect a large online audience. Development Manager



believes that media sites are only going to increase their traffic, and these sites can still fill the basic needs of users: what is going on in the world, what should I buy, what should I do next and how can I have social communication.

Many factors favoring the use of traditional newspapers were mentioned in the interviews. Mass audience was seen as still critical of retailers. If retailers do not advertise constantly to mass audience, consumers do not buy products in a sufficiently fast cycle. Only very exceptional brands can manage without advertising. Traditional media might still be the only channel to reach the great masses in the future. That is why for example companies using online classifieds such as real estate agencies need brand advertising in newspapers. Also the role of discount advertising has grown during the recession, and might continue growing because of the weakening purchase power of consumers.

The morning reading moment and the locality of newspapers were mentioned, too. In Finland people usually read newspapers in the morning, which supports retailers' motives nicely. The local newspaper is an efficient channel for a retailer to reach the local consumers.

There are also insecurities with online audience that might prevent its development in becoming a major competitor to print advertising. A main challenge is that it still lacks proven results. Many interviewees felt that it does not reach the masses at the same time in as effective a way as newspaper does. There were critical comments about online weak measurability. Print just seems to work better, at least at the moment.

On the other hand, managers listed benefits of online advertising being interactivity and behavioral, regional and time-based targeting. True interaction between consumers and retailers was mentioned in many interviews to become a new trend in online world. Search, ratings, comments and other tools could also include commercial content. Newspapers can become enablers between retailers and consumers, which was seen as one success recipe for the newspaper of the future.

From the consumer's point of view the essential question is: Where I can find the product I need? People search information about products, which is one of the first steps in a buying process. Online has room for all this detailed offering information unlike television or newspapers since it does not

run out of space. Consumers are taking the power in marketing and advertising and starting to define what they are interested about and how they want to be communicated with. Advertising Manager describes the paradigm change:

”People have accepted a Google-way of thinking. Almost anything can be known everything and the consumer is defining the criteria for wanted information. Not the retailer or other service provider or someone else. I will tell, whether I want first vegetables and fruits and finally the candies. The traditional way is that retail defines the way I walk through the store. For the first time in the history of advertising, people have the possibility to tell about themselves and what is relevant to them. That is the information Google or Facebook is looking for. Tell us about yourself and we will rearrange that data. Search results tell what is relevant and there is the basis for segmentation.” (M.F.)

He thought retailers’ reactions to paradigm change have so far been weak. However, user-oriented thinking in marketing communication means traditional target groups become meaningless. This could disrupt media advertising since their advertising logic has been based on target groups. Now every individual is target group of his own and the need to reach the whole population with a single campaign does not exist anymore.

The concept of online mass audience is problematic, since audience may scatter around the countless pieces of content in web. Wired magazine’s Editor-in-chief Chris Andersson launched the concept long tail as early as in 2004 (Wired, 2004). The idea is that only few services manage to collect huge amounts of users. Successor is followed by an unlimited list of competing services with smaller and smaller audiences or users. Someone can make reasonable business by bundling small markets together. Modern mass communication however cannot, since its business is based on mass audience advertising. This phenomenon can also be seen in online newspapers, where front page gathers most of the eyeballs and the content pieces inside the service collect just fragment share of the total traffic.

Yet newspapers need that mass audience also in online environment. Development Manager describes this:”If you can’t keep sufficient audience, you lose your revenue. Network-based tradedouble-like advertising gives you an audience big enough, but they are really bad models for media since you’ll get only 15 cents for a thousand pairs of eyes. It is insignificant money.”

From these interviews stems at the same time the need for mass audience and the fact that audience want to define themselves how they are served, communicated with, and what information they

accept. Google and Internet has taught consumers that everything can be searched with almost zero price, which means that the search for even low priced products continues to be strong a trend. But perhaps because surfing and searching is active doing, it seems that print is still the best platform for brand advertising. It was pointed out in many interviews that the wide surface of printed newspaper so far offers the best proven results.

The theoretical framework was finalized after these interviews so that all relevant findings of the interviews have been taken into account. Those four axes, business model, character of development, product design, and consumer identity were chosen as the key driving forces of paradigm change. When we evaluate how well the findings of the interviews sit to that framework, it seems that some axes work better than others. The two most successful axes were the character of development and product design. It is quite clear that something is happening to audience product and that newspapers need to act fast in order to develop their audience understanding and in order to create ever more sophisticated customized audience solutions to retailers. These kinds of messages were brought up in many interviews and also by the members of the focus group. The least convincing idea seems to be the idea that news and adverts are decoupling totally. Some space is born between these two elements, but according to many interviewees, there continue to be linkage between these two industries if only newspapers develop their retail and advertising expertise. Also the consumers' growing power in information market was something that was clearly pointed out only mainly by Advertising Manager.

After the interviews, four different axes were chosen to be the key driving forces of the paradigm change as a part of the abductive research process. The questionnaire of the interviews therefore not fully includes all the aspects of theoretical framework, or there are some elements that could have been emphasized more in these interviews. The critical issue of design of customized audiences especially was something that respondents could have reflected more deeply if the questionnaire had been focused on audience design issues more thoroughly.

### **5.5 Three scenarios**

Based on individual interviews and their analysis, three scenarios were built for the future of online retail advertising. They are named stable, adaptive and disruptive. These three scenarios can be

found in some way also from Peter Schwartz's list of eight most common scenarios used: 1. Winners and losers, 2. Challenge and response, 3. Evolution, 4. Revolution, 5. Cycles, 6. Infinite possibility, 7. The lone ranger, and 8. My generation. (Schwartz 1991, pp. 141-163.) The stable scenario represents evolutionary development, the disruptive scenario revolutionary development, and the adaptive scenario has elements of Challenge and response -strategy. Inside these three scenarios there can be both positive and negative forces from the newspapers' point of view.

