

Responding to Regulatory, Market, and Information Technology Changes:
Chinese Newspapers in the Transitional Era

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Abstract: During the past decades, along with the dramatic economic and social transitions in China, Chinese newspapers have been through significant changes in regulation, market, and information technology. This paper examines the key characteristics of these changes (e.g., regulatory loosening, market segmentation, and media convergence) as well as Chinese newspapers' strategic responses to the changes.

Key words: Chinese newspapers, regulation, market, information technologies

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During the past decades, along with the dramatic economic and social transitions in China, significant changes have taken place in the external environment and consequently the operation models of Chinese newspapers. This article addresses two major questions: How did the external environment of Chinese newspapers change? How would Chinese newspapers deal with those changes? This paper argues that three forces have contributed to the changes in the external environment of Chinese newspapers, namely, regulation, market, and information technology. First, Chinese governments have loosened the regulations on newspaper industries. This enables the newspapers to transform themselves from traditionally government-controlled business into a relatively independent market entity. Second, there has been a fundamental change in audience as well as advertising market. This drives the newspapers to keep looking for new strategies to attract readers and advertisers. Third, challenged by the rapid development of new information technology, Chinese newspapers have come to utilize advanced information processing and communication technology to actively pursue digitalization. In the following sections, we conduct a detailed discussion and assessment of these changes and Chinese newspapers' responses to these changes. We also discuss the prospect of Chinese newspapers as well as the future patterns of mass media.

Responding to Regulatory Changes

Traditionally, Chinese newspapers belong to and are controlled by the governments. Since the country adopted its policy of reform and opening-up in 1978, however, this industry has experienced four major regulatory reforms, each of which contributed to the gradual loosening of government control over newspapers. February 1979 saw the first reform when eight largest government newspapers represented by *People's Daily* called for "enterprise management of public institutions," which was finally approved by the central government. According to this policy, newspaper institutions were allowed to raise employees' salary and welfare by subtracting a certain proportion from their operation revenues. This policy directly triggered the upsurge of newspaper advertisement and also marked the transition from a planned economic pattern featured by governmental subsidy to a market economy where newspapers were responsible for their own profits or losses (Zhang & Yu, 2004). Launched in the mid 1990s, the second reform featured "the separation between marketing and editorial," which further strengthened Chinese newspapers' market orientation and resulted in the fast growth of newspaper industries (Zhang & Yu, 2004). The establishment of large newspaper groups since the late 1990s marked the third reform and became the major growth pattern for Chinese newspaper companies. Unlike market-based mergers and acquisitions in western markets, however, conglomerations of Chinese newspapers featured the government-led amalgamation and rearrangement of newspaper assets. Also, conglomerations often happened to the media with the same administrative rank in the

same region (Sun, Nong, & Liu, 2001), and they applied to neither cross-region nor cross-media markets. In general, the aforementioned three reforms were partially market-oriented reforms within a planned economic system and failed to challenge the foundation of Chinese newspaper industry: newspapers were essentially an organ of the Party and governments.

Removing most newspapers from government control, the fourth reform might represent the boldest move towards fully market-oriented newspapers. This reform was marked by the promulgation of two central government documents in 2003. One was titled “Circular on the Issuing of the Implementation Plan for the Pilot Work of Press and Publishing Reform,” and the other “Circular of the State Council Concerning the Issuing of the Two Provisions Supporting the Development of Cultural Industry and Transformation of For-Profit Cultural Institutions into Enterprises in the Pilot Work of Cultural System Reform.” The key point of these policies is that, except a few Party organs, most of the Chinese newspapers break away from executive power and become independent market entities. Specifically, the policy shift involves the following five aspects: first, cultural organizations such as newspapers are divided into non-profit and for-profit ones, the former being controlled and subsidized by the governments while the latter being operated in accordance with market practices; second, government supervision is separated from newspaper operation so that the influence of executive power on newspapers can be weakened or even eliminated; third, newspapers are allowed to operate across different media industries/markets; fourth, the distribution market of newspapers is

open to WTO members as well as domestic private enterprises; and finally, the market entry-and-exit mechanisms will be established and the capital financing channels standardized for the newspaper industry.

