

# **Online News Services in Hong Kong**

Economic feasibility and future development

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## **Abstract**

Hong Kong online news media have gone through the process from explosion to consolidation in the past two years. This study investigates their economic feasibility in the critical moment and hopefully to shed light in their future. Eight experienced online news service executives were interviewed to examine the revenue structure, potential markets and possible future development of news websites.

In spite of the adversity, practitioners were not pessimistic. They are anticipating a more mature online market and believed that the development of new technology will boost the demand of online news contents. Modest advertising revenues remained crucial to the survival of online media but subscription model was emerging as a tide of no return. Online news publishers were exploring the overseas market and pursuing the niche market such as archive service and information database of Greater China.

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## 1. Introduction

Online news services were once perceived as a dazzling rising star in Hong Kong.

In early 2000, websites with free news content flourish explosively in hope for bringing in advertising revenues and venture capital. Not only did the traditional news media in Hong Kong establish their official web sites, other investors were plunging tens of millions of dollars to catch the wind.<sup>1</sup>

The beautiful picture of online news was soon proved to be a myth. IT bubbles bursted within a year. Scale of the news websites has been shrinking. Workforce was cut and the publishers has been struggling to survive just days after the launching of their new services.

Online news services were suddenly regarded as a white elephant. They ate up a large portion of budget but yielded nothing more than several hundred thousand dollars of advertising revenues. While many news websites are struggling on the brink of collapse, the future of online news media can be seen from a different light.

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<sup>1</sup> For example, iChannel.com, 36.com and Cyber Daily.

Hong Kong is a metropolis and its Internet access penetration is among the highest in the world<sup>2</sup>. Hong Kong's emigrants are found all over the world and they are the potential users of online news. The aim of this paper is to evaluate the economic feasibility and future development of online news services in Hong Kong.

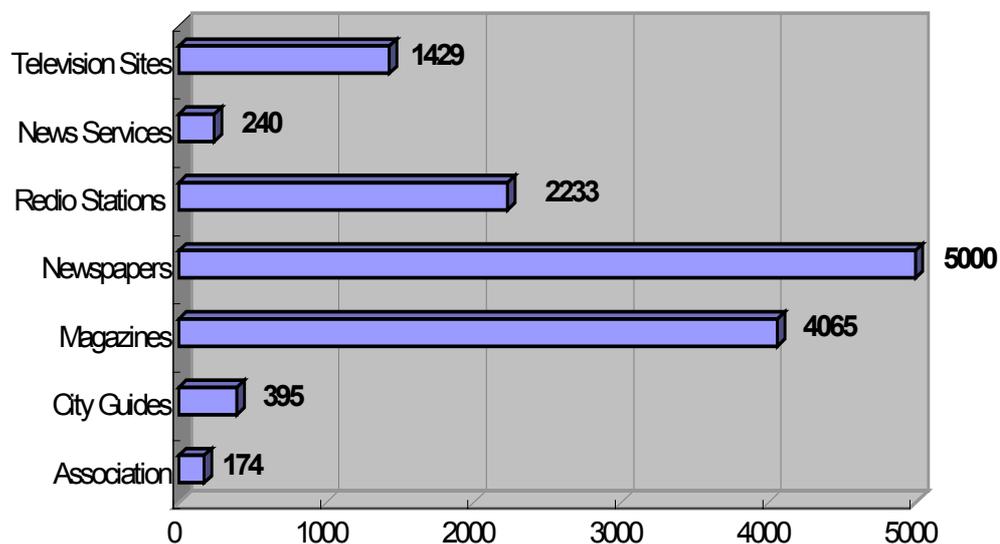
Online publishers' viewpoints are important for us to understand the online news service economics in this critical moment. How do they perceive the market potential? What kind of business models are they going to adopt? How do they define sustainability? To gain practical insights from online professionals, a series of in-depth interviews were conducted.

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<sup>2</sup> According to the Net rating report of AC Nielsen, 56% of households of Hong Kong have Internet access via Home PC. Compared with Singapore (60%), South Korea (58%) and Sweden (57%), Hong Kong's Internet access rate is the fourth highest among the 26 countries and regions (AC Nielsen, 2002 Net rating report).

## 2. A Brief Review: Online News Services Economics

In comparison with traditional media, entry barriers for online news services are very low (Chyi & Sylvie, 1998). More than ten thousand media websites have been established all over the world in less than a decade. There were hardly any freestanding electronic newspapers on the Internet in 1993 (Sparks, 2000). Now, there are 13536 media sites (E & P, 2002). The overall figure includes a wide range of different media, including newspapers, magazines, radio and TV stations, as shown in *Figure 2.1*:



*Fig. 2.1* Numbers of online media worldwide in 21 February 2002 (Source: E& P, 2002)

The explosion in online news publishing was going along with the fantasy and

fanaticism of New Economy. In the wake of the IT boom, any business proposal with an “IT” label can easily draw money from optimistic investors and venture capitalists. Economical sustainability was the last thing to consider. The dot-com bubble was soon reduced to soap suds. “Venture capitalists switched from free-spending Medicis to Scrooge McDucks (2000: \$21 billion invested. 2001: \$6 billion).”(Levy, 2002) At the time when Silicon Valley was nicknamed “Death Valley”, online news industry had to search for new operating models to transform themselves to an economically viable business. After all, online news is not magic. The services will not be sustainable unless content owners can generate profit from their media products.

### ***2.1 Dual Product Market***

Picard (1989) explains that media industries are unique in that they function in a dual product market. That is, although media companies produce one product, they participate in two separate good and service markets.<sup>3</sup> The contents are marketed to readers. Meanwhile in the second market, advertisers seek access to the consumers that are utilizing the media contents.

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<sup>3</sup> Picard, R. G. (1989). *Media Economics*. Beverly Hills: Sage, as quoted in Albarran Alan B. (1996). *Media Economics – Understanding markets, industries and concepts*. Chapter 3, p27.

Online news media, just like traditional media, operate in a dual product market.

They have to compete in markets for audiences and in markets for advertisers. (Chyi and Sylvie, 1998) To assess the economic feasibility of online news media, the operation of these two markets is examined.

## ***2.2 Advertising Market of Online News Services***

According to Hoffman and Novak (2000), there are two different forms of advertising on the web:

A. Advertiser-supported websites. There are two most dominant forms:

- (1) Sponsored-content sites, such as hotwired<sup>4</sup> and the Industry Standard.
- (2) Entry-portal sites, for example, Yahoo, MSN, and Altavista.

