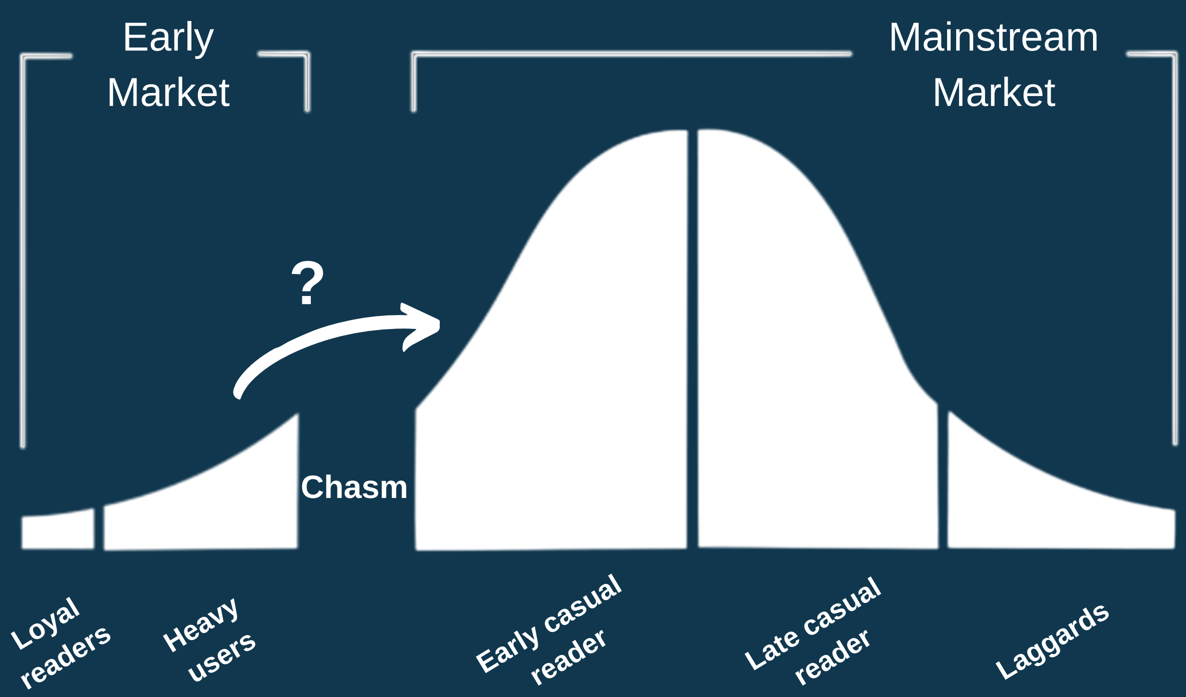
Enter: Streaming Payments

Introduction

1. Every digital news and magazine publication underperforms when it comes to generating reader revenue

- The root cause is that publishers do not have the tools to ‘cross the chasm’ and tap into the largest segment of the market: casual readers.



2. This Executive Briefing note

- Explains the context and cost to businesses
- Analyzes the underlying drivers
- Describes the potential solution
- Offers a range of uses cases
- Outlines the potential opportunities and upsides
- Sets out options and potential next steps

Section A: Context and cost

1. **The online news and magazine publishing industry has been pivoting from an ad revenue model to a reader revenue model based on subscriptions for the last 10+ years**
    a. 71% decline in ad revenues since 2005 (Pew, 2019)
    b. ~70% of US digital news & magazine sites now use paywalls (Nieman Lab, 2019)

2. **As a sector, digital news and magazines are poor performers compared to other subscription-based businesses**
    a. Against 21 other types of subscriptions services (e.g., Netflix, Amazon Prime, wi-fi, meal plans, gym memberships, etc.) digital news and magazines are in the middle of the pack with only 9% of consumers subscribing (West Monroe, 2021)
    b. While this is up from 7% since 2018, average spend is down from $20 to $10 per month
    c. Worse, they rank as 2nd least popular of all the categories listed (1st place went to fashion subscription boxes) and the number of people 'happy and hooked' on their digital news subscription went down 20% (again, second worst performer)