With the implementation of the above policies, Chinese newspapers have witnessed a new upsurge of development and expansion featuring the following major trends. First of all, newspapers have started cross-region operation, which was pioneered by the co-publishing of *Oriental Morning Post* by the Guangdong-based Southern Daily Press Group and the Shanghai-based Wenhui-Xinmin United Press Group in July 2003. In November 2003, the Southern Daily Group and the Beijing-based Guangming Daily Group joined to print *The Beijing News* (Zhang, 2004). Later on, Shanghai Media Group collaborated with Beijing Youth Daily Group and Guangzhou Daily Press Group and published *First Finance Daily*; Shenzhen Daily Group successfully acquired the Liaoning-based *Commercial Times*; the Shangxi-based Huashang Press Group founded *Chongqing Times* in Chongqing and co-published *Dazhong Shenghuo* in Tianjin etc. (Yu, 2005). And the trend of cross-region operation continues hitherto.

Newspaper groups have also entered other media/non-media industries. For example, through mergers, acquisitions, and start-ups, Shanghai Media Group has built up the “First Financial” media platform which operates across three media industries--newspaper, broadcasting, and television—and covered all major cities in China (Shi, 2004). Also, Beijing Youth Daily Group expanded to the business of theater through investing in Beijing People’s Art Theater. Southern Daily Group

published two magazines, i.e., *21st Century Business Review* and *Southern People Weekly*. China Youth Daily collaborated with Beida Jade Bird Group in establishing China Youth Media Development Co. with the former holding 60% shares and the latter 40% (Zhu & Zhao, 2004).

Furthermore, Chinese newspapers have been going public, which represents a historical breakthrough for this industry. In China, newspapers have long been considered Party organs so that the listing of newspapers has always been hindered. However, the newspaper listing has become reality on account of recent regulatory loosening, especially the separation between non-profit and for-profit newspapers and between government supervision and newspaper management. In February 2004, Guangzhou Daily Press Group got listed in Shanghai Stock Exchange through controlling shares of Qingyuan Jianbei Group Co. and accomplished the first IPO in Chinese newspaper industry. This was a typical mode of stock listing after structural optimization: Guangzhou Daily initially took control of shares of Qingyuan, and then it transferred its marketing services like printing, distributing and advertising to Qingyuan as the major listing business of the latter (Zhang & Yu, 2004). In December 2004, Beijing Youth Media Development Company under *Beijing Youth Daily* was listed in Hong Kong Stock Exchange and became the “first stock” of Chinese media enterprises in overseas public listings (Huang, 2007). By now, the reform of Chinese newspapers has reached remarkable heights.

In general, the abovementioned cross-region/cross-industry expansion and various capital operations not only reflect Chinese newspapers’ pressing demand for

being stronger and more competitive but also are the direct consequence of government regulatory loosening. The traditional practice of direct control over newspaper by government is fading away, whereas the invisible hand of the market has been strengthening its impact on newspaper business. Though still macro-controlled by government, Chinese newspapers have gradually grown into independent market entities, operating in accordance with the principles of an open market economy.

Responding to Market Changes

Generally speaking, newspapers need to deal with two primary markets: audience market and advertising markets. Both markets have been through major shifts in China during the past decades. In this section, we will address how these two markets have changed and how Chinese newspapers have responded to the changes.

Having critical mass readers is often considered the core part of running an influential and profitable newspaper. In order to analyze the changes of Chinese readers, we have to look at the shift in Chinese social structure. First of all, along with the rapid industrialization and economic development, Chinese urbanization has obviously accelerated in the past decades. According to National Bureau of Statistics of China (2007), the urbanization rate increased from 20% in 1981 to 44% in 2006 with soaring urban population of 568 million. Reflecting a large influx of rural population into the cities, accelerated urbanization has heavily influenced the newspaper industry. It is argued that after entering the cities, the newcomers will increasingly depend on mass media instead of interpersonal relationships for

information and entertainment end. Specifically, since they are usually low-income people, the newcomers prefer to choose relatively cheap newspapers as their primary media source (Song & Dong, 2008). Therefore, the increase of urban population may theoretically help booster the circulation and readership of newspapers.