B. Web based advertising.

- (1) Banner advertisement. It is a primitive type of web-based advertising and the most prevalent form.
- (2) Target communication. Target communications may be ranging from a single web page with basic HTML to a web page enhanced by technologies such as Java applets, streaming media, Shockwave, or web fill-out forms to a

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<sup>4</sup> [www.hotwired.com](http://www.hotwired.com)

series of linked pages.

Erlindson (1995) articulated some reasons for the belief in online advertising as a promising revenue model<sup>5</sup>:

*Advertising on the Internet and on the WWW has many benefits. The primary benefit aside from exposure is the low cost of a web page. They range anywhere from USD 80 to 500 a page depending on the complexity. It is also easy to audit the performance of an advertising web page...One florist in the [Midwest] takes 2000 orders a day over their web page.*

People were once very optimistic. According to a forecast made 3 years ago, online advertising revenues are expected to reach nearly USD13 billion by 2002 (Forester Research, 1999). This prediction proved to be castles in the air.

#### *Lack of Standardization*

Hoffman and Novak (2000) pointed out that the lack of standardization is likely to

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<sup>5</sup> Erlindson, M. (1995). Online newspapers: The newspaper industry's dive into cyberspace, as quoted in Mings and White (2000). Profiting from Online News: The Search for Viable Business Models. In Kahin & Varian (eds.). *Internet Publishing and Beyond*, p73.

limit the long-term viability of the web advertising sponsorship model. The lack of standardization exists on four fronts<sup>6</sup>:

- (1) There are no established principles for measuring traffic on commercial websites that seek to generate revenues from advertising sponsorship.*
- (2) There is no standard way of measuring consumer response to advertisements.*
- (3) There are no standards for optimal media pricing models.*
- (4) The complexity of the medium in general hinders the standardization process.*

A study of 90 newspapers in the USA found that few newspapers were collecting information that would be useful in making advertising sales. Only 10% reported requiring users to register and 38% had their site traffic audited by an independent third party. Most newspapers provided advertisers page view counts (83%), fewer than half provide click-throughs (49%). Only 29% provided basic demographic information<sup>7</sup>.

#### *Low click-through rate*

Yet the lack of standardization is not the fatal weakness of online advertising.

Advertisers know that interruption-based banner advertisements offer poor value.

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<sup>6</sup> Hoffman and Novak (2000), p. 46.

<sup>7</sup> Readership Institute (2001). *Impact Sub-Studies: Cost and Revenue*, p. 11.

According to McKinsey's report<sup>8</sup>, click-through rates were down to less than 1 in 200 in 2001, from more than 2% in 1997 and the decline continues. Average users clicked on only one banner ad a week. And a majority of consumers ignored web advertisements. The result is that under many pricing schedules, the cost to an advertiser of one on-line contact from a content site is greater than the cost of the off-line alternatives. Most big advertisers, then, largely ignore the web.

#### *Far more competition*

Compared with off-line media, the entry barriers for the online news services are low, therefore more competitors in the industry were found. For example, there were more than 9000 sites in the US which provided free content to compete for 6 billion spent on web advertising in 2000, while only 7 network TV shared the 16 billion advertising revenue (See *Fig. 2.3*). It is even more difficult for the small websites to survive when advertising spent concentrate on a few large websites. About three-quarters of the \$6 billion spent on web advertising went to the ten sites that had the highest traffic, with a little more than half going to the top three portals: AOL, MSN and Yahoo!<sup>9</sup>

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<sup>8</sup> Bughin, J.R., Hasker S.J., Segel E.S.H. and Zsisser M.P. (2001). Reversing the digital slide. *The McKinsey Quarterly*, 2001 (4), 58-69.

<sup>9</sup> Ibid.

	Advertising Revenue, <sup>1</sup> \$ billion	Total number of competitors <sup>1</sup>	Number of competitors controlling ~80% of advertising revenue <sup>1</sup>
<b>Network TV</b>	16	7	4
<b>Cable TV</b>	13	214	19
<b>Magazines</b>	12	750	150
<b>Internet</b>	6	>9000	10

<sup>1</sup>US figures, 2000

Source: Bughin, J.R., Hasker S.J., Segel E.S.H. and Zsisser M.P. (2001). Reversing the digital slide. *The McKinsey Quarterly*, 2001 (4), p.61.

*Fig. 2.3* Far more companies are vying for the available advertising dollars online.

While the effectiveness of online advertising remains questionable, the subscription model has re-entered the agenda (Borrell & Associates, 2001)

### ***2.3 Subscription Market of Online News Services***

Subscription market is familiar to newspaper readers and to the print-based newspaper industry. Newspaper generates revenue from advertising and circulation. A study of 90 papers conducted by Readership Institute (2001) of Media Management Center at Northwestern University indicated that revenue from circulation accounted for one fourth of the total revenue of a newspaper. However, only 2% of websites operated by newspapers reported revenue from subscription fees, while 96% reported revenue from banner ads, classified ads (92%), display ads (53%), website development and

hosting (13%) and e-commerce (3%).

Newspapers dare not attempt to charge for web access because the benefit from subscriptions looks hardly worth pursuing. Study found that sign-up rates at newspapers that are charging for web access only range from 0.2% to 2.6% of a newspaper's print circulation, even for websites that have been charging for nearly 2 years.<sup>10</sup> Online subscription revenue may not be able to compensate the additional costs of credit-card processing, site software and customer service. There is no strong evidence to suggest that restricting web traffic reduces costs as well. In fact, traffic and costs increase at some sites (Borrell & Associates, 2001).

On the other hand, online newspaper users strongly oppose the pay-for-access idea. Participants of a focus group said that there are too many competitors in the news market online or offline; online content is transient and people prefer something tangible. They also concerned the quality factor and believed that the print edition had better quality and more in-depth information (Chyi, 2001).

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<sup>10</sup> According to Borrell & Associates' report, there were 15 newspaper sites in the USA charging for site access in October 2001. Six sites were excluded because they did not report numbers or had service that could not be fairly compared (i.e., bundling Internet access), nine sites have been compared. They had started charging web access for 1 to 21 months.

There came similar results in a Fall 2001 survey in the USA. Ninety-six percent of non-payers agreed that there are so many free sources of news and information available online and it doesn't make sense to pay. Two-thirds of them said online newspaper content has little value (Borrell & Associates, 2001).