3. **Growth prospects will continue to be difficult as many consumers have already reached 'subscription saturation'**
    a. ~50% of US consumers are frustrated over the sheer number of paywalls and pay for just one online news subscription (World Economic Forum, 2019
    b. ~80% of people only want 1-2 digital news and magazine subscriptions (Reuters Institute, 2019)
    c. 40% of Millennials feel "overwhelmed" by their subscriptions and 43% intend to cut back (Deloitte Media Survey, 2020)
    d. Yet interestingly, 53% of global consumers are willing to pay for news in the future, compared to 16% who currently pay (What's New In Publishing, 2020)

4. The shift to a 'subscription economy' will likely not meet the revenue needs of the majority of publishers

a. In 2021 subscriptions were considered more important for revenue than ads for the first time, yet 41% of media leaders believe it will only work for a small minority of publishers (Reuters Institute, 2021)

   i. 30-50% of new subscriptions go to a few national brands (Reuters Institute, 2019)

b. The Reuters Institute projects digital subscriptions for many publishers won't be nearly enough to compensate for the substantial falls in print circulation – as well as print and digital advertising revenue

5. The inability of subscriptions to bring in enough reader revenue to fully balance the loss in ad revenue results in ongoing costs measured in dollars, jobs, and ownership

a. 57% fall in industry revenues since 2004 (News Media Alliance, 2019)

b. 47% drop in employment at US newspapers from 2008 to 2018, even before the impact of Covid-19 (Pew Research Center, 2019)

c. 50% of all US newspapers are controlled by private equity, hedge funds, and other investment groups (Financial Times, 2021)

Section B: Underlying drivers

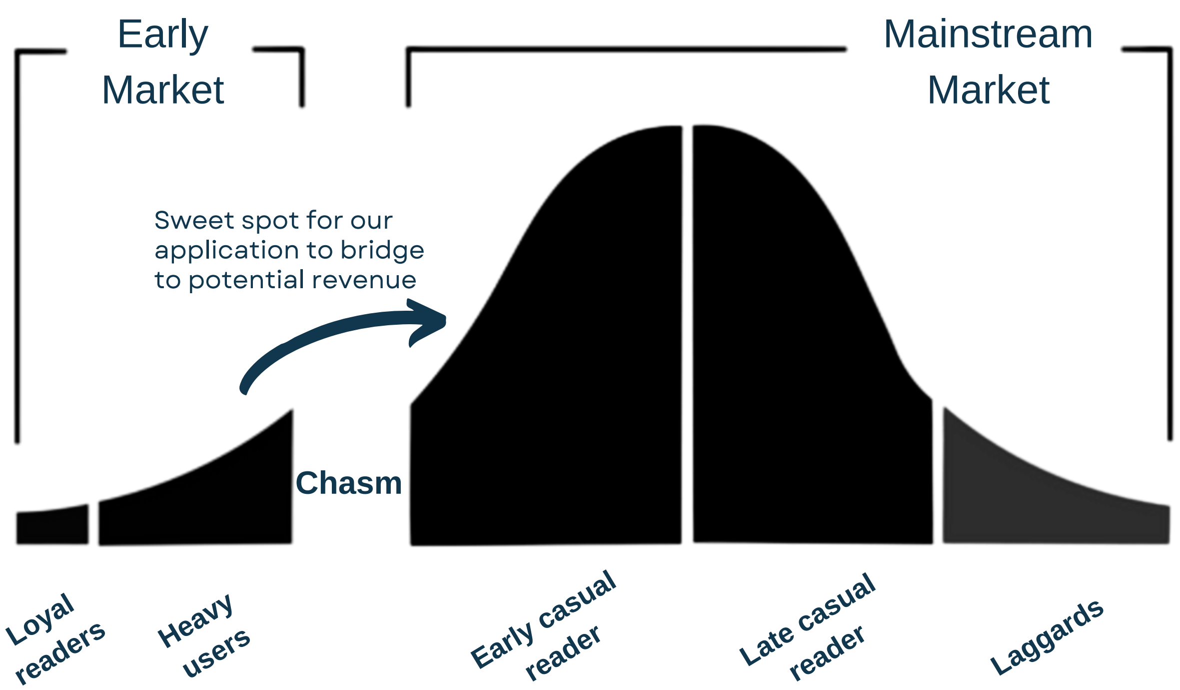
1. The adoption of a reader revenue model displays all the characteristics of a new product adoption lifecycle where early solutions work well for early adopters, but less well for the mainstream market

