Micropayments in Digital Publishing: The Solution for Monetization?

Digital publishing has come a long way since the early days of the ‘net, yet one issue continues to challenge publishers—how to monetize their content. Traditional newspapers and online magazines alike have tinkered with different models to generate revenue. The idea of micropayments has resurfaced recently as an alternative to advertising and walled-off content, inspiring publishers to think past the paywall.

What Is a Micropayment?

A micropayment is defined as an eCommerce transaction which involves a small payment in exchange for an online service, a piece of digital content or an application download. To qualify as micropayments, these “a la carte” purchases must fall below a specific amount, generally $1.

Revenue Evolution: The History of Publishing and eCommerce

The idea of micropayments isn’t a new one. Since the mid-nineties, online publishers have been experimenting with ways they can charge consumers small sums of money for piecemeal content. When early prototypes ultimately failed, publishers that survived the industry’s transition to the Internet came up with new models for generating revenue.

Most publishers opted to make money solely via digital advertising. This system worked until it didn’t, with the newspaper industry losing an estimated $30 billion in advertising revenue from 2006 to 2014.

Updated search engine algorithms and a proliferation of disruptive ads led publishers to evolve yet again. Next came metered paywalls, freemium systems, and hard paywalls, all of which require paid subscriptions for access to content.

During this time, new micropayment models enjoyed success with online gaming, app, and song purchases. However, it wasn’t until 2015 that major English-language publications bought into the new micropayment model promise, when the Winnipeg Free Press in Canada began selling articles for an average of 27 cents per story, with the option of refunds. This pay-as-you-go system has attracted about 1,300 users so far, with a refund rate of less than 1 percent.

So far so good, but the question of success has yet to be answered.

Types of Micropayment Systems

There are a number of different micropayment models that can be implemented by digital publishers, including pay-as-you-go, prepay, and postpay.

1) Pay-As-You-Go

In this system, users are charged for each individual purchase they make, resulting in separate small transactions for every piece of content. A 2011 Stanford study states that the pay-as-you-go model truly offers an “a la carte” customer experience, allowing people to pay immediately for the content they want. While storing a customer’s credit cards may encourage impulse buying, publishers may be wary of this model due to the burden of individual costs they’d be saddled with each time a transaction is processed.

2) Prepay

In a prepay model, users pay in advance—in the form of gift cards, digital currency or credits—for access to content. These advance purchases can also include subscriptions. Implementing prepay will eliminate the transaction costs incurred with the pay-as-you-go model, but in exchange, publishers need a more advanced eCommerce system in order to track credits, both used and remaining.

3) Postpay

With this model, several transactions are aggregated and then charged as a lump sum. The elimination of multiple small purchases saves publishers money on transaction fees and requires an eCommerce system that can either aggregate many small transactions or allow a single small purchase be processed. The iTunes system is an example of this, in which several individual songs, television shows, and/or movies are paid for on a monthly basis.

Why Use Micropayments for Digital Publishing?

Unbundling digital content has potential benefits for both consumers and publishing companies, including a better user experience. Giving readers the option to pay piece-by-piece empowers them to buy only the content that they want to read, especially if the system allows for refunds. Readers are more likely to trust publishers and the quality of their content when they’re not forced into subscriptions. This trust, over time, can build consumer loyalty.

“People hate paying for things they don’t want,” Rory Sutherland, the vice-chairman of advertising company Ogilvy, writes in a column for The Spectator. He adds, “…people especially hate paying for the things they don’t want bundled with the things they do want.”

Using a micropayment system also allows companies to monetize an untapped market: their occasional readers who consume a few articles here and there, but aren’t interested in enough of the content to justify paying for a monthly or annual subscription. Theoretically, these users are frequent consumers of free content and feel that the current barrier of access to paid content, generally subscription fees, are too high.

Fans of this kind of system also believe that charging a small amount for all content frees publishers from the burden of relying on digital advertising and “advertorial” pieces, ensuring they can create only high-quality, informative and interesting content without worrying about pleasing advertisers.