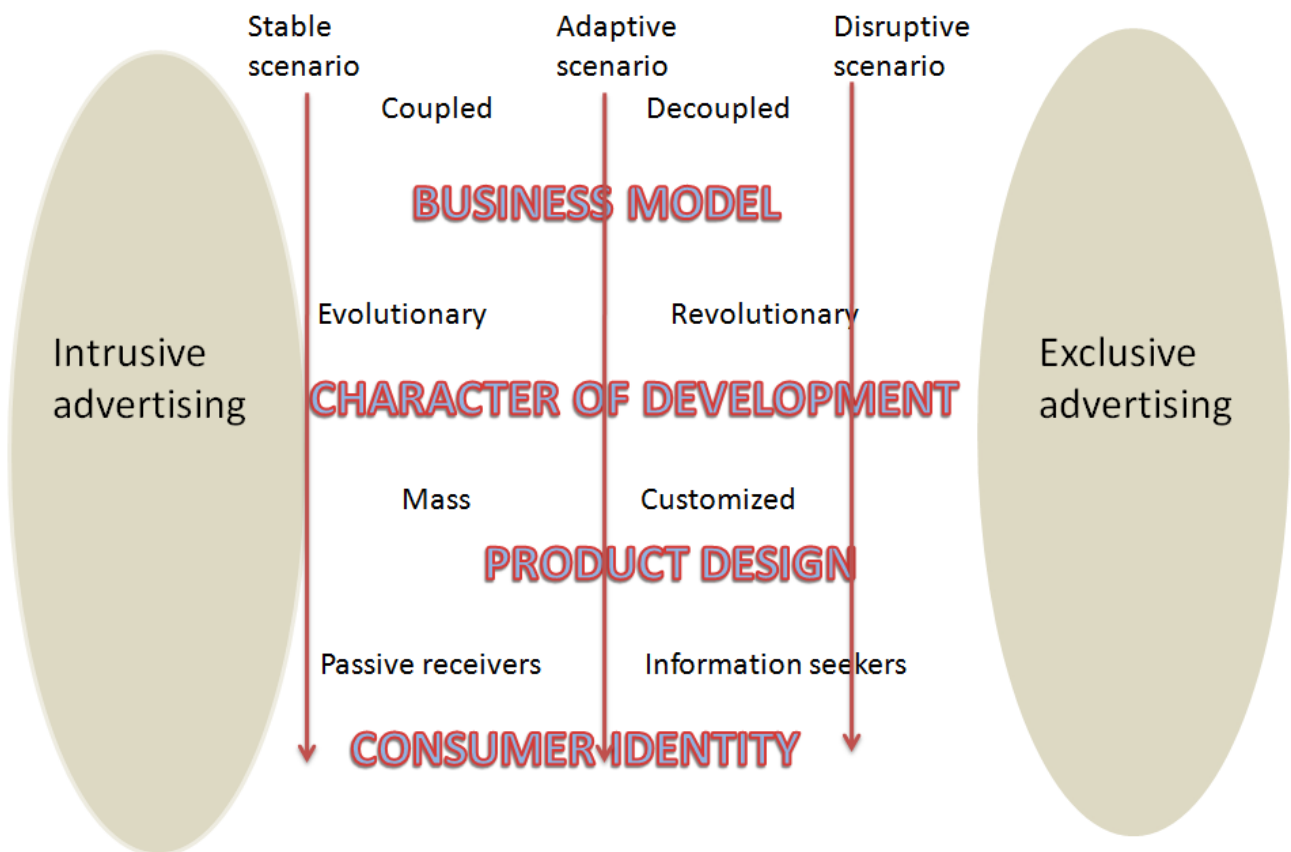


Figure 5.1 Three scenarios.

The first scenario assumes that there are no significant changes in retail advertising at the Finnish market in the future and that when advertising is moving towards online, its business logic and revenues will remain the same. Newspapers' online business grows evolutionary to replace potentially lost print businesses. The stable scenario means steady revenue for newspapers but also slow online development.

These evolutionary changes are always biological in nature. They always involve slow change in one direction – usually either growth or decline. Evolutionary changes are hard to spot if you are not attuned to them because they take place so slowly. Once spotted, however, they are easy to manage, precisely because they don't suddenly leap upon you. (Schwartz 1991, p.154.)

The adaptive scenario assumes there will be changes and some newspapers manage to adjust to them better than others, but not without losses. The adaptive scenario also means newspapers growing online profits but shrinking total profits. This scenario has elements of Schwartz's challenge and response –strategy, which he describes in the following way:

It refers to adventure stories, in which an individual faces one unexpected test after another. Each time, as a result, the tested person emerges different from the way he was before. Overcoming the test is important, not for its credential, but for its effect on the hero's character. (Schwartz 1991, p. 151.)

Applying this to retail advertising in newspapers means that some newspapers are able to pass the challenges, that but their identities, ways to operate and their relationship with retailers change profoundly in the process.

The third scenario is the most radical and its realization means severe changes in business logics and profits for media companies. The disruptive scenario means great losses for many newspapers when sudden changes or players enter the online retail advertising market. Schwartz describes the revolutionary scenario:

Every now and then there's a sudden dramatic change, usually unpredictable in nature. Revolutions are rare, but they must always be considered if they are plausible. The most frequent question asked of scenario-planners by business people is: Where are the big discontinuities likely to be? (Schwartz 1991, p. 158.)

Three scenarios were presented to the focus group consisting of two media representatives and two retail representatives with following slides. The members of the group were Development Manager from Sanoma News (Mikko); Sales Manager from Iltalehti, Alma Media's tabloid newspaper (Kirsi); Online Manager from SOK (Lauri) and Marketing Manager from Kesko (Risto). Representatives from Schibsted and Stockmann were also supposed to participate in the focus group but were not able to join due to illness. All these people follow actively the development of online retail advertising. Kesko's participant represents retail marketers' view, SOK retailers' technical development, Sanoma's participant newspapers' technical development and Iltalehti newspapers' advertising sales department.

The stable scenario was presented to the group with the following slide:

### Stable scenario

- Retailers are forced to advertise in the media in order to keep up their sales
- The newspaper will remain to be most effective advertising media for retail advertising: locality and morning reading as the strengths
- Journalism is the best possible context for advertising
- People want to read ads from the newspapers
- Finnish newspaper advertising market is immature and only about to grow
- Measurability of the internet is weak and doesn't convince advertisers
- Retailers' direct marketing doesn't work
- Online shopping will remain small
- Social media hype ends

*Figure 5.2 Stable scenario.*

Contributors' first impression of the stable scenario was that it is not a vision about the future, but rather a description about the way things were but are not anymore. However, along the discussion it became quite clear that especially retail representatives acknowledged many strengths of printed paper still affective and do not believe that people's basic behavior will change suddenly. They see readers using paper for quite some time and the social media hype ending.

The group noted that print has several advantages compared to online because of its long tradition. Wide circulation and limited content are some strengths of print advertising. Newspaper is an easy solution for a person who has only ten minutes time to get the picture of what is going on. The participants considered morning reading to give some benefit to print advertising especially among elder readers, but the focus is moving from print to online and from early morning to daytime. Discussion about news, journalism and context brought up different views. For instance, Kirsi from Iltalehti suggested grocery advertising would work also with online news, but retailers had doubts about this. "Does it interest anyone to look at a picture of minced meat on a web site? At least that picture of meat does not increase consumer information", Lauri criticized. As a summary, the group

accepted the notion that people like to read ads from print newspapers and that quality content will be relevant and interesting to advertisers, even though the content is not necessarily journalistic. Edited content was considered as safe environment especially to brand advertisers.