a. In the early market, growth in reader revenue was characterized by a core customer base purchasing subscriptions - these were the low hanging fruits of loyal and heavy readers

b. Loyal readers purchased subscriptions because of their affinity to the brand, whereas heavy readers did so for the value for money

c. Then the chasm – here almost every publisher struggles to break into the 'massive missing middle' of consumers known as casual readers who are engaged with your content and want to pay but not make any new subscription commitments

d. At the end of the cycle are the late adopters who might pay something once they see the value and have built up enough engagement with the publisher, but again are unlikely to commit to a subscription



2. The reason subscriptions are unable to cross the chasm is that they are a 'payment first, value second' access model

a. A reader pays for a subscription in advance to access content, **trusting** that they will receive fair value once they start to consume it

b. However, the reader must work to claw back the value to justify the first payment, and do it quickly enough before the next payment hits their credit card and they have to start over again

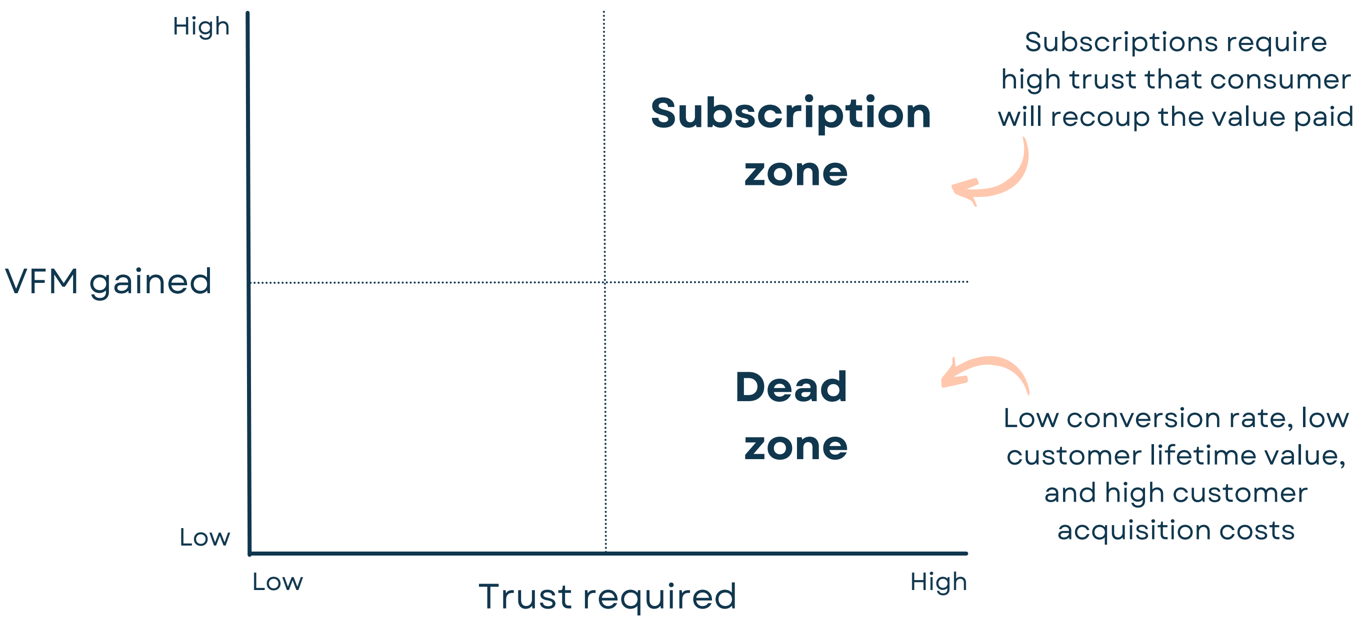
c. A reader will remain a subscriber if they consistently feel they are getting value for money (**VFM**) before the next subscription payment charge; if they do not then the likelihood they churn increases over time

d. The more subscriptions a person has, the harder it becomes for them to achieve VFM for all of them before being charged the next payment

   i. This is the key driver behind why ~80% of readers max out at 2 subscriptions for digital news and magazines