“Micropayments are a tiny but forceful means of correcting [the] terrible mistake” the digital media world made when offering their content for free, writes Forbes UK.

Potential Drawbacks

As with any payment system, the micropayments model also presents some risk to publishers. Stanford researchers broke these potential issues down into three categories: technical challenges, social challenges, and economic challenges.

The technical challenges include the requirement of a transaction system that can support numerous small transactions, digital currencies or credits, and/or aggregated content charges—all in an easy-to-understand, user-friendly system. Even if different publishers each created their own savvy system to handle micropayments, users would still face the burden of creating accounts with multiple content sources.

A single-system aggregate of the most popular publishers could solve that issue, but hinging the success of the model as a whole on one company creates enormous stakes. This company would need to create a seamless, secure, and reliable system to prove to readers and other publishers that micropayments are a viable solution for monetizing digital content.

Potential social problems include access barriers, adjusting ingrained Internet habits, and the need to consistently justify the cost of the content. Digital publishers with hard paywalls that have achieved moderate success are limited to media giants such as The Wall Street Journal and London’s The Times. For smaller publishers, instituting even a small fee will deter many users from reading.

Secondly, people are accustomed to free journalism on the Internet, and that expectation will be hard to adjust. Many readers simply won’t accept paying for content unless it’s the only option. Finally, allowing users to pay piece-by-piece means they’ll be constantly assessing whether or not the cost is worth it. Unless the entire industry moves to micropayments in one fell swoop, there will always be somewhere to get content for free. Without locking them into a subscription, it’ll be a constant challenge for publishers to prove their worth to readers.

Economically speaking, the biggest question mark for publishers is whether or not implementing a micropayments option will cannibalize money they’re making with subscriptions. Alexander Klöpping, co-founder of the self-described “iTunes for journalism” startup Blendle, argues this cannibalization doesn’t occur because the system attracts more “fly-by” users, who generally consume content for free. Conversely, current subscribers don’t cancel, since their consumption rates mean it’s still the cheaper option.

Still, even presenting the option is a risk, and Frédéric Filloux at Monday Note isn’t convinced that micropayments offer a sustainable model for journalism. He uses Klöpping’s own analogy to disprove his theory, saying in the music industry, this model has meant a loss for artists, production companies, and sellers alike. Even music giant Apple went from a $4.3 per user ARPU in Q1 2012 to $1.9 per user in Q1 2014, thanks to the rise of flat-fee/no ownership music streaming models.

A Modern-Day Micropayment Case Study

In April 2014, Blendle launched in the Netherlands, with a social platform and aggregate of content from 40 Dutch publications. It has generated considerable buzz since launching in Europe, and is currently planning a beta launch in the U.S. sometime this year.

In spring 2015, Klöpping described some of the company's learnings about providing a micropayment system in journalism to its 250,000 users.

- **Micropayments don't work for news**. Users won't pay for updates they can get elsewhere for free, but they will spend money to read background pieces, opinion content, analysis and in-depth interviews.
- **Clickbait doesn't fly when users have the option to refund**. Since writers are disincentivized from using clickbait, Klöpping believes this will result in higher quality content.
- **Piecemeal payments and refunds offer great metrics for quality assessment**. A high CTR combined with a low number of refunds is a recipe for success.
- **Micropayments don't cannibalize subscription sales**. The company's data shows that this system largely attracts people who don't pay at all for journalism, tapping into an entirely new market of consumers.

Of course, with just one year's worth of data and only Dutch and German publications featured, it's a bit early to predict the success of Blendle on a global scale. However, with early promising data and upcoming access to The New York Times, Economist, The Wall Street Journal and several Conde Nast magazines, this micropayment experiment will be one to watch.

Final Thoughts

Since micropayment systems for digital publishers are in their infancy, whether or not they'll offer a viable monetization model long-term is yet to be seen. These models represent just one tool in the toolbelt of options publishers have to support their consumers while generating revenue. A willingness to explore many different strategies to monetize will inevitably lead to a solution that pleases publishers and readers alike.

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