Related to urbanization and economic advancement, Chinese society has also become increasingly stratified. In particular, there has been a growing middle class. This group of people is well educated, has abundant income, and is becoming the major consumer group in urban areas. They also possess specialized knowledge and skills and require specialized and even personalized information services. It implies that newspaper have to consider offering more specialized and segmented information to this highly desirable consumer group. The problem is that when newspapers are catering to the high-audience like the middle class, they may be losing the rapidly increasing low-end audience like the abovementioned newcomers. The gain of low-end audience and the loss of high-end groups factually constitute two opposing tendencies for newspapers in urban areas.

In addition to the change in audience market, the advertising market of Chinese newspapers has been through an important shift as well. Consider marketing communication first. Kotler and Amstrong (2007) argue that mass marketing has lost its magic and is being replaced by precise marketing. They even suggest that direct marketing (a type of precise marketing) will be adopted by more and more companies mainly because messages can be communicated to target consumers more efficiently (Kotler & Amstrong, 2007). In reality, companies seem to be less willing to invest in

mass media advertisement; instead, they communicate messages increasingly through more specified and measurable channels, as shown in data-driven direct marketing (Stone & Jacobs, 2007). With the evolution of marketing communication, Chinese newspapers may also have to transform themselves. It is argued that since traditional mass advertisement market is shrinking, newspaper should try to develop segmented advertising channels to attract and retain advertisers.

In general, China's rapid urbanization and economic growth in the past decades has created larger audience and advertising markets, which allow newspapers to keep growing and expanding. In 2004, for example, there were 19 brand-new newspapers, which meant there was at least one new publication each month (Luo & Lu, 2004). Some of them were the products of cross-region and cross-industry operation, such as *The Beijing News* and *First Financial Daily*; and some were free newspapers, such as *I-Times*, the first free newspaper in China. The most common practice of Chinese newspapers to deal with the increasingly differentiated audience and segmented advertising market is to set up newspaper groups and adjust product structures. Specifically, newspaper groups optimize their resources and assets and reposition their subsidiary newspapers for different audience/advertising markets. Take as an example Guangzhou Daily Press Group, the first newspaper group in China. The Group currently operates a variety of newspapers, including *Guangzhou Daily*, *Soccer*, *Basketball Herald*, *Stage and Screen*, *Fashion*, *Gourmet Guide*, *Guangzhou Morning Post* (English), *Lingnan Juvenile Daily*, *First Finance Daily*, and *Gouangzhou Metro Daily* (free newspaper). It also runs two websites and five specified magazines. These

subsidiary outlets not only match the increasingly segmentation of audience and advertising markets but also supplement one another for the purpose of enhancing the competitive capability of the Group as a whole. However, in spite of these kinds of strategies, Chinese newspapers have also seen the migration of audience and advertising to the Internet. They have to confront the challenges posed by the Internet and other information technologies.

Responding to Information Technology Changes

The emergence of the Internet is argued to represent the most significant change in the media market during the past decades. Take China as an example. By June 30 2009, Chinese netizens had reached 338 million with an increase of 13.4% from 2008; broadband netizens had reached 320 million, taking up 84.3% of total netizens, with an increase of 3.7% from 2008; and mobile phone netizens had also reached 155 million with an increase of 32.1% in half a year. In terms of the absolute number, Chinese netizens and broadband netizens have topped the world (CNNIC, 2009).

The Internet – a global system of interconnected computer networks – carries a vast array of information recourses and services such as the hypertext documents of the World Wide Web and the infrastructure to support electronic mail, online publishing, file transfer, file sharing, and etc. (Wikipedia, 2009). The Internet is becoming the dominant force in the information world, transforming the ways in which information is aggregated, stored, searched, and retrieved. In addition, the Internet is facilitating the convergence of media forms – “the process whereby old and new media are available via the integration of personal computers and high-speed

satellite-based phone or cable links” (Campbell, Martin, and Fabos, 2009, p. G-8). It is argued that three key technological development enable today’s media convergence, namely, digital communication, microprocessors, and fiber-optic cables, all of which position the Internet as the hub of media convergence. Nowadays multimedia content – integrating data, audio, and video – can be delivered in various forms such as paper, cable, broadband, phone line, and wireless WiFi connections, and there is an ever-increasing array of devices on which to play multimedia content such as iPods, laptop, cell phone, DVD players, and digital video recorders (Campbell, Martin, and Fabos, 2009).

