Chapter One

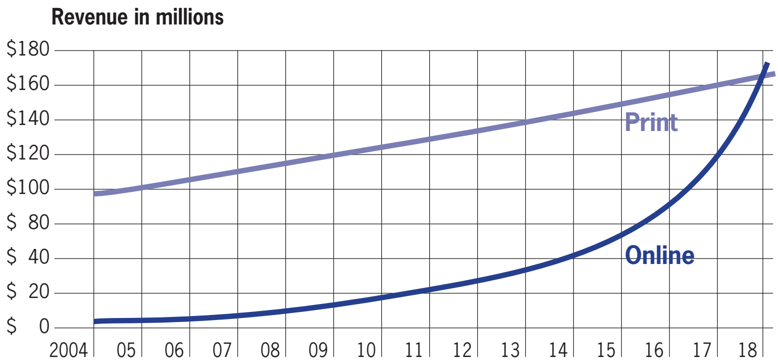
News from Everywhere: *The Economics of Digital Journalism*

In early 2005, a researcher at the Poynter Institute published a column that was instantaneously read and—by many—misunderstood.[1]

Rick Edmonds, who studies the financial side of the news business for Poynter's website, speculated about how long it would take for online newspaper revenue to match the dollars brought in by the print side. He estimated that digital ads accounted for around 3 percent of the total revenue for an average U.S. paper. Edmonds assumed an optimistic online growth rate, around 33 percent a year, and what seemed then to be a reasonably sober estimate of print growth, around 4 percent.

High hopes

In 2005, an analyst projected how long it might take for a typical newspaper's online revenue to match its print revenue.
Even assuming optimistic annual growth of 33.3% online and 4% print, it would take 14 years.



SOURCE: Poynter.org analysis

Given how low online sales were at the time, Edmonds noted it would take 14 years for digital revenue to catch up to that of print. As he wrote, these calculations provided "little cause for cheer." He also noted "there isn't any reason to believe any of these numbers will remain steady state over time."

His disclaimers were lost on many readers. At several conferences later that year, participants pointed to the study and cheered one of the presumptions in the column—that digital revenue would grow by a third every year, as far as the eye could see.

For a few years, it seemed as if this scenario might be realistic. Newspapers' online revenue grew by more than 30 percent in both 2005 and 2006.[2] But growth slowed the next year, came to a halt during the recession and still hasn't fully returned to what it was in 2007. Meanwhile, print revenue hasn't grown at 4 percent a year since 2005; indeed, newspapers' print revenue in 2010 was less than half what it was in 2005.

Fifteen years after most news organizations went online, it is clear that old media business models have been irrevocably disrupted and that the new models are fundamentally different from what they once were. What made traditional media so vulnerable to the Web? Or perhaps the better question is this: Why has digital technology, which has been such a powerful force for transmitting news, not yet provided the same energy for companies to maintain and increase profits?

Mainstream news organizations had already started losing audience before the Internet became popular. Broadcast network news programs have been sliding steadily since 1980 and now reach slightly over 20 million viewers a night, down more than half in three decades. Newspapers began to experience significant circulation declines decades ago. Total daily newspaper circulation has fallen by 30 percent in 20 years, from 62.3 million in 1990 to 43.4 million in 2010, as people found other sources, particularly local television news, to be an adequate substitute.[3]

Revenue, however, held steady or increased for mainstream news outlets, even as audiences shrank. This was true in the early days of the Web, too, thanks in part to an advertising bubble spawned by the Internet boom.

To begin to understand the disruptions of the digital transformation, it is important to appreciate the circumstances that made the news business—whether in broadcast, cable, magazines or newspapers—so profitable for so long. The commercial heyday that buoyed the fortunes of American newsrooms in the last half-century had its roots in changes that began much earlier.

Through the 19th Century, newspapers benefited from economic and demographic shifts that accompanied industrialization—in particular, rapid urbanization and the attendant rise of the big-city retail economy. The growing advertising market encouraged urban publishers, who had begun to loosen their ties to political parties and to think of themselves as independent businesspeople. In the process, they realized they could make most of their money from local retailers, rather than from people in the street paying a few pennies to buy their papers.

Historians of journalism argue that these economic and political shifts underpinned an increasingly professionalized and objective journalism that became the norm in the 1920s and 1930s. The move toward general-interest, advertising-supported newspapers aimed at broad audiences also drove a cycle of concentration and consolidation that would continue for decades.

With audiences and ad revenue growing even as competitors disappeared, newsrooms and newspapers swelled in size. An analysis of major metropolitan dailies by the American Journalism Review found that between 1965 and 1999, eight of the 10 newspapers studied saw at least one competitor disappear.[4] During the same period, on average, each of the surviving newspapers doubled the amount of news it produced. Even as new or expanded sections—sports, business, lifestyle—claimed a larger share of each edition, the total coverage of local, national and international news continued to increase.