The group did not expect retailers' marketing investments in print newspapers to grow. Instead, the assumption was that there will be strong decrease for print advertising while electronic media, both online and television will increase their share. Retailers' online direct marketing was also expected to grow. The multichannel advertising was seen to be the key thing in the future even though online measuring and analytic tools are not yet widely used. Online shopping was expected to grow especially on durables, which has effect on online product information. "People are looking for plenty of product information in online. Fairly soon there will be comprehensive product data bases from different product categories", Risto forecasted.

### Adaptive scenario

- Number of print subscriber numbers decrease, freemium model is coming to online journalism
- Context matters but it can be other than journalism
- Media sites continue to be most popular online services
- Media companies build successful local online services
- Medium success by delivering interaction, comparing, behavioral, regional and temporal targeting and personalization tools for retail advertising
- Product information flows to media websites
- Brand advertising finds a new area on readers devices
- Media becomes a consultant who helps retailers developing their online marketing and customer loyalty
- Media sells direct marketing services to retailers which are built on their user databases
- Online advertising prices rise

*Figure 5.3 Adaptive scenario.*

Adaptive scenario was presented to the group through more positive attributes than negative. The scenario is focused more on the responses of newspapers than challenges of the future. This is good to notice when interpreting the criticism. The group's conclusion was that most likely the future path lies between adaptive and disruptive scenario. If the negative aspects of this scenario had been

emphasized, the final analysis would likely have been closer to this adaptive path. Over all, this scenario was the one that attracted the focus group most, or at least brought up a lot of supportive comments.

The group acknowledged that the number of subscribers will decrease and that freemium model is coming. Retailers' print advertising will shrink but online advertising continues to grow. Online advertising prices were also expected to rise as this scenario anticipates. The group also shared this scenario's vision that media industry could and should do much more with analyzing online users, and this knowledge can be used to develop intelligent, tailored advertising for retailers. Reader devices were seen as a potential for a new kind of digital brand advertising.

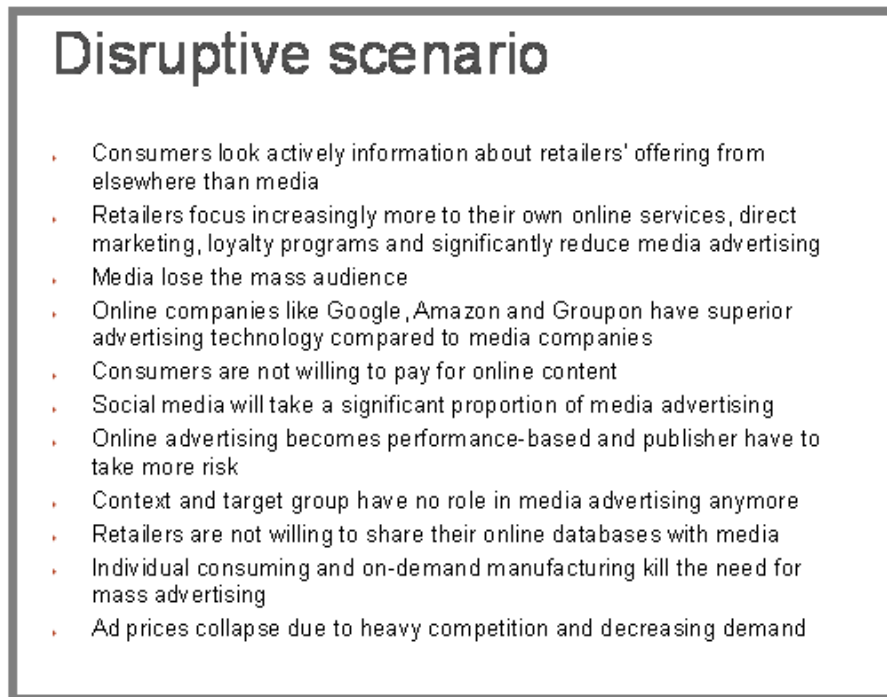
Retailers especially did not take as granted newspapers' position on the top of the consumer's mind. They find that some sites can be popular, but the competition will be tough, and retailers might challenge newspapers. The idea of product information flow to newspaper sites did not get support but the other way around. "If retailers bring their whole offering nicely to online, it competes with media sites." Lauri stated.

The idea of newspapers' role as online marketing consultant for retailers was welcomed by the group. Such marketing tools could save retailers' money and those savings could be pushed to consumer prices and retailer's profits. Newspaper representatives assured that reader analysis and behavioral targeting will be the future of advertising. This kind of advertising as service was strongly supported by the retailers.

Risto from Kesko pointed out that especially big media houses with several products have a huge potential to user profiling and mass customization. "They can find totally new kind of target groups when you look at people's online usage. It is such information retailers don't have themselves and what we like to take advantage of."

The disruptive scenario consisted of the following statements:





*Figure 5.4 Disruptive scenario.*

Both media representatives disagreed with the view that media is in threat of losing mass audience. They find that media has already managed to create mass audience to online and that retailers will follow. Target groups were also believed to exist in the future, but transform from static to dynamic.

The group identified that retailers will develop their own online services, but that it does not mean the end of investing to newspaper advertising because people do not come to retailers' online services to look for new products. Member A noticed that the first statement of the scenario should be formulated "elsewhere than in Finnish media" since consumers are already looking for information abroad. Kirsi reminded that the impulse before search is essential as well, and Risto remarked that an impulse can also come from somewhere else than traditional media, like advert at a bus terminal, or from a friend.

Product information started the discussion about price comparison services. Not all retailers like that, which came up in the conversation. Mikko also supported the thought that online advertising becomes more performance-based, but it happens through targeting, and not through risk-taking by the publisher.

The role of foreign online companies such as Google and Groupon was not discussed in this context, which was perhaps partly due to time limitations and perhaps because retailers did not want to reveal to each other their potential plans with these players. Here is good to remember what one interviewee pointed out:

“We can’t know yet what is the next thing going to disrupt advertising. What is now popular among consumers, like Facebook, doesn’t predict the future. Great innovations are usually accidents and they don’t show up in consumer surveys. They often solve problems which nobody intended to solve.”