3. Subscriptions therefore function as 'high trust-high VFM' systems, perfect for loyal audiences and heavy readers who know it is worth it, but not effective for casual readers

a. Pushing a high-trust solution, such as subscriptions, onto low VFM customers like casual readers forces publishers into a 'dead zone' of low reader revenue and high customer acquisition costs



4. The failure to cross the chasm is therefore due to the limitations of subscriptions as a tool to provide casual readers with value for money

a. It is **not** due to the quality of content: the top publishers alone drive hundreds of millions of visits per month to their sites

b. It is **not** due to a lack of willingness to pay: 53% of global consumers are willing to pay for news in the future, compared to 16% who currently pay (What's New In Publishing, 2020)

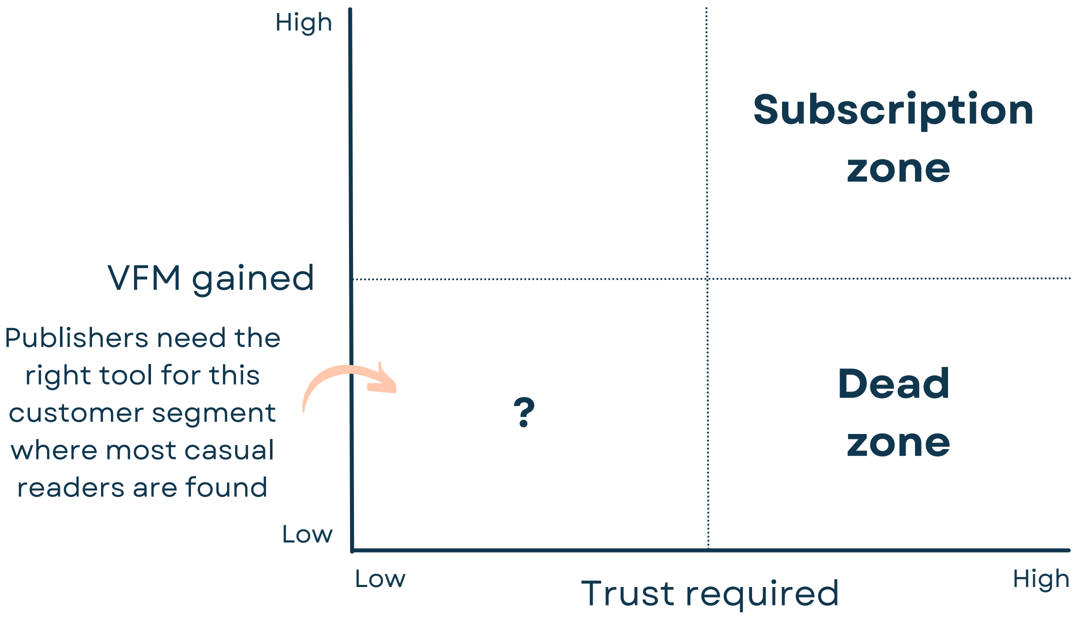
c. It is rather due to how subscriptions work at their core

5. The insight is that publishers do not have the right tool to tap into the overwhelming majority of their reader base

a. Top publishers on average have a casual reader base 130x their subscriber base – a huge source of potential revenue and data, if it can be unlocked

b. The right tool for low VFM casual readers must be a low trust or fully trustless solution that avoids the 'payment first, value second' dynamic of an access model

   i. In other words, the reader should not need to trust they will get value for money after payment, but get it simultaneously with it