It is also suggested that online venture might not be able to survive inter-media competition. A random-sampling telephone survey conducted in Austin, Texas found that 80% of respondents (or 72% of web users) said they would prefer the print format if they were provided with both print newspapers and online newspapers with the same news content and at the same price (Chyi & Lasorsa, 2002).

These are all bad news for online news publishers. Nevertheless, counter example exists. The Wall Street Journal charges print subscribers an annual fee of USD 29 for web access and USD 59 for online subscribers. The subscription fee collected in 2000 was USD 20 million (Borrell & Associates, 2001).

Although successful cases are rare, about 350 newspapers in the USA are thinking about charging for web access<sup>11</sup>. The survey conducted by Borrell & Associates

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<sup>11</sup> In a poll of 120 newspaper publishers, 24% expressed high interest in charging web access. It indicates that about 350 newspapers in the USA are thinking about doing the same. (Borrell &

(2001) also found that 25% of 1895 online respondents indicated payment for some form of online news and information content during the past 12 months.

## ***2.4 Evolving Opportunities***

The future development of online news is at a crossroad. After the painful failure, some new trends are now evolving as viable opportunities to fuel the exploration of a sustainable business model.

### **(1) Mixed model**

Traditional media possess huge cost advantages in entering the online market.

They may charge for new types of services, like archive searches, or book review searches etc. They may generate revenues in advertising sales as well. In addition, online editions have tremendous potential to serve as promotional tools for newsprint editions (Mings & White, 2000).

### **(2) Wireless technologies bring another chance for online news services. Gren,**

Maor and Ubina (2001) suggested that providers and newspapers together own the full set of skills needed to offer a successful wireless solution using

third-generation (3 G) technology. Publishers can leverage their assets in three ways: by licensing content to wireless providers, by establishing revenue-sharing agreements with them, and by taking equity in them or in the form of joint ventures.

(3) Survey showed that consumers appear to be willing to exchange personal information for access. Three-quarters of online news users (including print subscribers and non subscribers) agreed that they might register. Borrell & Associates (2001) believe that advertising will lead to the broader concepts of data mining in the future. No matter users information are collected through free registrations or not, the more detailed data will assist the online newspapers to sell precisely targeted advertising packages to specific psychographic, technographic and demographic groups.

It is encouraging to find that 28% of newspapers in the USA reported making profits on their web operations.<sup>12</sup> Borrowing the experience of the United States, what lessons do Hong Kong online news publishers learn? How would they assess the future of online news? In-depth interviews with the news site executives will come

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<sup>12</sup> A study of 90 newspapers of the USA conducted by Readership Institute found that 98% of the newspapers have web sites and 26 of them reported making money on their web operations. (Readership Institute: Impact Sub-Studies, 2001).

up with qualitative data to shed light in this area.

### 3. In-depth Interviews

*In order to learn more from open conversation, in-depth interviews were conducted.*

*This approach provides a broader picture of online media economy in diverse*

*perspectives. The participants can share their experiences with little or no*

*interference from the researcher, who, however, will carry a checklist of topics to be*

*covered during the interview to ensure that no major areas were left out.*

Among the 20 news organizations in Hong Kong that provide daily news, eighteen have websites and six of them are charging for web access<sup>13</sup>. (See *Table 3.1 and Table 3.2*) Eight news organizations<sup>14</sup> with websites were selected to conduct in-depth interviews – including Apple Daily, Ming Pao Daily News, Sing Pao, Singtao Daily News, South China Morning Post, Wenwei Pao, Cable Television and Television Broadcasts Limited (TVB). The 6 newspapers account for about 43% of the total newspaper circulation in Hong Kong<sup>15</sup>. TVB operates the most popular TV channels

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<sup>13</sup> Hong Kong Economic Times and Hong Kong Economic Journal are the only two newspapers that do not have a website.

<sup>14</sup> Oriental Daily rejected our interview request.

<sup>15</sup> According to ACNielsen Media Index 2001 Year-end Report, Oriental Daily News, The Sun, Apple Daily, Ming Pao Daily News, Singtao Daily News, South China Morning Post and Sing Pao are the 7 most popular newspapers in HK. Oriental Daily News and The Sun are in the same group and they rejected the interview. The next 5 most popular newspapers are included in the interview list of the study. The circulations of main newspapers in HK are as follows:

Oriental Daily News	500,000 (claimed)
Apple Daily	365,234
The Sun	270,000 (claimed)
Ming Pao Daily News	129,698

in Hong Kong<sup>16</sup> and Cable TV served over 560,000 pay-TV subscribers in 2002<sup>17</sup>.

In-depth interviews were conducted between 14 April 2002 and 22 April 2002. All interviews were face-to-face and took approximately 45 minutes to 1 hour and 15 minutes. The interviewees are all experienced online news service executives:

Li Yuet Wah, Daisy, Editor-In-Chief, [www.appledaily.com.hk](http://www.appledaily.com.hk);

Lau Chun To, Kevin, Chief Operating Officer, [www.mingpao.com](http://www.mingpao.com);

Yung, Godwin, Senior Manager, [www.singpao.com](http://www.singpao.com);

Chan Wai Man, Wayman, Deputy Content Manager, [www.singtao.com](http://www.singtao.com);

Axberg, Christopher, Publisher, [www.scmp.com](http://www.scmp.com);

Wong Sek Ho, Head of Online News Unit (8/1998 – 12/2001), [www.wenweipo.com](http://www.wenweipo.com);

Cheung Wai Leung, Alan, Online Development Controller, [www.i-cable.com](http://www.i-cable.com);

Tse, Daphen, Manager (2000 – 2001), [www.tvb.com](http://www.tvb.com).

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South China Morning Post	108,375
Singtao Daily News	100,000
Sing Pao	73,712
HK Economic Times	72,211 (without website)
HK Economic Journal	63,000 (without website)
Hong Kong Daily News	60,000 (website has been closed down)

<sup>16</sup> During the prime time viewing hours, the Chinese Jade Channel and English Pearl Channel of TVB achieve an average of about 80% of Hong Kong's television audience share.

<sup>17</sup> See <http://www.i-cablecomm.com/home.html>.

Table 3.1: Newspapers of Hong Kong with websites.