Finally the group was asked to give their prediction of what the future world of retail advertising could look like. Mikko believes in moderate development for media companies, if they just manage to take care of their reachability. He emphasized how important it is for media companies to develop plenty of new services to respond to the needs of retail advertisers. Kirsi believes that media manages to keep its audience also in the online world and because of that, online retail advertising will increase significantly. Risto thought that retailers’ operations must become more transparent and that consumers’ voice comes louder. Both Lauri and Risto see retailers focusing on their own online services and direct marketing, but it does not mean that they are going to give up newspapers with their marketing. Both retail representatives saw that the most probable future vision is between adaptive and disruptive.

“Retailers operate still very much on one channel. They are going to invest heavily in digital services and have closer co-operation with media companies. Advertising must be relevant and useful service to consumers”, said Lauri. Risto thought that media have a mission in building new needs to consumers together with retailers and manufacturers. He also emphasized the role of the actual store as a media and a contact place between retailer and consumers.

The focus group managed to cover all scenarios quite well, but the first two were analyzed more deeply than the last one partly because time was running out. Nevertheless, all scenarios were treated sufficiently thoroughly. The foreign competition facing both media companies and retailers in online environment should have been more in the discussion, but this could also have been affected by the time limit challenge as well as the retailers’ unwillingness to discuss about business sensitive issues.

The balance of the group was perhaps not completely optimal since the roles were settled quickly, so that the media managers were asking retail managers questions rather than the other way around. The media managers asked Kesko and SOK what they want and convinced them they can deliver it. Of course this is also the situation in real life, but perhaps something could have been done to break the template. The media managers could have been asked for example by the chairman of the focus group what is it in retailers' business culture that prevents the development of online advertising, and the retailers could have commented the media managers' views. How honestly the leaders would have dared to respond in the presence of the two largest customers is another thing.

## 6 THE FUTURE OF ONLINE RETAIL ADVERTISING

### 6.1 New paradigm: exclusive advertising

Below are listed those features of future development the focus group seem to agree under the four axis. Based on them is build a fourth, the exclusive advertising scenario, which is positioned between the adaptive and disruptive scenarios. This scenario means huge challenges for newspapers, but nevertheless some papers manage to build the bridge between the consuming of online news and online retail advertising.

#### BUSINESS MODEL

- *Wide circulation and limited content continues to be an advantage for newspaper advertising*
- *Quality edited content will remain a lucrative platform for advertisers*
- *Social media hype will end*
- *Print subscribers and print retail advertising will shrink in the future*
- *Online retail advertising will grow, prices too*
- *Local online services can be a profitable business area for media*
- *Reader devices provide an opportunity for a new kind of rich media retail advertising*

#### CHARACTER OF DEVELOPMENT

- *Finnish print media will lose its role as a platform for retailer's offering information.*
- *Foreign web services compete for consumers' attention.*
- *Retailers invest heavily in their own web services.*
- *Retailers develop their own online media.*
- *Stores' role as a media space continues to grow.*
- *Most likely the future scenario is between adaptive and disruptive.*

#### PRODUCT DESIGN

- *In order to succeed media should produce tailored consumer analysis to retailers for them to improve their marketing.*
- *Advertising becomes a service.*
- *Retailers keep their product data bases with themselves.*

#### CONSUMER IDENTITY

- *People like to see ads, especially on newspapers.*
- *Morning reading is an advantage for retail advertising but focus is moving to later time.*

The last point under character of development summarizes the findings well: media managers see the future of newspapers neither as bright as the adaptive scenario assumes, nor as destructive as the disruptive scenario expects. Most of the people interviewed for this research shared the common vision that online will be the most significant change factor in the near future of retail advertising. Newspaper retail advertising will continue to exist, but more and more of retailers' marketing investments will be directed online. If newspapers want to be the ones to collect that money, they need to invent intelligent marketing solutions for retailers utilizing different behavioral and personalized targeting tools. A core thing for newspapers will be the ability to analyze online users and offer that information to retailers in a useful form.

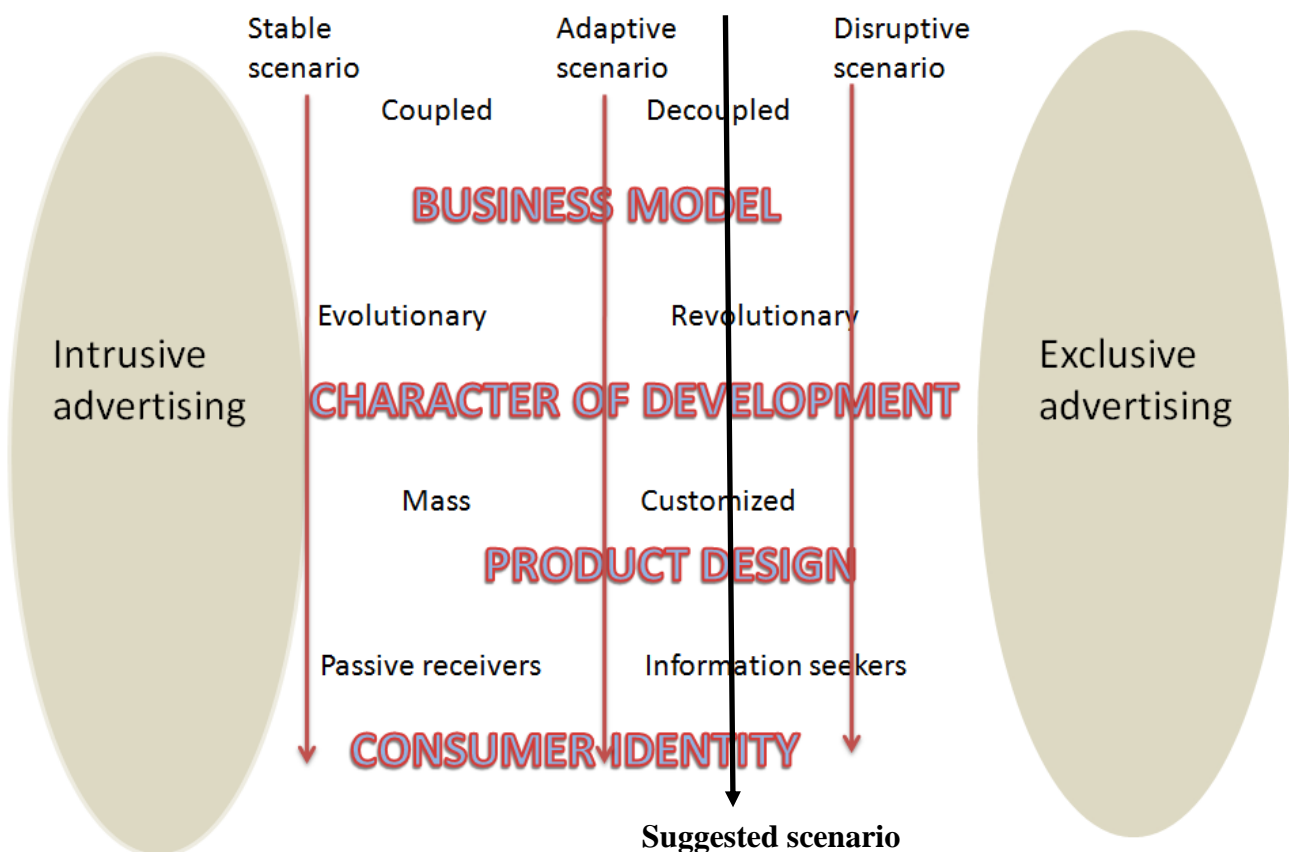


Figure 6.1 The scenario of exclusive advertising.