The trend of increasing consolidation in a growing advertising market helped to compensate for declining readership. By the early 1980s, most U.S. cities had just one daily newspaper. Or, in markets with two papers, one was clearly dominant and the other was kept afloat by favorable terms negotiated in joint operating agreements that Congress had created to preserve local journalistic competition. Radio and television newsrooms enjoyed similar access to a lucrative market. The advertising business in broadcast was so strong that even television and radio stations with small market shares were profitable; those with a strong command of the audience were cash machines.

The monopoly or oligopoly that most metropolitan news organizations enjoyed by the last quarter of the 20th Century meant they could charge high rates to advertisers, even if their audiences had shrunk. If a local business needed to reach a community to promote a sale or announce a new store, the newspaper and TV station were usually the best way to do it. Even if the station or newspaper could deliver only 30 percent of the local market, down from 50 percent a decade earlier, that was still a greater share than any other single medium could provide.

That changed after 2001. The recession that followed the September 11 attacks forced many companies to cut spending, reducing media companies' advertising stream. More importantly, the digital transformation accelerated, and more users began to get their news, for free, on personal computers. The link between a consumer's getting the news and a provider's expensive investment in publishing, broadcast and delivery was broken; this brought a flood of new competitors. Craigslist helped devastate classified ads, newspapers' most lucrative source of revenue, and in 2008, the deep recession fueled by the financial crisis undermined real estate and employment advertising.

As we get further into the digital age, we can more plainly see how the transformation has affected news organizations and the citizens who depend on them. Consumers certainly have benefited—they have more choices, speedier delivery of news and more platforms. But as legacy companies shrink, these advantages have often been accompanied by a loss of original news coverage. New entrants have achieved impressive editorial results, but not many of them have achieved financial stability without some philanthropic or other non-market support.

The move to digital delivery has transformed not just the business of news, but also the way news is reported, aggregated, distributed and shared. Each of those changes has an underlying economic rationale, and the media industry has sometimes been slow to recognize the changes or has been paralyzed by their impact.

Below, we list some of the most consequential changes brought on by the digital era and offer thoughts on how they will affect the way journalism is supported in the years to come.

I. A Different Business

- **Digital requires a new way of thinking about your audience, one that now feasts on an abundance of information.** In the words of Syracuse University Professor Vin Crosbie, "Within the span of a single human generation, people's access to information has shifted from relative scarcity to surplus."[5] As Crosbie notes, it isn't enough simply to transfer content from a legacy platform to a new one. Digital journalism requires an entirely different mind-set, one that recognizes the plethora of new options available to consumers. Tom Woerner, a senior vice president at freelance-generated site Examiner.com, notes that "the old distribution model allowed for only so much content. There are only so many pages you can print, only so many minutes you can sell in a broadcast. … Now the limits are gone, for both good and bad."

  Impact: Readers have access to far more information than they used to, almost always for free. But for publishers, the competition is nearly infinite, meaning much of the news has become a commodity, with pricing to match.

- **Digital is where the users are heading.** In the most recent study by the Pew Research Center for the People & the Press, 65 percent of people ages 18 to 29 get their news from the Internet—outpacing television for the first time and far exceeding the 21 percent in that age group who rely primarily on newspapers.[6] Among people ages 50 to 64, the Internet (34 percent) and newspapers (38 percent) are almost tied. The Web's growing popularity means the "network effect" can kick in. That is, as more people use news sites, those sites become more valuable to their users, especially as readers and viewers comment on—and contribute to—stories. Meanwhile, more usage is gravitating from computer screens to smartphones, tablets and other mobile devices. According to a January 2011 Pew study, 47 percent of American adults say they get at least some local news and information on their cellphone or tablet computer.[7]

Impact: Digital platforms provide ways for audiences to build quickly with lower marketing costs than in traditional media. And the shift to mobile provides news organizations with more opportunities for targeted content and advertising. But increased audiences don't always lead to proportional gains; in other words, more people may be viewing a site, but that doesn't mean revenue increases to the same or greater degree. Witness a recent report by McClatchy Co., the third-largest newspaper firm in the U.S. The company said the number of local daily unique visitors to its websites grew by 17.3 percent in 2010, yet digital revenue rose only 2.4 percent for the year.[8] And mobile ad sales have so far been less lucrative than those on Internet platforms. Chris Hendricks, vice president of interactive media for McClatchy, says that "seven percent of our traffic comes from mobile. The traffic is significant, the revenue is not."