Newspapers	Circulation <sup>a</sup>	Charging (Start Date)	Rates and Notes (USD)
Apple Daily (蘋果日報) <a href="http://www.appledaily.com.hk">www.appledaily.com.hk</a>	365,234	Y (July 2001)	Free for local user. Rates are \$55.4(432HKD)/yr. or \$29.2(228HKD)/6 mo. for overseas users for a bundle of publications including Next Magazine and Apple Daily.
Hong Kong Commercial Daily (香港商報) <a href="http://www.hkcd.com.hk">www.hkcd.com.hk</a>	NA	N	
Hong Kong Daily News (新報) <a href="http://www.hkdailynews.net">www.hkdailynews.net</a>	60,000	N	Website has been closed down on 18 March 2002.
HK iMail <a href="http://www.hk-icemail.com">www.hk-icemail.com</a>	NA	N	
Ming Pao Daily News (明報) <a href="http://www.mingpao.com">www.mingpao.com</a>	129,698	N	Registration is required for web access from early 2002.
Oriental Daily (東方日報) <a href="http://www.orientaldaily.com.hk">www.orientaldaily.com.hk</a>	500,000*	Y (Feb. 2002)	Free for html edition. Rates are \$60(468HKD)/yr. or \$10(78HKD)/mo. for new electronic online edition. Rates are double for overseas users.
Sing Pao (成報) <a href="http://www.singpao.com">www.singpao.com</a>	73,712	N	Website launched on 26/11/2001.
Singtao Daily News (星島日報) <a href="http://www.singtao.com">www.singtao.com</a>	100,000	N	
South China Morning Post <a href="http://www.scmp.com">www.scmp.com</a>	108,375	Y (Feb. 2002)	Rates are \$32(249HKD)/yr. with 10 free archive articles.
Ta Kung Pao (大公報) <a href="http://www.takungpao.com">www.takungpao.com</a>	NA	N	
The Sun (太陽報) <a href="http://www.the-sun.com.hk">www.the-sun.com.hk</a>	270,000*	Y (Feb. 2002)	Free for html edition. Rates are \$60(468HKD)/yr. or \$10(78HKD)/mo. for new electronic online edition. Rates are double for overseas users.
Wen Wei Po (文匯報) <a href="http://www.wenweipo.com">www.wenweipo.com</a>	NA	N	

<sup>a</sup> Source: ACNielsen Media Index 2001 Year-End Report

\* Claimed.

Table 3.2 Electronic Media of Hong Kong that have Websites.

Radio and TV Stations	Charging (Start Date)	Rates and Notes (USD)
Asia Television Ltd. (亞洲電視) <a href="http://www.atv.com.hk">www.atv.com.hk</a>	N	
Cable Television (有限電視) <a href="http://www.i-cable.com">www.i-cable.com</a>	Y (Nov. 2001)	Cable Broadband subscribers get in free. Others are charged ~\$33(260HKD)/yr., \$4.5(35HKD)/mo.
Commercial Radio (商業電台) <a href="http://www.881903.com">www.881903.com</a>	Y (Early 2002)	Rate are ~\$30(240HKD)/yr. or \$10(75HKD)/3 months to retrieve the archive. News and other live programs are free.
Metro Broadcast (新城電台) <a href="http://www.metroradio.com.hk">www.metroradio.com.hk</a>	N	
Radio Television Hong Kong (香港電台) <a href="http://www.rthk.org.hk">www.rthk.org.hk</a>	N	
TVB Online (無線電視) <a href="http://www.tvb.com">www.tvb.com</a>	N	

## 4. Analysis: A Cycle of Bloom and Doom

### *4.1 The Moment of Truth*

Remember the good old days, way back at the end of 1999, when the Internet was cool and Yahoo and America Online stock were on the rise? It was at that time that traditional media of Hong Kong painted a rosy picture for the future and decided to invest fiercely on the Internet. Dream turned to nightmare after just one year. To better understand how online news publishers re-positioned themselves under the unfavorable environment, the 8 participants were first asked to explain the goals of their websites. Their responses indicated diversified, and sometimes disoriented, strategies:

- (1) Promotional channel: Investors paid heavy price to learn that the advent of Internet did not necessarily bring business opportunities, at least in the beginning. Back to the basics, some media regarded Internet as a promotional platform to build up relationship with the audiences and act as a showroom of their products. TVB and Wenwei Pao resume to this track.
- (2) Supporting role: Cable TV is an ISP as well. A website with multimedia content

can help to promote the broadband service it provides. The situation of Sing Pao is similar. The newspaper launched its website not long ago - in November 2001 - to help to promote the Integration service provided by another company under the same group. The role of these websites is supportive.

(3) Survive, survive and survive: Apple Daily said they simply have no concrete goal for the website but to survive. Breakeven is the only target for the coming year.

(4) Anticipating an unknown future: Most of the online news media reduced their operation to a minimal level. They are hibernating and waiting for a rebirth. They believe new business opportunities are lying somewhere ahead.

All participants agreed that it was unrealistic to invest heavily to further develop the websites before a clear picture of profitability can be seen. All websites are unanimously using the same strategy - cutting cost.

#### ***4.2 Cutting Cost is the Law***

Manpower is the most expensive part of the Internet operations. Cutting cost means to axe employees. Streamlining the operation is the crucial key to survival. For

example, website of Next Media (including Apple Daily) has only 20 employees left, down from its ceiling of 300 (See *Table 4.1*). By firing over 90% of their employees, the website succeeded in cutting more than 90% of the operating cost of the website. The website became a total “shovelware” production. That means contents in the print edition was only repackaged slightly for the online medium by adding links and multimedia components such as message board.

*Table 4.1* Manpower entrenchments of local online news services.

Online news service	Ceiling manpower (Around April 2000)	Manpower in April 2002
atnext.com (appledaily.com)	300	Over 20
mingpao.com	100	28
singpao.com	-	N.A.
singtao.com	120-140	10
scmp.com	108	14-15
wenweipo.com	10	4
i-cable.com	~40	~40
tvb.com	150	20-30

Stopping multi-media news content production and cutting more than 70% of the staff,

Ming Pao saved up to two-third of the annual operating cost of the website.

Expenditure reduced from HKD 3 million to 1 million. Kevin Lau of Ming Pao said

it is now a consolidation stage. The future of the website will depend on the

development of Broadband and 3G Telephone.