This potential path to the future is named as scenario of exclusive advertising. What does this scenario between adaptive and disruptive look like? According to this scenario, many newspapers face financial troubles in the future. Only the best ones survive in online competition. People give up ordering print newspapers slowly but steadily and even though online advertising continues to

grow, profits of news production will decrease. Those online news providers who manage to become marketing consultants for retailers will succeed best. They are able to produce easy-to-read and understandable reports for marketers about their online performance. Not all manage to do this and many smaller newspapers will die or merge with each other. The focus of retail advertising will move from print to online, while the share of media advertising in retailers' marketing mix will decrease because retailers invest heavily in their own digital marketing, social media and store marketing. It will take some years, but retailers manage to produce all their product information to dynamically updated databases. Also food industry increases the usage of a store as a media environment, when retailers and manufactures start to make use of new ambient media technologies. Newspapers create an online advertising solution utilizing interactivity, behavioral, regional and time-based targeting, but there will be severe foreign competitors like Google or Groupon in this field, in addition to retailers' own digital services. Online news' competitive edge will be the editorial content, which continues to be lucrative content especially to brand advertisers.

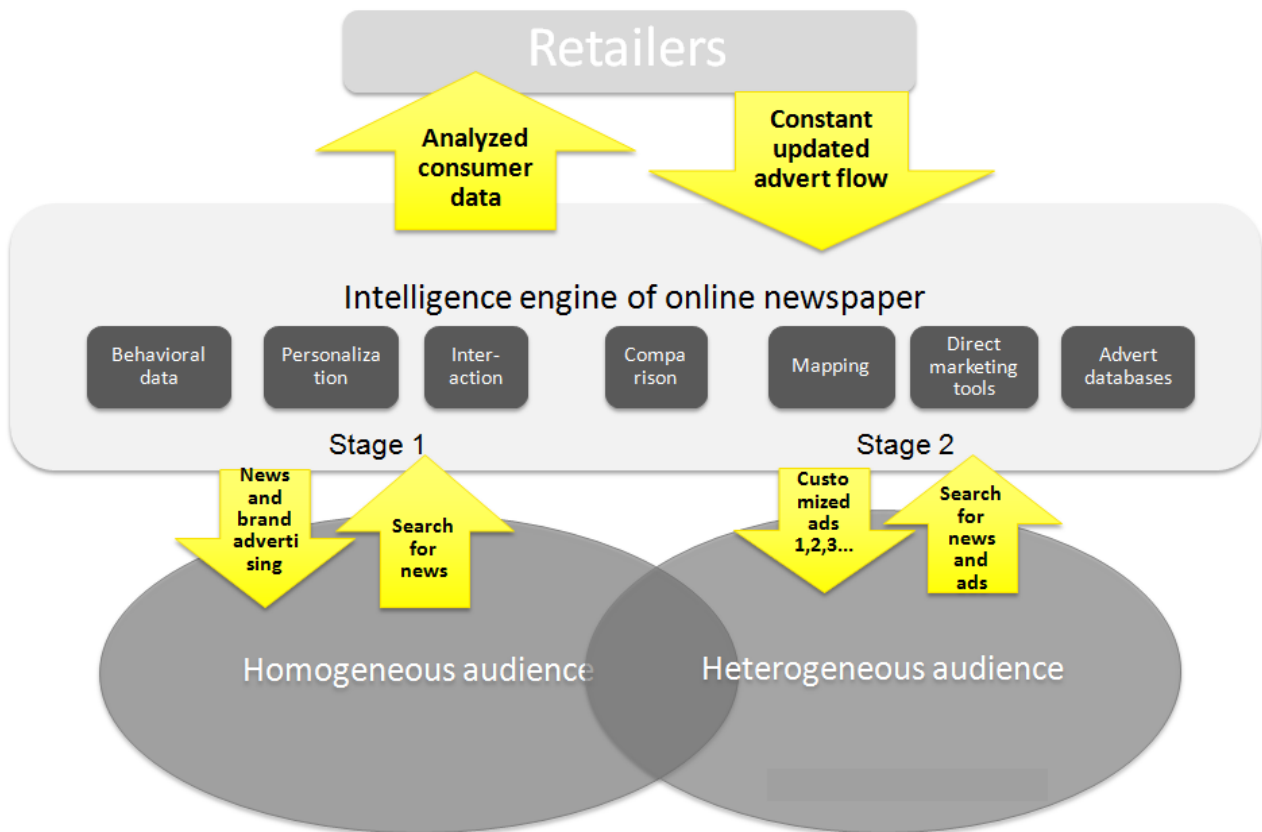


Figure 6.2 Paradigm of exclusive online retail advertising.

Figure on previous page illustrates the intelligence engine of the future online news sites and the exclusive advertising it enables. This figure describes the process between readers, newspapers and retailers, which is divided in two separate stages. In the first phase newspaper amasses the audience by offering news and brand adverts with large scale to a homogeneous audience. This does not mean that consumers and readers are actually homogeneous, but from the newspapers' and advertisers' point of view they are treated that way in the first stage. This stage is similar to dual market model of printed newspapers.

Online news engine differs from a dummy print paper since it enables collecting and analyzing information about readers, their preferences, and behavior all the time with online analytics tools. This information can be analyzed and processed and offered back to retailers. Based on that analysis an online news engine enables customizing adverts from retailers' online ad database to readers. In this second stage a single person can be a target group of his own. The process of breaking out the audience in the second stage can be automated so it does not need human tailoring. The advert database also enables consumers' usage of a engine for searching and comparing retail adverts. This second stage is the new paradigm of exclusive advertising, where the linkage between news and adverts is weaker than in the first stage or does not exist at all.