Section C: Solution

1. An effective 'trustless' solution must meet the needs of both publishers and readers

a. **Publishers**: Generates new direct and indirect revenues; grows the subscriber base, not cannibalizes it

b. **Readers**: Makes consuming content accessible and affordable; provides flexibility and transparency on cost

2. Micropayment solutions and aggregators are not the answer

a. Micropayments, or 'pay-per-article', still require paying first for access, then trusting you will recoup the value after, just on much smaller scales – this is no different to subscriptions as readers will not know if the article is worth the price until they have read it

    i. Compound this problem with the fact that readers must make this decision every time they want to read an article, dramatically increasing friction and churn, evidenced by the many failed attempts at micropayments in the last decade

b. Aggregators appear attractive for readers as they offer the simplicity of one subscription to multiple outlets, however it is not a solution that works for publishers which see little by way of new revenue, useful data, or subscription conversions from this strategy

3. Instead, we need a new type of solution, here introduced as 'streaming payments' which are a "value first, payment second" consumption model

a. Streaming payments, or 'pay-as-you-read', does not require readers to pay to access an article, but instead opens articles for free and charges them on their consumption patterns

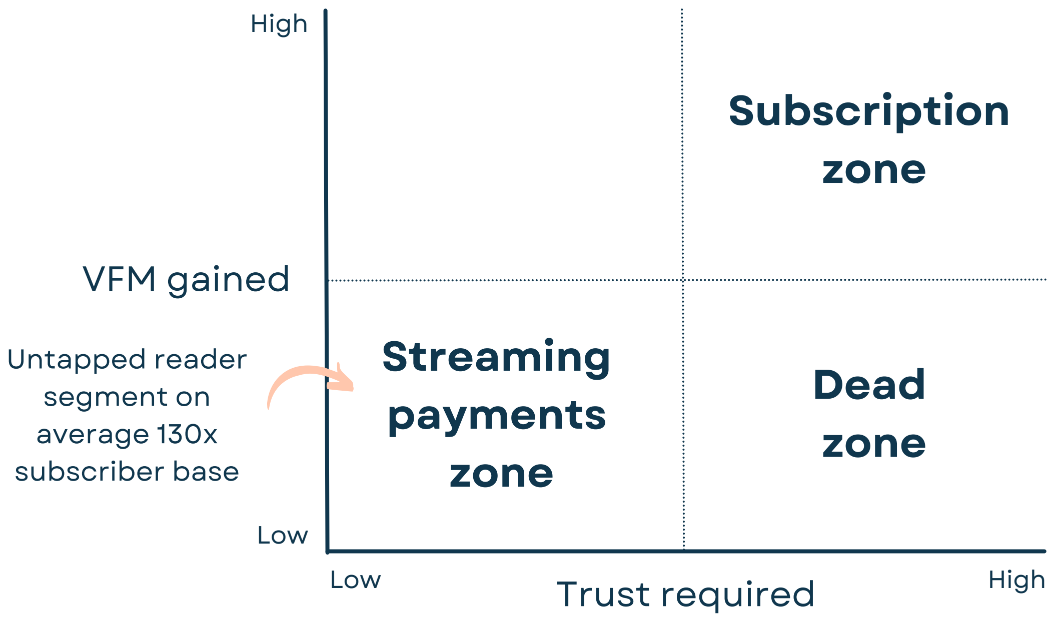
b. In practice as the reader scrolls the value they consume is recorded

    i. E.g., an article might cost $1.50 but a reader only scrolls halfway, so $0.75 is tallied to their account

c. At the end of the month the reader pays for all the value consumed in one credit card charge

4. Streaming payments function as 'trustless-low VFM' systems, perfect for casual readers who know they are getting value for money now and do not need to trust that they will get it in the future

a. Offering a trustless solution to low VFM customers like casual readers allows publishers to tap into a large source of reader revenue



5. The consumption model has multiple advantages for casual readers

a. Readers are not hampered by friction points such as 'buy now' buttons, e-wallets, or micropayment checkout flows. They need only open any article for free and decide whether to scroll a little, scroll a lot, or not scroll at all, which is the job they are there to do anyway

b. By providing sufficient transparency into costs, readers have the flexibility to run up a monthly bill as little or large as they can afford, matching their own budget preferences

c. By building in spending notifications readers can set limits on how much they want to spend and retain a sense of control

d. Publishers can set payment caps so readers can consume without fear of getting a large bill and enjoy reading for free once they reach the cap

6. Deploying a consumption model opens up two significantly valuable benefits for publishers

a. Revenue from a very large audience segment that was previously inaccessible

b. Data not only on the behavior of casual readers, about which they know very little, but also on the monetization value of their content which was until now not directly available

Spotlight: How does it work?