Some media reorganized their manpower to share both the job of print edition and online edition. Two years ago, SCMP had separate team to cover news for two editions. They restructured their teams at the end of that year to establish one content production source. *Scmp.com* became just one of the media outlet of the contents. Christopher Axberg, the publisher, said that most of the contents are produced from one source and the revenue from different channel will pay for the single source. He believed that many newspapers had gone through the same exercise and came to the same realization. Now, the cost to produce the content of *scmp.com* is much reduced and the revenue is larger than 3 years ago.

Another example is Sing Tao Daily. Editorial team of *singtao.com* has to share the job of print edition and to prepare the contents for overseas edition as well.

Some online media choose to operate in a minimal scale. TVB now uploads only the 1830 newscast to the Internet. All the 20 staff members responsible for online news had been laid off or transfer to other departments of the TV station in early 2001.

Wenwei Pao once had 10 people in the Internet Unit and now all have transferred

back to the newspaper. Instead, four editors are hired in Shenzhen to provide instant news services – by summarizing the news items from Hong Kong Government Information Services, Wires, Xinhua News Agency and other news sites. The cost is equivalent to hiring one employee in Hong Kong.

### *4.3 Advertising in Adverse*

Advertising expenditure for the entire Hong Kong market in 2000 was HKD 27.5 billion<sup>18</sup>. Internet/on-line advertising spent accounts for only less than 1% of total spent (see *Table 4.2*). In the first three quarters of 2000, Internet advertising revenues totaled only HKD 167 million<sup>19</sup>.

*Table 4.2* Quarterly comparisons between Internet advertising revenues and total Hong Kong advertising expenditure in 2000.

Year 2000	Total HK advertising expenditure	Internet advertising revenues	Internet/Total
Q1	6.29 billion	44 million	0.70%
Q2	6.62 billion	54 million	0.82%
Q3	7.15 billion	69 million	0.97%
Q4	7.47 billion	N/A	N/A

*Source: ACNielsen Media International and Hong Kong Internet Advertising Bureau Internet Advertising Revenue Report (2001).*

<sup>18</sup> Advertising spent for total Hong Kong market in 2001 was 29.6 billion HKD, 8% more than the previous year. The figures are based on rate cost and in gross amount without taking into consideration of any discount. (Source: ACNielsen Media International)

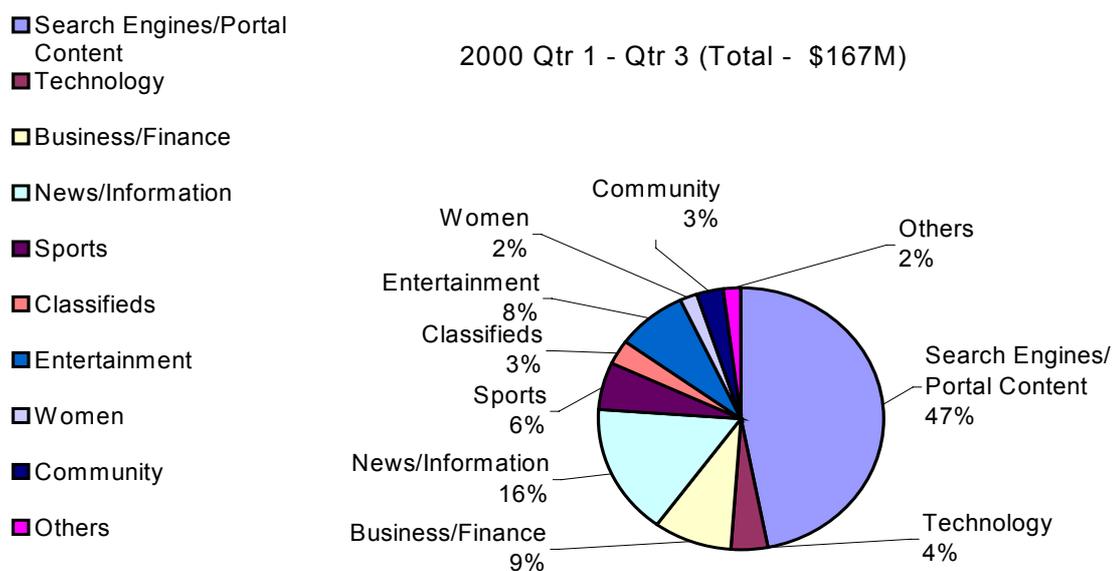
<sup>19</sup> Internet Advertising Bureau (2001). Hong Kong IAB Internet Advertising Revenue Report.

Just like the USA, Hong Kong online advertising revenues remained concentrated at the top market leaders, with 5 leading publishers sharing 73% of advertising spent in the first three quarters of 2000. About half of total Internet advertising revenues in the first three quarters were associated with search engines/portal content.

News/information related content accounted for a mere 16%<sup>20</sup> (see Fig. 4.1).

Fig. 4.1 Internet Ad Revenues by Publisher Content Genre

(Source: Hong Kong Internet Advertising Bureau Internet Advertising Revenue Report, 2001).



The first three quarters of 2000 were within the most fanatic period for online

<sup>20</sup> Ibid.

business development. Nevertheless, online advertising revenues were just HKD 18.5M per month in average. That means the 17 online news media could merely share about HKD 3 million at most. Comparing with other news media such as TV and Newspapers, advertising revenues for online news services were simply insignificant (see *Table 4.3*). Situation worsens after the burst of IT bubbles. Advertisers tended to believe that banner ads on websites were not as effective as expected. The downturn of the world economy further diminished advertising expenditure.

*Table 4.3* Average advertising revenues by Media in 2002

	Advertising revenues (monthly average in 2000)	Total number of competitors in 2000
Terrestrial TV	1034 million*	2
Cable TV	73 million*	1
Radio	68 million*	2
Newspapers	855 million*	14
Online News Service	3 million	17

\*Figures based on rate cost and in gross amount without taking into consideration of any discount. (Source: ACNielsen Media International)

Practitioners generally agreed that the amount of online advertising revenues now were even less than 2 years ago. Obviously, advertising alone cannot support a website. Advertising revenues of Apple Daily and Ming Pao, the market leaders on attracting online advertising, can only compensate for 20% of their operational cost.

In Ming Pao's case, online advertising revenue was about HKD 200,000 per month.

The amount was less than 1% of Ming Pao's total advertising revenue.

Sing Tao and SCMP would not reveal the exact percentage but said that advertising revenues and content licensing together might compensate half of the operational cost of their websites. Other participants said the advertising revenues were insignificant.