In this model there are three different revenue sources for newspaper: 1. subscription of readers, 2. mass advertising like brand adverts, 3. selling data about customized audience to retailers and tailored solutions to advertisers.

Online newspapers will be facing competition of other online platforms for retailers' marketing money. In order to succeed in this competition media sites need to create superior user analysis and marketing tools for retailers. It could mean newspapers taking a bigger share of the whole marketing value chain to themselves. They also need to act as mediators between consumers and retailers and develop their sites to enable interaction between retailers and consumers.

This kind of exclusive advertising is the direction at least Sanoma is heading already. It is also possible that technologies developed in one newspaper company will be available to whole industry through Kärkimedia company, an advertising company owned by newspaper industry, since developing separate platforms is expensive and probably impossible for very small newspapers.

Even though some of the managers interviewed for this thesis seem to think that for example the role of daily grocery advertising will decrease in the future, actually there are strong indications that matter will be the other way around. Finnish consumers' purchasing power can even decrease in near years because of increasing taxes, rising interests, and moderate development in wage rises compared to the rise in cost of living. According to EU statistics there are more Finns living in poverty than ever before, around 900,000 (Taloussanomat 2010). These people have great interest to look for grocery promotions as cheap as possible. It is good to remember that today low income households are rather Internet users than newspaper subscribers. The search for low price retailing products will be a significant factor for future development.

Many inventions have come as a surprise, like the success of social media. This can also be the case with online retail advertising. Future cannot be predicted and there could emerge something that can change the whole value chain suddenly. One very frightening vision from the newspapers' point of view is online coalitions of retailers or retailing and manufacturers. In Finland these kinds of coalitions look even more lucrative since retailers and food industry here invest proportionally so much in newspaper advertising. Media marketing is about 80 per cent of the Finnish retailers' net profits. If food industry is accounted too, these two industries could make huge savings to their marketing expenses by delivering joint online services.

## **6.2 Resistance of new paradigm**

According to Thomas Kuhn, the model for inventing new things has three steps. First we become aware of abnormal findings. Second there is gradual recognition of a new phenomenon both empirically and conceptually, and third the paradigm and methodology change, which is often related with resistance. It is good to notice that the paradigm change does not mean the world is changing, but only that the view of the world inside the society changes (Kuhn 1996, p.111).

Both retailers and newspapers have acknowledged the change, and now there is willingness to start building new solutions defined by the new paradigm. But they have also shown resistance towards the new paradigm and the resistance is related to protectionism inside both industries. Currently major revenue of Finnish newspapers comes from print retail advertising. This fact has made the development of advertising web services for newspapers look like cannibalizing one's good old



business since it is likely the online retail advertising cannot replace print retail advertising in euros, at least not for a very long time.

The regional newspapers have fairly monopolistic positions on their geographic markets among retailers. The development of strong online retail advertising would open the competition to other online players such as Google or Schibsted's online classified services. It is understandable that newspapers do not want to share a lucrative source of income with other online players.

After some American newspaper deaths there have been protectionist statements about the big mistake of the newspaper industry to start offering free content on the web. Some quality papers have already or will soon take their online content behind pay walls, since there are doubts that offering free online news will never become a profitable business model. Among these papers are Financial Times and New York Times (Adams, 2011), and in Finland Helsingin Sanomat has already launched a subscribed iPad version. If online news content will be taken behind pay walls, it may shrink the online audience and this will also have effect on online retail advertising. The ones offering free online news, such as Uusisuomi.fi, could benefit greatly with such development by newspapers. The most likely development will be the combination of offering news for free to a certain level in order to gather as wide audiences as possible for advertisers and giving the whole quality content only for subscribed customers.

Perhaps even more than newspapers, retailers have been conservative with their online marketing strategies. Despite of their huge media advertising investments, only very small proportion of that money has gone to online. One interviewed retail manager saw that retailers are reluctant to take risks to try something new if the old thing still works. Nobody has wanted to be the one to pay the costs of trial and error. This kind of thinking seems to be changing partly because of the foreign online competition.

Comparison is one thing raising worries among retailers. The idea that the consumer can easily and comfortably compare different retailers' price levels and product ranges online has not been very welcomed. Retailers have reasonable doubts that online comparison can drop prices to an unsustainable level. For example, already existing comparison sites are alluring mainly those retailers who are price leaders in the own categories. Overall, both retailers and newspapers in

Finland have so far been reluctant to build strong online retail advertising solutions.

Tools for online offering of retailers have existed for a long time, and many retailers abroad have already developed these kinds of solutions. One of the best examples is Tesco, the big UK retailer. In Finland, the Swedish furniture retailer Ikea has already been exploiting customized online marketing. It seems now that also many Finnish retailers have decided to follow this path and start to invest in their online solutions. One sign about this this is for example the online retailing education that the retailing industry body Federation of Finnish Commerce has started to offer Finnish retailers. If Finnish newspapers moved from resistance to acceptance of Internet paradigm change, it seems that retailers are finally following them.

### **6.3. How to manage the paradigm resistance**

The change management of online businesses inside both newspapers and retailers is in a critical role when building new online retail advertising solutions. If the changes are ill managed inside the organization, the resistance can prevent the future success. But it is good to point out that managing the resistance when moving one paradigm to another does not necessarily mean avoiding conflicts or implementing and justifying the change throughout the whole organization. Rather it means finding the representatives of the new paradigm, empowering them and giving them the tools to fight against the resistance. In other words, the acceptance of a new paradigm is not that much a result of educational project, but it is the success of the new paradigm that kills the resistance, and finally the old paradigm.

Tomi Lindblom's classified media companies' online strategies in his dissertation (2009) to four categories: active, careful, permissive and passive. *Active strategy* (Lindblom 2009, p.161) describes a company, which aims for strong growth in new media with strong invests to online operations. *Careful* strategy means company might have made some experiments, but mainly the attitude towards new media has been reserved. Sanoma is an example of this strategy. *Permissive strategy* describes a company to who online has been a side product. *Passive strategy* means that the company has not been involved with new media or has outsourced operations totally.

These online strategies define the way a newspaper company is about to manage the online

paradigm change and the resistance. Strategies set the limits to the extent the newspapers' top management and owners are willing to empower the supporters of the new paradigm and how much and how long they bear the doubts. Strategies can also be seen as different stages of accepting a new paradigm developing from passive strategy towards active strategy.