Q. New products are best showcased using demos, but in this instance can we illustrate how streaming payments work?

- Streaming payments work at the sub-article level, capturing the value readers consume as they scroll
- This functions as a pay-as-you-read model where payment is calculated based on user activity, i.e. how far a reader scrolls
- This is distinct from a pay-per-article model which requires pre-payment to access content, which causes friction and drop off
- The UX of streaming payments allows for layered levels of transparency for the reader, while the UI has minimal impact on the reading experience when retracted

Drop down box for detailed spending information

Retractable progress bar for high-level visibility into remaining cost of article

UI adaptable based on requirements; reach out to us for further information

Section D: Use cases

1. **There are 3 types of use case for a streaming payments-based consumption model, depending on how widely the solution is distributed to casual readers**

    a. Those based on small data sets

    b. Medium data sets

    c. And large data sets

2. **Small data set use cases: Offer streaming payments to a limited set of casual readers lets you…**

    a. **Pricing**: Collect data on the monetization value of your content from sample sizes of your target audiences to inform your subscription pricing strategy

    b. **Consumer behavior**: Collect data on the frequency, recency, and interests of certain segments of casual readers and how they interact with your content

3. **Medium data set use cases: Provide a wider audience with streaming payments options to…**

    a. **Editorial strategy**: Gain insights on which content is monetizing strongly so as to inform what to put on your front page, push on social media, or drop into newsletters

    b. **Retention strategy**: Give churned readers an alternative way to continue paying, mitigating the potential revenue and data losses from former subscribers

4. **Large data set use cases: Open up streaming payments to most or all your readers so that you…**

    a. **Conversion**: Build a pipeline to conversion by allowing your casual readers to engage with you over the long term, build up reader loyalty over time, and become high VFM readers who would end up benefiting more from a subscription

    b. **Revenue**: Generate revenue from your existing base of traffic without the need for checkout flows or complex conversion funnels and unlock the volume play potential of your site

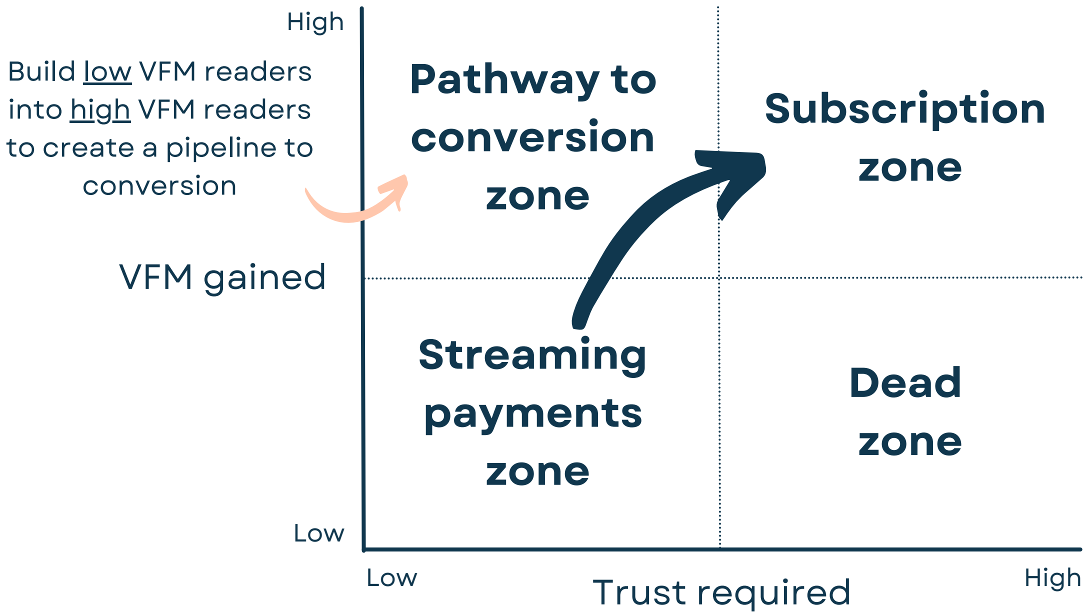
5. Primary use cases for streaming payments all focus on supporting publishers' existing objectives