Nevertheless, Kelvin Lau of Ming Pao and Wayman Chan of Sing Tao suggested that online advertising market is underdeveloped. Kelvin Lau is optimistic on the future online advertising expenditure in Hong Kong. The expenditure constituted less than 1% of total ad spent now, while in the USA, it is around 5%. He said Internet is niche focus medium. Click through rate will be increased if banner ads are posted on some target-oriented and quality sites that suit the users' interests and immediate needs. For example, if advertisement of travel agencies is posted on sites that provide travel information, the result will be much promising.

Wayman Chan pointed out that current advertisement on the web lacked imagination and creativity. "It is quite interesting to see the multimedia or dynamic advertisement on some foreign sites. If you want to sell a product of design software,

you can demonstrate the operation of that product instead of just telling the features.

There is potential for that kind of advertising technique in the future.”

Daisy Li of Apply Daily said the contraction of online advertising market was mainly

due to the downturn of global economy. She noticed a trend that advertisers

gradually welcome online elements when they place advertisement in the newspaper.

Multi-media promotion package is on the rise. She is also confident that online

advertising will increase in the future.

Before the novelty of web wore off, there was a common perception that online

newspapers operation was very different from traditional newspapers. Christopher

Axberg of SCMP said that notion was wrong. “The more Internet media grows, the

more similarity I see between traditional media and online media from the revenue

model structure - including advertising, subscription and content sales.” SCMP

started adopting the subscription model from 19 February 2002. He anticipated that

half of the revenue could be generated by subscription fee at the end of this year.

The other half of revenue will remain to be contributed by advertising and content

licensing.

#### ***4.4 Subscription – A Prescription?***

No matter in the USA or Hong Kong, the tide of online news media adopting subscription model is growing. Six online news media in Hong Kong have already started charging for web access. They are Apple Daily, SCMP, Oriental Daily, The Sun, Commercial Radio and Cable TV. Apple Daily was the pioneer, which adopted subscription model since July 2001.

*Appledaily.com* had around 17,000 subscribers<sup>21</sup> after charging web access for 10 months. The number of subscribers is equivalent to 4.7% of newspaper print circulation. This is a very high ratio comparing with news websites of the USA since sign-up rates at newspapers that are charging for web access range from 0.2% to 2.6% of a newspaper's print circulation, even for websites that have been charging for nearly 2 years. (Borrell & Associates, 2001)

Daisy Li said they decided to charge for web access because eyeballs could not convert into revenues. Although many online newspaper publishers see advertising and paid content as mutually exclusive, Apple Daily has found no effect on

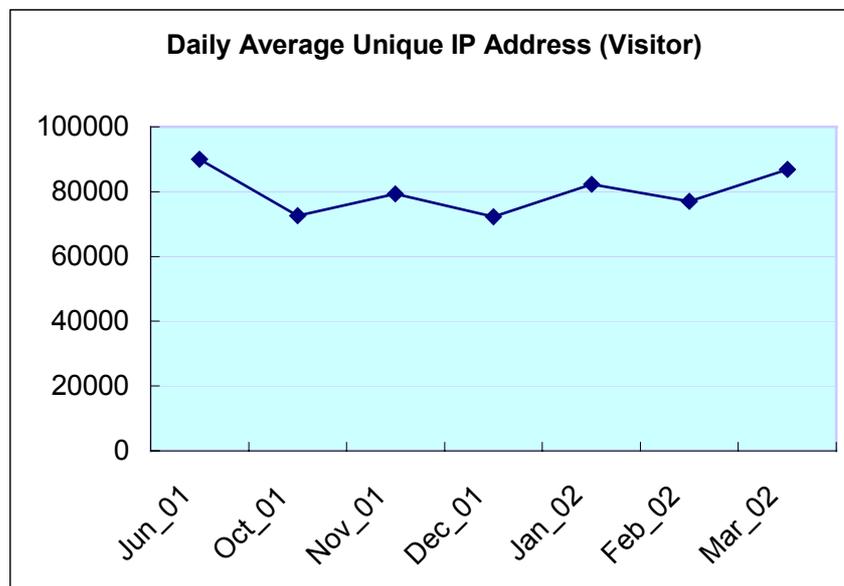
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<sup>21</sup> The figures of subscribers were for the whole websites of Next Media Interactive that included content of Apple Daily, Next Magazine, etc. Content of Apple Daily Online is free for local users and they have to pay 338 HKD/y if they want to view the content of Next Magazine. Rates are \$55.4USD (432HKD)/yr. or \$29.2USD (228HKD)/6 mo. for overseas users for a bundle of publications including Next Magazine and Apple Daily.

advertising at all. Daily average unique IP address (visitor) dropped 20% from 90,000 in June 2001 to 72,632 in Oct. 2001 after charging for web access<sup>22</sup>, but it rose again gradually and almost regained the lost to 86943 unique visitors in March 2002.

(See Fig 4.2)

Fig 4.2 The lost of unique visitors has been recovered after 9 months since Apple Daily charged for web access.



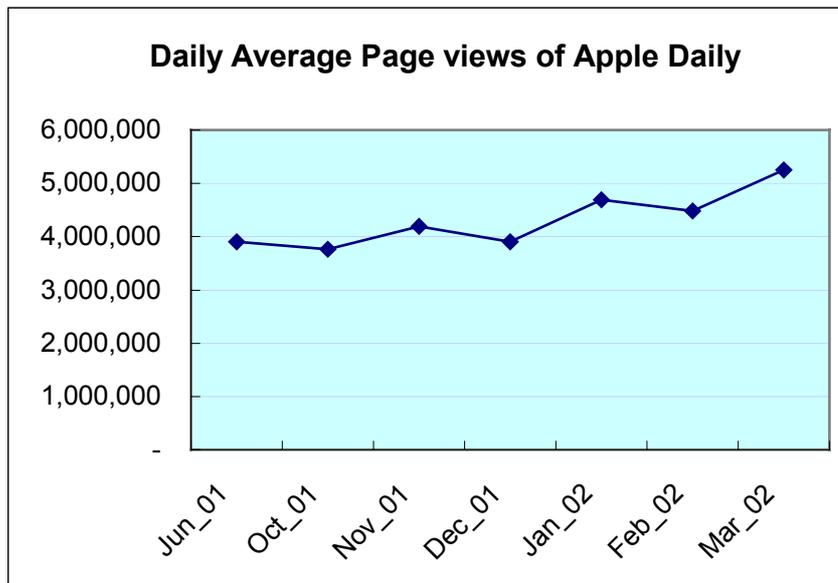
Page views followed the drop of the number of unique visitors and declined 20% at first<sup>23</sup>, but it restored quickly. By the end of March 2002, daily average page views have risen to 5.3 million, 35% more than June 2001. The reason for increased usage from a smaller user base may be that subscribers log in the site more often to get their

<sup>22</sup> Figures of unique visitor of July 2001 to Sep. 2001 of Apple Daily were not available. From the statistics of the whole site, the figures dropped 26% in August 2001 and then rose again.

