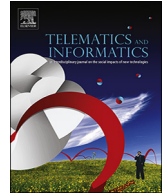


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## A customer-based indirect approach to determine the value of news provided to Internet portals in Korea

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## ABSTRACT

The online channel becomes one of the most important distribution channels of news contents. As the portal becomes a platform for the distribution of news content to users, the conflict between the portal and newspaper companies arises about the value of the news content provided to Internet portals by newspaper companies. This paper attempts to estimate the value of the news content on the portal using the case of the relationship between the Naver portal site and newspaper companies in Korea. Since there is no direct way to estimate the value of news content, this study utilizes an indirect way based on consumer's intention to visit portal site. An analytic hierarchy process based on consumer surveys is employed in this paper to estimate the relative importance of news content on a main page and a search service. On the basis of this relative importance, this paper estimates the portal's operating income which is generated by the contribution of news content, using accounting data from Naver.

### 1. Introduction

News contents were distributed through print media such as newspapers and broadcasting media such as radio and television in the past, but recently news contents have also been distributed through online and mobile channels due to the development of information and communications technologies. Especially, Internet portal site is emerging as a main distribution channel of news contents. According to the “Digital News Report 2016” of Reuters Journalism Institute, 73% of consumers in the U.S. access news contents through online platform, while only 26% of them access news contents through the printed newspaper. Similarly this report shows that 86% of respondents in Korea consume news contents on the online platform, while only 28% of respondents consume through printed one (Newman et al., 2016). Also news consumption in mobile devices has increased a lot, and according to Korea Press Foundation (2016), 70.9% of respondents consume news contents through mobile devices in Korea.

However, as Internet portal sites become important news distribution channels, the conflicts have arisen between newspaper companies and portal sites. Actually, the newspaper industry has decreased in market size continuously since the emergence of new Internet-based media. For instance, the size of global newspaper market has decreased from \$138 billion in 2011 to \$130 billion in 2015, and is expected to fall further to \$121 billion in 2020 (Korea Creative Content Agency, 2016). On the other hand, global market size for advertising on Internet media has increased significantly from \$78 billion in 2011 to \$153 billion in 2015, while that in traditional newspapers decreased from \$76 billion in 2011 to \$66 billion in 2015 (Korea Creative Content Agency, 2016).

Under this kind of circumstance, a News Media Alliance in the U.S., which represent more than two thousands media including

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major online and offline media such as Dow Jones, New York Times, Wall Street Journal, and Washington Post, tried to pursue the right of news contents in the collective negotiation with big online platforms like Google and Facebook in July 2017 (Rutenberg, 2017). They argue that although Google and Facebook dominate web traffic and online advertising income such as occupying nearly 80% of web traffic and accounting for more than 70 percent of the \$73 billion spent each year on digital advertising, these two digital giants don't show the effort for producing reliable news contents and just expect an economically squeezed news industry to do that (Chavern, 2017). Similarly in Korea, Korea Press Foundation insists that the portal unilaterally determines the price of digital news contents provided by the media and takes majority of related revenue for itself (Oh, 2017).

However, the Internet portal argues that they have tried to help the newspaper companies because it has been also in their interest to have ample and reliable news contents. Google tries to help newspapers take advantage of new technology and increase online revenue through its own news service, News Lab, and it has made changes to its algorithm to show quality news more prominently in search results (Rutenberg, 2017). According to Google, quality journalism is defined as the original, fact-based reporting that spreads knowledge and has the power to improve people's lives. Without quality news and customer's trust, it is impossible for Internet portal sites to play the role of news distribution channel. Therefore, to improve trust of journalism and fight against fake news online, it becomes important to provide highest quality news to people on important issues when it matters the most. Also, in Korea, Naver suggested a new plan named Plus program for not only sharing revenue with newspaper companies but also providing quality news in July 2017 (Park, 2017). For example, Naver provides customer's feedback information to newspaper companies, and financially supports fact checking services. However, in spite of the efforts of both sides, newspaper companies and portal have not arrived at an agreement about the price of digital news contents.

One of the reasons for this disagreement is that it is very difficult and sometimes complicated to determine mutually agreeable price of news contents. For instance, newspaper company want to consider all costs incurred in producing news contents, while Internet portal sites want to consider marginal cost of additionally providing news contents to portal sites, which is nearly zero. Furthermore, to portal site it should be important how much news contents contribute to portal's revenue. Therefore, in order to settle down such conflicts, there arises an important issue of how to estimate and determine the value of news content on Internet portal sites provided by news companies. If there are any measurements on the value of news contents on the Internet portal site, the newspaper and the portal site will be able to get a necessary reference point for reaching mutually agreeable price.

While there are many news distribution channels, this paper focuses on the economic aspect of the news contents provided to Internet portal sites by newspaper companies. Therefore, the purpose of this paper is to estimate the value of the news contents on portal sites, using a case of the relationship between a leading portal site, Naver, and newspaper companies in Korea. If Naver counts every click on the news contents and all other services, it might estimate relative portion of news contents in terms of the number of click. However, Naver does not disclose that kind of data because it contains the selection and curation criteria of news contents, which might be very sensitive to all different newspaper companies. Under this circumstance, as an alternative way, this paper tries to estimate relative value of news contents by looking at the reason why Internet users visit portal site. If they think news contents is one of the important portal services, they visit the portal site to click news contents. Although it is not based on the actual number of click ex-post, it might provide a good proxy of the relative importance of news contents.

To identify the relative importance of news content on the main page and search engine, analytic hierarchy process (AHP) based on consumer surveys is utilized. The reason why AHP is employed is that it makes possible to convert the customer's evaluations to numerical priorities for each of the decision alternatives, which represent the alternative's relative ability to achieve the decision goal, and therefore how much customers think about the relative importance of news contents could be estimated. In addition, the portal's operating income generated by the contribution of news content is estimated by combining AHP results and accounting data of Naver. Finally, this paper shows how the operating income generated by news contents can be shared between portal sites and newspaper companies.

The remainder of the paper is organized as follows. Section 2 presents a research background. After an explanation of the research design and methodology in Section 3, the empirical results and an example case using real financial data are presented in Section 4. Finally, Section 5 discusses the implications and presents conclusions.

## 2. Research backgrounds

### 2.1. Previous researches

The treatment of news by portal sites and the impact of news content on the customers' evaluation of a portal platform have become important issues for both portals and newspapers. Van Riel et al. (2001), analyzing the impact of services provided by portals on customers' evaluations of the usefulness of portal sites, showed that their satisfaction with news services has a significant effect on perceived value, overall satisfaction, and the likelihood of using the portal site. Kim et al. (2008), using a laddering method with customer interviews, analyzed the connection between the attributes that users consider important for portal sites and the value that they ultimately seek from portal services. They showed that the attribute most frequently connected to value was communication, and the second was use of the news service. Most respondents answered that they usually used a portal news service. Kim and Arnett (2012), categorizing the portal service according to seven "Cs"—commerce, content, community, communication, coordination, context, and customization—compared the impacts of these services on satisfaction with portal use in both Korea and the U.S. Of the seven "Cs," Content services have the most significant impact on satisfaction with portal use in both Korea and the U.S. Furthermore, Kim and Arnett (2012) investigated the tasks that the respondents performed most frequently on the portal sites, and among ten micro tasks found that accessing news services is the second most frequent in Korea and the third in the U.S. In sum, while the results

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