One of the most active newspaper companies in the online business has been Norwegian Schibsted, today known for its unusually profitable online businesses. They have been successful with their online strategy and profitable in an early stage when others generated merely losses from online operations. They saw as early as in 1995 that Internet presented value-add opportunities as a new distribution channel for news, but also a threat (Anand 2007, p.8), and after that they have been coherent with their strategy and developed several ways to promote the realization of the new paradigm in the organization. One reason why Schibsted have been able to shift so quickly to Internet was that some top managers were hired outside the newspaper business, including several executives from McKinsey, the consulting firm. This helped Schibsted to avoid the fear of cannibalization and loss of revenues (Lindblom 2009, p.223). First they thought to keep classified ads in print while developing online, but since it did not work, they urged these new online people to get as much ads from print as possible. Managing Director of the online classified service Finn.no Terje Seljeseth describes: "We created a culture that resembled a start-up company in many ways." (Anand 2007, p.10). When stock market crashed in 2000, it caused many media companies to withdraw from online. Schibsted instead narrowed the focus and continued to invest in their online operations. (Anand, 2007, p. 9.) Later, competitors were forced to start all over again, but Schibsted had run too far ahead of the others.

The ways Schibsted has used to manage the paradigm resistance and to deliver their advertising business to Internet era seem useful for Finnish newspapers too when they are developing their online retail advertising. One principle is the determination to stick with online retail development despite the sudden changes in the outer world and its economical situations. Newspapers need to commit to their online retailing strategies right now even though it might take several years until online start to generate significant money through retailers. Another good practice could be bold cannibalization of newspaper's print retail advertising by letting online sites start to compete with print editions for retailers' money despite the print sales staff's potential indignation. Also, newspapers could recruit people outside traditional media sales to develop their online retailing

solutions and thereby broaden their knowledge about retailers' needs. One potential target for recruiting could be for example retailers themselves.

Retailers have similar issues as newspapers when developing their online strategies. The development of online strategy among retailers is mostly managed by senior managers, which helps with empowerment issues. Then again, marketing department is the main division where online issues are most commonly managed practically. (Australian Center for Retail Studies 2010.) This is one potential problem where Finnish retailers could try to find solution from examples such as Schibsted or Tesco, which both have been pioneers of online in their own industries. Tesco has been operating online retailing since 1984 and has organised its internet business to a separate division similarly to Schibsted. In the light of these two success stories from media and retail industry, this kind of independent unit for online development seems to be a good way to support the growth on online business, at least until Internet becomes domain of managerial logic on online retail advertising.

## **7 SUMMARY AND CONCLUSIONS**

### **7.1 Conclusions**

This study has attempted to find answers to the question of what the future of online retail advertising could look like. This question is important to newspaper industry since newspapers are still the most important advertising channel for local retailers. According to this study, the role of printed newspaper in retailers' marketing mix is still extremely high. The Finnish retailing industry has been exceptionally conservative with their online marketing and retailing investments. This is not likely to continue but retailers' newspaper advertising will decrease and the online will grow. At the same time retailers also start to use other competing channels next to online news and especially invest to their own online services. Digital direct marketing is still in many ways an untapped channel in retailers' marketing mix.

The essential question for newspaper managers is twofold: how to keep readers and how to keep advertisers? Newspapers have replied to the first one by offering great content to audience online, and by developing new tools for online media, like interaction, videos and connections to social media. The content has been delivered to mobile environment, too. The commercial side of online news development has proved to be more difficult, and this research brought up some outlooks on that challenge.

Seven newspaper managers, one online media manager, three retail managers and one advertising manager were interviewed for this thesis. During this research, many features of future development came up and were strengthened in several interviews. The results indicate that print newspapers continue to have many advantages in readers' daily life and in retailers' marketing mix in the near years. Some competitive advantages of the print paper are wide circulation and quality content, the morning reading moment, and the fact that people like to read ads on newspapers.

However, most interviewees saw more factors threatening newspapers' economies than supporting. The common view was that the number of print subscribers and print retail advertising will shrink in the future and online retail advertising will grow along with the rise in prices. Print media is seen to lose its role as a platform for retailer's offering information as foreign web services and retailers'

own services start to compete for consumers' attention. The stores' role as a media space continues to grow, and in the long run, new ambient media technologies will bring new solutions to space located advertising.

This research indicates that consumers are becoming ever more spoiled in the information market. Google has taught us to find information, almost everything about anything. This requirement of information, its quality and content, is something retailers need to respond to. Retailers themselves see that news sites will not be the places where consumers go to find the commercial information as was the case with printed newspaper. Newspaper managers seem to have a more positive view about the role of their online services as distributors of retail information. Both retailers and newspapers see that in order to succeed newspapers need to produce consumer analysis about readers to retailers so they can improve their marketing. Newspapers also need to produce customized advertisements as a service to retailers.

The interviews resulted a picture of an ongoing paradigm change in mass advertising, which will have great impact on retailers and newspapers. A content analysis of empirical data brought up four different axes that made it possible to examine the fracture of the old paradigm and find elements of the new paradigm. The axes were the business model of newspapers, character of development, product design reviewed especially from the perspective of audience design, and consumer identity. These axes formed a theoretical framework of paradigm change from intrusive advertising to exclusive advertising.

Three different scenarios were built based on the empirical findings as potential paths to the future. They were named stable, adaptive and disruptive scenario, and were positioned against theoretical framework. In this research the future path between the adaptive and the disruptive scenario was the most supported one. It was named scenario of exclusive advertising. This scenario assumes that future will definitely be challenging for Finnish newspapers, many papers are likely to merge with one another, and some newspapers will not be published. However, the best news services will survive in online world. They manage to keep and grow their online audience and develop new intelligent advertising products for retailers.

The question of business models of online news has been much more open among industry players

than the question of online readers. What are those intelligent online advertising solutions for retailers and other advertisers that transform newspaper companies' sales departments into solution oriented consultants of marketing? This new paradigm of exclusive advertising is the main result of this research. It was build based on theoretical framework and empirical findings, and it states that newspapers' original dual market model expands from mass advertising to exclusive advertising. In the first stage, news service amasses a large audience and sells this mass audience to brand advertisers. In the second stage, the mass audience in analyzed and broken into pieces based on the needs of retailers. These customized audiences are then sold to retailers. These two stages are ongoing processes where there is no clear line where one stage ends and another starts. In the future, online newspapers will have three different sources of revenue: subscribers, selling mass advertisements, and selling customized solutions.

For this future scenario to happen, retailers have a significant role as well. They need to contribute to this development with their digital product and store information, as well as by developing their digital advertising process. Retailers need to integrate their daily business and information systems to online and mobile interfaces in order to make the information flow automatically to their own web services and as well to newspapers retail advertising solutions.