<sup>23</sup> Figures of page views of July 2001 to Sep. 2001 of Apple Daily were not available. From the statistics of the whole site, the figures dropped 20% in August 2001 and then rose again.

money worth. (See Fig 4.3)

Fig 4.3 Page views rose faster than the regaining of unique visitors.



Sixty percent of subscribers of Apply Daily are overseas readers, mostly from North America. It costs them 2-3 US dollars to buy Apply Daily print edition in the USA and Canada at a delay of approximately half day. Therefore, subscription of online edition for less than USD 5 per month is a more economical and prompt access to the content. For the local market, in spite of free access to Apple Daily online edition for local users, they have to subscribe to view the Next Magazine, Racing sub site and for PDA download. Subscription fee accounted for about 60% of total revenue of Apple Daily website. Daily Li said hopefully it would break even within this year.

The potential for Hong Kong online media to develop overseas market may be a unique phenomenon. It is because a lot of Hong Kong people and Mainland Chinese have emigrated to the USA and Canada in the past 20 years. The practitioners estimate that there are more than 1 million Chinese who can read Chinese newspaper living in Canada. The number is even higher in the USA. This is possibly the reason why Apply Daily can successfully attract a substantial number of overseas subscribers and to construct a new model of survival.

However, other online news media in Hong Kong are facing very different scenarios. SCMP started charging for web access from February 2002. The publisher, Christopher Axberg revealed that most of the subscribers were local residents despite the fact that, before they adopted subscription model, 40% of its 650,000 registrants were from overseas. Now, 5% of registrants came back to re-register for the free content of the site, and only part of this 5% readers actually subscribe<sup>24</sup>. Axbery said the progress was positive and he expected to break even and possibly begin to make profit at the end of this 2002.

There are pros and cons to be the only major online English news medium in the

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<sup>24</sup> SCMP did not reveal the actual number of subscribers.

region. There are far too many substitutions of English news in the Internet world.

SCMP said they aimed to embark on the Greater China concept. Their ultimate goal is to be the leader of independent English news for Greater China on the Web.

Subscribers of SCMP print edition are free to access the web edition. Axberg said there is great overlap between print readers and online readers. About 78% of online readers also read print edition. Similar pattern was also found in the USA. In Chyi and Lasorsa's study (2002) in Austin in the USA, 83% of online readers of the local daily also read the print edition. The authors suggested that the fact carried a negative economic implication. From the local advertiser's perspective, the online product largely delivered a less-than-unique audience – i.e., a subset of the one currently delivered by the print edition.

Axberg agreed that people still preferred print edition than online edition now, but it is not sure whether the younger generation still holds the same attitude. He believed that online edition will be more popular among young readers in the future.

Not only may English speaking online news medium not benefit from the overseas market, its Chinese counterparts do not share the initial optimism found in Apple

Daily's overseas experience. Ming Pao and Sing Tao Daily have been publishing overseas print editions in North America for decades. Both of them are hesitate to adopt the subscription model.

Fifty percent of Sing Tao Daily's online visitors are overseas readers. Most of them are from North America. Sing Tao Daily admitted that charging web access might not be plausible in the mean time. It may erode the subscription base of overseas print edition – “cannibalization effect”. In the past few years, overseas edition contributed up to HKD 60 million of net profit to the Sing Tao group. They would not risk revolutionizing the reading habit of the overseas readers. Page views of Sing Tao online edition have been only 3 million per month - a rather insignificant figure compared with Apple Daily. Wayman Chan of Sing Tao Daily said that the future development of the Internet is misty. Since the cost to keep the site is low, they prefer to maintain the site as it is.

Further to the consideration of overseas edition's “cannibalization effect”, Ming Pao has other concerns on introduction of subscription model:

- (1) There might be more a loss than gain. Kelvin Lau of Ming Pao said that niche and premium online contents must be provided in order to attract subscribers.

Ming Pao online edition now has 70,000 unique visitors. According to foreign experience, only 5 to 10% of the online readers are willing to pay. The revenue might not be able to cover the extra cost.

- (2) A large base of registrants itself can be a source of revenue. The personal information of their loyal readers can be utilized to send e-mail advertisements and other market promotions.

However, Ming Pao online will adopt the subscription model soon. Visitors will be charged for column supplement access and archive search. Kelvin Lau considered it a preparation for long-term development of the website. The objective is not to increase revenue but a strategic positioning.

Subscription model might be the target for all online news publishers but was not workable for everyone. TVB, Sing Pao and Wenwei Pao have no plan to charge for web access. Their goals are to attract as many online visitors as possible to strengthen the role of promotion.

Cable TV started charging for web access since November 2001. Most of the users are subscribers of their broadband service. The website serves as an additional

service for the broadband clients and plays a supportive role to ISP operation. Alan Cheung, the Online Development Controller of Cable TV, recognized the potential of overseas market. However, due to the limitation of the bandwidth, overseas users are not able to view the broadband content provided by the website of Cable TV. It is technically immature to develop overseas market.

#### ***4.5 New Technologies Bring Another Opportunity***

Development of local and overseas online subscription market needs time and patience. Most participants realized content licensing have become another important source of revenue going along with the development of innovative technologies such as wap phone, PDA and future 3G mobile phone service.

Up to February 2002, there are 4.2 million mobile subscribers in Hong Kong<sup>25</sup>. The penetration rate is 78%<sup>26</sup> and amongst the highest globally. In comparison, only 56% of Hong Kong households own a PC. Mobile phones emerge as the dominant communication device in the area.