- **Digital provides a means to innovate rapidly, determine audience size quickly and wind down unsuccessful businesses with minimal expense.** The substantial capital expenditures that used to be involved in starting a new media company are largely gone. A video service need not build tall antennae atop the highest hills in town, and print publishers can avoid capital-intensive investments in printing presses. The large staffs associated with getting information to readers—whether they're camera crews or printing staffs—aren't as necessary. It took Sports Illustrated at least 10 years to get its formula right and become profitable[9]; it took Huffington Post less than six years to go from an idea to a valuation of $315 million in its 2011 sale to AOL.

  Impact: The development time from idea to market is shortened, greatly increasing efficient use of a firm's resources. But because competitors can imitate or adapt more quickly, it is difficult to cash in on innovations. The shorter cycles can lessen the length of time that innovations remain unique, relevant and valuable.

- **Digital platforms extend the lifespan of journalism.** In the analog era, news stories were as ephemeral as fruit flies. An article was prominent for a day, then available only on a library's microfiche; a video would be broadcast to millions on the nightly news, then it would be sent to a network's vault. Journalism now can be freely accessible for as long as a publisher wills it to be. In the words of one programmer, "There is no such thing as 'yesterday's news.' "

Impact: News organizations can make money from their archives as part of a subscription or pay-per-view service, or as part of a scheme to provide more content and build traffic and ad revenue. But as increasing amounts of content stream into archives, consumers may have greater difficulty finding what they want.

II. Content and Distribution: A Fundamental Change

- **Digital disrupts the aggregation model that was so profitable for so long.** Almost no one used to read the entire newspaper every morning, and audiences frequently tuned in and out of the network news at night. Yet, news organizations sold their advertising as if every page was turned and every moment was viewed. Indeed, print publications applied a multiplier—often up to 2.5 readers—to account for the audience for each edition they sold. But in the online world, content has become atomized, with each article existing independently of the next. It is as seamless for a reader to go from a tallahasseedemocrat.com story to a video on msnbc.com as it is to read back-to-back stories in Esquire magazine. The economic consequences of this fickle information-gathering are devastating for legacy news organizations, especially because they have ceded many of the benefits of aggregation to sources like Drudge Report, Huffington Post and Google News. Says Michael Golden, vice chairman and president of the New York Times Co.: "We've lost the power of the package."[10]

  Impact: News relevant to a particular audience can be assembled cheaply and easily, with significant benefit for readers seeking divergent and even competing points of view. But low-cost aggregators compete with content creators for page views, and often win. In the words of Aaron Kushner, an investor trying to buy the Boston Globe, "The definition of a competitor now is someone who gives away your story for free."

- **Journalists today can find readers wherever there is access to the Internet.** This is an enormous transformation after a century in which the reach of print journalism was limited by a company's printing plants and trucks, and most broadcast news was tied to narrow geographic areas. Even when local newspapers expanded their circulation far beyond their metropolitan areas, the results were usually disappointing—the more geographically distant the reader, the less loyalty and interest in the content. (Three national newspapers—USA Today, the New York Times and the Wall Street Journal—avoided most of those constraints by delivering national rather than local news in authoritative, attractive packages.) By contrast, publishing online means that any article or video will become immediately available around the world, at no added cost. Meanwhile, broadcast outlets' reach, once defined largely by geographic and bandwidth constraints and enforced by regulatory agencies, is expanding. Their content is no longer limited to local markets and thus is less restricted by federal regulations.

Impact: Journalists and media companies can go where the audience is, expanding markets at low costs. But the advantages that went along with distribution limits—such as protection against new competitors—are disappearing.

- **Digital platforms enable publishers to deploy their readers and viewers in publicizing and distributing their content.** Print publishers used to tout the "pass-along audience"—people who didn't buy a magazine or newspaper but picked it up in, say, a dentist's office, and could therefore be counted as readers. Advertisers were often skeptical of the numbers, which depended on surveys of readers trying to remember if they read a publication they didn't pay for. But digital news organizations can track precisely how people share content—a few years ago mainly by email, and now also by social media like Facebook and Twitter. For journalists, such distribution helps validate and publicize their work.

  Impact: Publishers get free distribution with excellent, real-time information. At the same time, they are losing control of the distribution platform that generated such healthy profits. And they have less say over how their content is portrayed; sometimes users post links and add a dollop of nasty criticism.

III. What's Happening To Consumers?

- **News organizations can more easily build new audiences centered on specialized topics or interests.** Because everything online is instantaneously and ubiquitously available, it's far easier to create offerings of more focused content and find users no matter where they live. Fans of a city's football team may be spread around the world, but a news organization can build a site that will draw a substantial audience.

  Impact: Highly focused audiences can provide more value to advertisers. But separating audiences into too many niches can bring on a new set of problems. Consumers may find that dealing with multiple content providers—with few guideposts to judge the quality or authority of the source—isn't worth the bother.