A part of a paradigm change process is resistance to the change, especially from those parties in power in the presence of the old paradigm. This research used the success case of Norwegian online media company Schibsted to find ways to manage the resistance. The results indicate that the best way is to start cannibalizing actively one's present business no matter how profitable it is at that moment, and to commit to the new paradigm despite of severe setbacks. Hiring people outside the industry is also a good way to prevent resistance of the new paradigm.

These results represent qualitative research, and therefore the researcher has had a significant role when interpreting the results. There are some ways to improve the credibility of a qualitative research and to prevent too subjective treatment of the research. One way is to describe the research process in as many details as possible, so that the reader can reason himself how much the results can be applied to other research fields. For this credibility reason, the research process has been opened as closely as possible in this thesis. Another way to increase credibility of a qualitative research is to describe its findings as richly as possible. Perhaps more elements of the interview

transcriptions could have been included in the research paper to strengthen its credibility, but that would have weakened the readability of the results.

The planning process of this thesis started in the spring 2009, which means that the ideas, findings and methods have been developed for two years. The longer time is used for qualitative research and its interpretations, the better the credibility of the research usually is since the researcher has time to leave out weak ideas and conclusions or improve them. In this sense, this master's thesis has had time to elaborate the results. The long duration of the research process has also helped the researcher gather valuable comments from academic world, industry parties and other academic studies alike. During this process, the received feedback has strengthened the results indicating that the paradigm change of retail advertising is on the door.

The long research time for this thesis has also helped the researcher to avoid too subjective pre-suppositions. Even though the researcher has had some preliminary ideas about the future change, these ideas have had time to change and develop many times during the research process. This has helped the voice of the research to become louder instead of the voice of the researcher.

## **7.2 Results against the theoretical framework**

The framework of paradigm change in retail advertising is one research result of the thesis. It tries to resonate with empirical findings in the best possible way despite the fact that there were four existing theories upon which the framework was built. The framework reproduced especially well findings related to a change of business model and the character of the change. The weakest link here was the axis of consumer identity. The theory of search is mature and well-proven, and applies well to this research topic. Unfortunately, the empirical findings do not say much about consumers' search behavior in general level. Advertising Manager brought up these issues many times, but that was not the case in the other interviews. All in all, the empirical data and framework agree with each other satisfactorily, if not quite ideally.

The theoretical framework or some elements of it can also be used to analyze other commercial media platforms than newspapers, such as commercial radio, television, and magazines. The model produces information about the relationship between content, adverts and readers and whether those media work better for mass advertising or customized advertising. One potential object of study



where this framework could be utilized is commercial television and its business model shift from broadcast to online television. Does the shift from time-sensitive content broadcasting to online environment alter the way viewers consume the content, and does it have effect on the way online television adverts are displayed to viewers? Another interesting object of research for this framework could be for instance subscription-based online music or movie services such as Spotify. Those services have wide, active, heterogeneous audiences whose content consuming and preferences offer possibilities for exclusive advertising very much different from commercial radio.

### **7.3 The practical usefulness of the results**

This research has produced a theoretical framework to analyze paradigm change of retail advertising, which can be also used to other media than newspapers. The other result, the model of exclusive advertising, shows future requirements for newspaper online platforms and for retailers' information management. According to the paradigm of exclusive advertising, newspapers need to dig deep information about their readers and their preferences and offer that information to retailers. This means that newspapers need strong investments in their online analytics tools in order to be able to collect that data. Newspapers also need online profiling or personalizing techniques which can automatically offer customized advertisements to an individual reader. Results support the need for fast and strong investing in commercial online development, rather than slow reaction.

In addition to technological development, the results indicate that there is already plenty of information about the consumer behavior in online world that newspapers are not offering to their customers. Newspapers' role as retailers' marketing consultants is something that came up several times especially in the focus group's discussion. Newspapers could well start to develop their consulting services to retailers since they have a longer experience and better expertise in online world than most of the retailers. These kinds of advertising services could be the most high-profile products offered by newspapers. Co-operation on a strategic level could also weaken the threat of newspapers' role in retailers' marketing portfolio decreasing. Ideally, newspapers could become strategic partners to retailers.

This study also brought up one critical issue that retailing industry needs to focus on. It is the management of product information. Many interviewees found that the management of tens of

thousands of products' online information, which is the typical amount of different products in large supermarkets, is still impossible. As long as that information is not updated, online and rich with pictures, it is impossible for retailers to effectively update their own web sites, or drive that data to some other sites. The problem is not only retailers' since much of the product information comes from manufacturers. At the moment, retailers' adverts in the print newspapers are also dummy and do not include such meta data that enables for instance their search on the Internet.

#### **7.4 Future research**

In this thesis the changes of retail advertising have been studied mainly from the perspective of newspapers' media management. This research has not produced all-inclusive and complete answer to the research question but just first steps in the field of online retail advertising research. This subject needs to be researched further among media economics and retail researchers in near years in order to improve and sharpen our understanding of retailers' and their customers' online behavior changes.

We have been interested in knowing how newspapers see the situation and what they should do in order to transfer retail advertisers to online world. Another interesting object for research is the future changes in television advertising and how television channels can develop tailored online solutions for retailers.

Online retailing has been studied especially from the perspective of consumer behavior, both globally and in Finland. There is not that much academic research about Finnish retailers' online strategies or management of online retailing despite we know that retailers have started to use the online media in different ways. Abroad, many retailers use for instance email extensively to inform alert shoppers about new products, promotions, digital web coupons, and store openings. Digital direct marketing is likely to grow also among Finnish retailers. A company called Groupon specialized to email offers is growing abroad and in Finland with breathtaking speed.

Since there is no solid academic research on Finnish retailers' online marketing strategies and the role of online media in retailers media mix, research focused on the paradigm change of retail

advertising from retailers' perspective is clearly needed. Future research could attempt to find solutions to retailers' information management challenges and to analyze the future marketing roles between retailers and manufacturers. It would also be interesting to see whether the findings of such research were equable with results of this research.

Jeff Kaye and Stephen Quinn published last year a book about funding journalism in the digital age. The conclusion of the book is that we can be optimistic about the future since the need for accurate news won't disappear. But no one clear solution, how to fund independent journalism they found either. This thesis supports the conclusion presented in Kaye's book by MarketWatch columnist Adam L. Penenberg:

What's the solution? There isn't one. We are in the midst of a paradigm shift. The big media companies with huge legacy costs pertaining to gathering, printing and distributing information either will adapt or die. (Kaye & Quinn 2010 p. 42.)

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