a. Inherent to each use case is the idea that streaming payments is not a replacement to but a complement for any existing subscription model already in place

b. Streaming payments at their best turbo charge an often under-powered subscription paywall and help publishers achieve and set higher OKRs

c. Furthermore, streaming payments can be used by publishers looking to launch new content or monetize content that is currently free as a way to gauge monetization potential

d. Publishers can therefore deploy streaming payments as a tool according to their own priorities



Spotlight: Does it work?

Q. As a new technology, streaming payments raises important questions for publishers around viability and effectiveness - the main one being does it work?

- In a closed beta run over the course of 5 months, approximately 70 readers had access to 25 publications via streaming payments
- The purpose of the beta was to test the following assumptions:
  1. Do readers experience any friction using streaming payments?
  2. Are there positive or negative sentiments from the experience?
  3. Do readers return to read and how frequently?
  4. Are streaming payments a viable source of revenue?

A. The short answer: yes it works, both from the reader experience and as a viable source of potential new revenue

- Readers were able to access and pay for content seamlessly, without the friction commonly found with micropayments
- Readers had positive feedback as they appreciated the simplicity and ease of access to content without feeling financial stress
- Many readers regularly returned to consume articles using streaming payments, with an average ~50% cohort retention rate after 5 months
  - Benchmark: 40% is good, 70% is great (Lenny's Newsletter 2020)
- Readers on average spent $4.45 per month, with publishers earning on average $1.13 per reader per month (min $0.11, max $5.13)

A. The more nuanced answer: the fundamentals are there with room to grow and optimize

- Limitations with the beta test (laptop only, limited reader targeting ability, under-optimized pricing) mean that the above numbers represent a floor on which publishers can greatly improve
- With a phased roll out publishers can test and optimize before making streaming payments a full offering to all readers

Section E: Opportunities and upsides

1. **Once a streaming payments engine is running, it can generate business and industry level data not previously available that can help publishers better understand readers, drive efficiencies, and optimize revenue**

    a. **Acquisition prediction metrics**, helping to pinpoint which readers are most likely to subscribe, and that likelihood vis a vis subscribing at other publications

    b. **Customer lifetime value metrics**, for understanding the value of casual readers v subscribers

    c. **Behavior metrics**, understanding how casual readers behave on your site versus across other sites

    d. **Article metrics**, understanding on a per article basis the revenue over time, readers over time, scroll rates, etc.

    e. **Writer performance metrics**, understanding each writer's revenue over time, revenue per article, etc.

    f. **Loyalty metrics**, understanding the frequency and recency that casual readers return and the number of articles they read, benchmarked against how much they return to and read at other publications

    g. **Reader quality metrics**, understanding how much readers pay in general across all sites versus at a publisher's site in particular

    h. **Content quality metrics**, understanding which types of content perform better (e.g., sports v business, long v short, opinion v editorial) with casual readers

    i. **Trending metrics**, knowing which topics, articles, authors are performing or rising quickly for a publisher; aggregate level insight on the same across the industry

    j. **Quality scoring**, giving publishers a performance 'score' on authors or content comparative to similar publications and topics

    k. **Earned growth**, understanding how much of your revenue growth is coming from existing casual readers and their referrals

