

Paywalls in Digital News Consumption

Abstract

We study popular revenue models used by digital newspapers. Newspapers usually provide some free content to all readers while making other content available only to subscribers by keeping it behind a paywall. We use an analytical model to characterize this market as a dynamic game between a newspaper and readers. Readers, who are heterogeneous in terms of their preferences as well as valuation for news content, decide whether to get news from other media sources and whether to pay for the newspaper. We find that as the proportion of high valuation readers increases, a newspaper decreases the number of free articles and increases the subscription fee, shifting from a pure ad-supported model to a premium content paywall. As the number of high valuation readers increases further, the firm shifts to a metered paywall, and finally to a paid content model. Interestingly, as the proportion of high valuation readers increases, the demand for subscription can first increase then decrease. The proportion of readers interested in a specific type of content also determines the optimal type of paywall. We contribute to the work on media firm revenue models by comparing different designs of the paywall. We discuss the implication of readers' interest on the optimal design of paywall, and analyze its impact on a news media firm's profits from content and advertisement. We investigate the effects of dynamics of the changes in readers' preferences on the firm's optimal paywall strategies.

Keywords: digital marketing, paywall, pricing, dynamic games, news consumption, freemium

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This submission is intended for the **doctoral student sessions**.