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<sup>25</sup> The figure excludes pre-paid SIM cards. Source: [www.ofta.gov.hk](http://www.ofta.gov.hk)

<sup>26</sup> The mobile penetration rate of Hong Kong has increased to 78% in February 2001 and remained more or less in the same level since then. Source: [www.ofta.gov.hk](http://www.ofta.gov.hk) and [www.info.gov.hk/digital21/eng/strategy2001/strategy\\_part14.html](http://www.info.gov.hk/digital21/eng/strategy2001/strategy_part14.html).

Apple Daily and Ming Pao have been selling contents to local mobile phone operators and generated 10% and 30% of their revenues respectively. Both Ming Pao and Sing Tao Daily had more revenues from content licensing than from advertising. Kevin Lau of Ming Pao deemed that the 3G-telephone development would bring another opportunity for news websites. The revenue stream on content provision would be enhanced due to the synergy effect.

TVB have been selling public affairs programs to *now.com*. Daphen Tse of TVB also anticipated that content licensing would be one of the promising source of revenue for the website.

#### ***4.6 Words From the Executives***

The reflections and visions of the executives can help us to comprehend the future development of online media in Hong Kong. All participants were asked two questions at the end of the interviews:

- (1) How would you predict the future development of news websites?
- (2) Under what conditions will you consider to close down the site?

It is good news that no participant thought it would be necessary for their websites to

be shut down in the near future. The worst scenario has gone and they are waiting for another opportunity.

Answers for the first question were varied due to the unique situations they faced.

Their views are quoted directly as follows:

#### Apple Daily

*To survive is our sole objective. We have no future in mind. The talk of long-term strategy is too distant for us.*

#### Ming Pao

*The critical factors for future development are the improvement of online payment gateway and the popularity of 3G telephone and the broadband connection. Until then, the demand of multimedia content will emerge.*

#### Sing Pao

*In short term, Internet is not a profitable business. But it can help to promote IT projects operated by affiliated companies.*

## Sing Tao Daily

*A comprehensive and searchable database will be the potential source of profit. The parent company of Sing Tao Daily has purchased a number of magazines and websites in Mainland China that are strong in business information. The singtao.com will be a unique content provider in integrating information from China, Hong Kong and overseas Chinese. The objective is to develop the concept of Greater China.*

## SCMP

*The future of local media sites depends on how well they are going to market outside of the local region where they have been there for a very long time. In our case, we want to be the authority on English speaking news from Greater China – Hong Kong, China and Taiwan. The most difficult part is telling the world about that.*

## Wenwei Pao

*We have more than 20 offices and 300 staff in Mainland China. China news will be our strongest arm. We may charge for web access on those contents when opportunity emerges.*

## TVB

*Any further development will have to wait until the pay TV news channel is launched.*

*The new channel will provide instant news to the website.*

## Cable TV

*The prospect lies in the development of multimedia platform. By the time technology matures, our news programs can be shown in whatever platforms including PC, TV and telephone. Content licensing will be one of the key revenues at that time.*

## **5 Conclusion**

Hong Kong online news media have gone through the process from explosion to consolidation in the past two years. New independent news websites vanished.

About 90% of the pioneers in the industry have been axed to relieve the heavy financial burden. The job nature of the remaining manpower has to be readjusted and no more investment has been made to further develop the websites. This seems to be an inevitable agony governed by the law of demand and supply in a free market economy.

### ***5.1 Supply and Demand***

Given the unique nature of media content, the dual product markets of Hong Kong online news media has been scrutinized in this study.

In the advertising market, online advertising demand – demand for access to online users by advertisers – is lagging far behind of the supply of media outlets.

Seventeen local online news media was competing an insignificant portion of the entire Hong Kong advertising spent, i.e. approximately HKD 3 million per month.

Advertising revenue itself was not sufficient to support all of the online news media in

Hong Kong.

On the other hand, the subscription market was in the embryo stage. It is too early to evaluate the limited progress. Yet one thing can be sure. The inter-media and intra-media competitions are so intense that we cannot be too optimistic. Two directions of development can be recognized. One is to explore the overseas market. The other is to pursue the niche market such as archive service and information database of Greater China.

In spite of the adversity, the study found that practitioners of the industry were not pessimistic. They are anticipating a more mature online market. In addition, they expect the development of new technology will boost the demand of online news contents.

Revenue of content sales can be regarded as a kind of indirect subscription revenue.

The demand from mobile phone operators and other service providers is growing.

That is an encouraging factor for the online news industry.

## ***5.2 Implications***

This study carries some implications. First, news websites without affiliation with traditional media proved unsustainable. Production of online news content involves huge manpower and resources. The burden is just too large for independent websites. Even websites of traditional media have to dig out the niche market in accordance with their specialties and merits.

A second implication concerns “shovelware” production. Internet can be regarded as a revolutionizing new medium that can carry multimedia news content. It is a pity that adding links, graphics, animation, audio and video components to a news item is considered something too luxurious under current economic downturn. The role of Internet is almost reduced to just a multimedia platform that turns the newspaper into electronic articles and duplicates Radio/TV programs into digitized audio/video clips. The once flourishing exclusive content for online news sites in the wake of the IT boom had been buried in the distant past. It is an ideal beyond anyone’s ability to materialize in the near future.

Thirdly, free and unlimited online news content will be fading out. Internet has the nature of public good and is an ideal tool to liberate the constraints of free flow of

information. However, reality defeat ideal. Cash is king. More and more online news media will adopt subscription model. The price of their survival is great to the society - the premium content is no longer freely accessible. The knowledge gap will be widened in a tide of no return.

### ***5.3 Further Research***

Online news economics involves the process of production and consumption. This study examined the perceived market, revenue structure and the visions of the practitioners from the supply side. Outline of the future of news websites has been sketched out. Yet a comprehensive picture cannot be unfolded until further research is conducted from the demand side.

This study pointed out that the feasibility of the subscription model lied in overseas market. Further research should examine the market penetrations of both online and print editions of HK based Chinese newspapers in the overseas market. What types of price elasticity of demand exist? Is there effect of cross-elasticity of demand or cannibalization effect suggested by the practitioners? Consumer demand is affected by the availability and the prices of other products that can be substituted for one another (Albarran, 1996). Cross-elasticity is a useful tool in economic analysis of

online news media.

A previous research showed that few people would be willing to pay for online contents (Chyi, 2002). Publishers also believe that only niche content can attract local subscribers. A random-sampling telephone survey on Hong Kong people's perceived value of online and offline news and their paying intent will be a good follow-up research.

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