2. A streaming payments engine also creates powerful conversion-retention loops that can drive customer acquisition in entirely new and cost-effective ways

a. Typically, converting a reader to a subscriber requires that each publisher onboard each subscriber individually, managing them from top of funnel down through registration and out through checkout flows, with many friction points along the way

b. With a consumption model based on streaming payments, the reader need only be onboarded once on any publisher because readers have universal accounts that allow them to pay-as-they-read on each publisher using the same credentials - this distributes the risk and burden of onboarding and shortens the time-to-value of each reader

c. This time-to-value is further shortened: a typical conversion process requires a reader to go from $0 to a subscription fee in order to become a customer, but with streaming payments the barriers are much lower as a reader need only pay for $0.01 of content to qualify

d. The customer acquisition journey therefore becomes less dependent on complex funnels and more reliant on readers just opening an article and scrolling, which is what they want to do anyway

e. Finally, sourcing new subscribers can move away from traditional techniques of buying expensive and inaccurate lists to highly targeted processes where publishers can identify new readers based on specific parameters (spend, interests, etc.) or lookalike audiences

3. Once streaming payments are enabled, publishers can tap into the volumetric revenue potential of their entire website traffic and not just their subscriber base

a. On average top publishers have a casual reader base 130x their subscriber base, but this number varies and can go as high as 300x

b. This opens up a sizeable opportunity for a volume play whereby publishers that tap into their casual reader base can see significant revenue upside

c. For example, a publisher with only a 10x casual reader v subscriber base that on average earns revenue from casual readers at 10% of the subscription rate would **double their reader revenue** (see streempay.com/calculator to calculate your own scenarios)

Section F: Options and next steps

1. **There are 4 main pathways for publishers to start with streaming payments**

    a. **If content is already behind a subscription paywall**:

    Start with small, low-risk test cohorts to ascertain response of casual readers to streaming payments, then expand cohorts using the incoming data to inform priorities, such as pricing and editorial strategies

    b. **If content is not launched but will be behind a subscription paywall:**

    Start with small, low-risk test cohorts to ascertain potential monetization value and price points for future subscription rates

    c. **If content is free but moving behind a subscription paywall:**

    Start by selecting a limited range of content to monetize, offering all readers who land on it the opportunity to use streaming payments, then expand to more content over time, using the data to inform the price point of the planned future subscription rates

    d. **If content is free and will not move behind a subscription paywall but will be monetized:**

    Start by selecting a limited range of content to monetize, offering all readers who land on it the opportunity to use streaming payments, then expand to more content over time, using the data to inform the price points of your articles

2. **In all cases, publishers can keep risks low and roll out a streaming payments-based consumption model as quickly or slowly as appropriate**

    a. Unlike the roll out of paywalls, streaming payments are designed from the ground up to match a publisher's level of risk tolerance and be scaled up as needed

    b. Streaming payments can first be offered to select readers or across select content before rolling it out fully

    c. Publishers can therefore decide whether to expand the use of streaming payments or not based on direct data from actual readers instead of relying on proxy or market data

3. Test and validate if streaming payments is a viable solution for your content and your audience

a. Every publisher is different, with distinct audiences and content

b. By starting with small test cohorts, you can understand whether streaming payments work for your business context

c. Streaming payments can then be scaled up or down as needed, depending on the priorities of each publisher

4. The value of streaming payments increases as the dataset of readers widens

a. While publishers should start small, once data has validated that streaming payments work, there are benefits to expanding the size of the cohorts of readers using it to access and pay for content

b. With small datasets, streaming payments can inform a publisher's pricing and editorial strategies, but as the datasets increase in size eventually there will be sufficient readers to drive a conversion-retention engine and bring in significant revenues to the bottom line

Summary: Streaming payments are a low risk, low burden method to boost revenue, strengthen subscription conversion rates, and unlock granular monetization data

- Publishers can tap into the enormous potential of casual readers by offering streaming payments as an alternative way to pay for content
- This can help them 'cross the chasm' into the mainstream market and grow beyond what subscription platforms are able to offer

Learn more about streaming payments

Contact: Chris Forster, Co-Founder & CEO, StreemPay

Email: chris@streempay.com

.StreemPay

Level up your conversion, retention, and revenue performance by unlocking the power of your casual readers