Thanks to the significant challenges posed by the rapid development of the Internet and media convergence, Chinese newspaper has been adapting themselves to this new media age. However, there are some technical and business problems that need to be addressed. The first problem concerns the choice of medium. The traditional medium for publishing content is paper, and now newspapers have tried certain new medium such as mobile phone newspaper. However, the adoption of a new medium usually means a huge amount of investment; and the corresponding business model is also immature. So it is not surprising that many Chinese newspapers are still cautious about developing a new medium. The second problem concerns the establishment of multi-media information platform. Media convergence and cross-media operation require unified collection of different information, placing digitized information/contents on the same platform to be packaged in multiple formats, and then delivering them to the audience via multiple channels. The final

problem is the choice of market. Currently most newspapers are providing primarily local news with the occupation of local advertisement market. When entering the new media age, Chinese newspapers need to consider how to maintain and leverage their strengths in local media markets while having a chance to enter the national market.

The Shanghai-based Liberation Daily Group offers a typical case study of how Chinese newspapers respond to information technology changes. In 2006, the Group introduced wireless mobile communication, multi-media production, electronic ink display, LED and broadband transmission technologies. Utilizing these technologies, the Group later founded a series of digital products, including i-news、i-mook、i-paper、and i-street. (1) i-news. In January 2006, the Group launched i-news, a mobile phone newspaper, sending news mixing pictures, sound, and words to mobile phone users and also allowing users to reply, select, or log onto the websites at their will. It immediately gained public favor once it was launched. I-news now has developed several editions, including text message edition, mobile multi-media message edition, and WAP edition. Among them, the mobile multi-media message edition is the major breakthrough for the mobile phone newspaper business with its twice-a-day transmission in the morning and at night. I-news has become the largest mobile phone newspaper in Shanghai, having more than 100,000 subscribers. (2) i-mook. In March 2006, the Group founded digital magazine i-mook, which integrated flash, video, audio and other editing techniques. After downloading certain e-reader software, readers can read magazines in a traditional fashion while enjoying animation, rotation, and perspective, which cannot be used / accessed in the paper magazine. The Group

has developed e-magazines on current news, fashion, and other issues respectively. (3) i-paper. In June 2006, the Group issued the first e-newspaper in China, i-paper, featuring the application of electronic ink display technology. It fits people's traditional reading habit, mimicking the appearance of ordinary ink on paper. It can be downloaded and updated in any location such as homes, offices, and recreation districts. Furthermore, since it reflects light like ordinary paper, this electronic paper is able to hold text and images indefinitely without dawning electricity. And (4) i-street: In September 2006, the Group has established i-street, a public news network. Through i-street, the Group can display the visual and textual content of its various newspapers on LED caption machines and large screens in all key business districts. Profit is made via embedding rotating advertisements into the contents. So far the Group's "four i" strategy has yielded substantial results and provoked strong reaction in Chinese newspaper industry.

Ningbo Daily Group provides us with another interesting case of newspaper digitalization. The Group has realized that going digital is the strategic choice for achieving disruptive growth, and thus put forward a comprehensive plan to adapt itself to the new media age. Named "One-Two-Three-Four-Ten," the plan refers to (1) one center, that is, customer-centered. The Group plans to transform traditional newspaper readers to valued customers, building up a customer service system as well as a customer database; (2) two foundations: the growth of newspapers and the establishment of digital platforms. The former is still the most important revenue source whereas the latter expects to be the potential growth point; (3) three

digitalization steps, that is, planning and starting (2007), growing (from 2008 to 2009), and maturing (after 2010). The Group expects to find a viable business model for its digitalized business in five years; (4) four digital products, including a news website, an e-newspaper, a mobile phone newspaper, and outdoor electronic screens. Each of these products has its different positioning on audience and advertising markets; and (5) ten digitalization plans, which involves new medium experience, platform construction, organization and talent, customer service, research and development, marketing, investment, training, and strategic alliances and etc (Zhang, 2006). By implementing these digitalization plans, the Group expects to substantially improve such core processes as content generation, content delivery, advertising sales, and audience interactions.

Many other newspapers have also realized the impact of new media on their business and begun to leverage the opportunities in this field. For example, Yantai Daily Group has developed such digital products as websites, e-newspaper, and mobile phone newspaper and reconstructed its business from a strategic perspective. Also, Guangdong Mobile Company, Xinhua News Agency Guangdong Branch, Southern Daily Group, Yangcheng Evening News Group, and Guangzhou Daily Press Group have joined to produce the WAP mobile phone newspaper. In addition, Zhejiang Daily Group and Founder Group co-launched the nationwide “digital newspaper and cross-media publishing system,” which brought together traditional newspaper printing, digital assets management, e-newspaper generating, CD publishing, full-text database formation, and internet publishing. All the cases above

manifest that Chinese newspapers are experiencing a strategic transition into media convergence, though the prospect is still uncertain.

Conclusions and Discussions

In the past decades, Chinese newspaper industry has been through major shifts in regulation, market, and information technology, followed by large-scale adjustment in business and management practices. Specifically, regulatory loosening drives its transformation from government-owned organizations to market entities free from government intervention. The resource distribution and market expansion will no longer be executive-led but a purer market behavior. Chinese newspapers are thus able to experience rapid development and expansion characterized by cross-region, cross-media, and capital market operations. Meanwhile, China's economic growth has caused the transition of social structure and business administration, which, in turn, leads to the changes in newspapers' audience and advertisement markets, especially the increasing segmentation of readers and advertising. Chinese newspapers are now dealing with such segmentation by building up newspaper groups, restructuring their products, and then publishing specialized newspapers for different audience and advertising markets. Like foreign counterparts, Chinese newspapers are also challenged by the Internet and other new information technologies. An ever increasingly number of audience and advertising are migrating to the Internet, and media convergence is becoming more irresistible. As a response, Chinese newspapers are speeding up the development of various digital products and making a strategic transition to the digital age.

It should be mentioned that the three factors of regulatory loosening, market shift, and information technology innovation are analytically separate but are interrelated in reality. Regulatory loosening serves as the prerequisite for newspaper growth, but technological innovation is argued to be the most important driving force. Changes in social structure have shaped the size, composition, and needs of audience whereas technological advancements have altered the patterns of information processing, transmitting, and receiving and also created new information and entertainment demands for traditional and new audience. In addition, Chinese newspapers are influenced by the changing advertising markets; now they are leveraging the technological advancements to develop new products to meet advertisers' needs like precise marketing.

It is said that the Internet will become the mainstream media in the future, but it is more likely that the Internet will continue to serve as a platform for information collection, storage, search, and retrieval, instead of the major news medium. Why? That is first because of its technological limitations. The current Internet media are basically built on "personal computer plus physical networks" so that individuals still have to actively "take" information from the medium, leaving the promise of "getting information anywhere anytime in any way" unfulfilled. In addition, the business model of the Internet is inflicted with intrinsic conflicts. It is actually following the traditional media's pattern to make money, i.e., getting individuals' attention, creating buzz, and then selling ads. However, the key advantage of the Internet is its interactivity. This means that audience can control what they want to read and skip

the advertisements, which may not be skipped in traditional media. It is true that some advertisements pop out and cannot be closed, but in reality users can always find certain software to block these advertisements. Therefore, the Internet can be one type of mass media, but may not be the priority medium in delivering information and advertisements.

Then what is the future of mass media? Judged from the development trends of media industries, we argue that the future mainstream media would reveal the following features: news media may still be the mainstream media; media convergence would step up as the major pattern of information delivery; new mainstream media would possess four technology features – mobility, portability, interactivity, and multi-media accessibility; and new mainstream media would also be affordable and accessible for most people. Only with this kind of media, we can fulfill the promise of sending and receiving information whenever, wherever, and by any means. In this new media age, all types of mass media need to redefine their roles and core values. With regard to newspapers, we think that the core values of newspapers are still information gathering, producing, and disseminating. Although it is essentially an information processor, Chinese newspaper industry should develop a multi-media platform to support all aspects of information processing. This process may reflect and even create the changes in media market; but in China, it could also be facilitated or hindered by regulatory changes, as shown in this article.

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