- **Publishers have more information about their readers, in real time.** Whether a citizen is using free Google Analytics on a blog, or a mainstream organization is deploying more sophisticated usage-tracking services like Omniture or Chartbeat, journalists know much more about who's viewing their content, where the audience is coming from and how it is engaged. Unfortunately, many of these numbers are unreliable, misconstrued and prone to exaggeration. Usage estimates often vary by 200 percent or more. This issue was explored in detail in a report last year by Columbia University's Tow Center for Digital Journalism.[11] Metrics have always been challenging for advertisers, especially in the broadcast world. But as the Tow report notes, digital media have failed to come up with common standards; they have not yet settled on metrics, whatever their flaws, as broadcast media did generations ago. "It is a long-appreciated irony of media measurement that accuracy matters less than consensus," the report said. "Doubts don't matter much as long as no competitor is seen to benefit."

  Impact: Media companies can measure the popularity of articles, videos or sections and adjust their strategy to maximize revenue and audience. But uncertainty around metrics inhibits advertisers from investing fully in the digital marketplace and depresses advertising rates for those who do take part.

- **Digital platforms fundamentally change the customer experience, in ways that are both advantageous and harmful for news organizations' economics.** Publishers can now capture highly valuable bits of user information, ranging from areas of interest to credit-card numbers. But new media rarely provide the immersive experience found in traditional platforms. Many users keep numerous sites open on tabs in their Internet browsers and don't focus on any one for very long; they often come to a news site through a search and quickly leave for another. Links to other sites provide value to readers but also send them elsewhere, sometimes never to return.

  Impact: By tailoring content and advertising, publishers can charge higher rates to advertisers and win greater loyalty from users. But privacy concerns may lead to regulations that will limit the information publishers can glean about their users. And most readers spend far less time on digital sites than they did on legacy platforms, so news organizations have less opportunity to attract advertising dollars. In the words of Steve Harbula, an editor at Examiner.com: "Readers have a large appetite but a short attention span."

IV. Cutting Costs And Seeking Revenue

- **Digital upsets media's typical pattern of high fixed costs and low variable costs.** It costs a lot—and often requires companies to take on a great deal of debt—to produce the first copy of a newspaper or magazine. But the second copy, and the thousands or millions that follow, are relatively cheap. In the digital realm, many of those initial costs are eliminated, and in some instances—such as starting a blog—they decline to zero.

  Impact: This is a particular challenge for companies that have sunk mounds of cash or taken on debt to make acquisitions that have high fixed costs; those publishers now find such investments to be drags on profitability. Their digital competitors aren't saddled with the same disadvantages.

- **Digital enables news organizations to trim the cost of doing journalism,** particularly if they can get citizens to provide content by bringing them into news production or encouraging them to participate on comment boards.

Impact: Since news and content supplied by paid professionals begets free content by readers/users, the average cost to produce a page view is driven lower. But the quality, accuracy and authority of this content are highly variable and susceptible to manipulation.

- **On digital platforms, it is often hard to make sure that advertising supply matches demand.** Online editors frequently have a difficult time generating enough page views when advertisers demand them—or filling up that advertising space when reader traffic soars and ad demand is light. So news sites often need to run cheap ads, called "remnants," that may get a tenth of the revenue their usual ads draw. Michael Barrett, the CEO of Admeld, a company that tries to increase advertising rates on sites with traffic prone to peaks and valleys, says that some of his clients view the situation "like seats on an airplane. They don't want to fly the plane with any empty seats."

  Impact: Because the cost of creating each additional page is close to zero, media companies can have a wide range of prices, charging the highest rates for the most desirable times, placement and audience. But all those unpredictable page views exert constant downward pressure on ad prices.

- **Advertising is transformed in a digital format, and not always for the better.** Some journalists may not realize this, but many of their readers and viewers see advertising as useful and entertaining. Indeed, access to advertising is another incentive for people to buy magazines and newspapers or listen to and watch broadcasts. But the appeal of online advertising is often diminished by its format. A small, rectangular banner ad conveys little useful information—certainly less than an insert in a newspaper or a glossy ad in a fashion magazine. To get useful information from an online ad, a reader often must click and head to a new site, something people rarely do. And the more intrusive forms of online advertising—such as "roadblock" messages that take over the entire screen for a few seconds—upset the user experience. Some digital companies are bringing content value to ads, but they tend not to be news media. Google became a powerhouse by tying advertising directly to users' search queries. And Groupon, which attracts readers who are looking for online discount coupons, has become successful with witty come-ons and obvious value. Groupon has expanded rapidly into hundreds of markets and has turned down a $6 billion offer from Google.[12]

Impact: Digital provides the ability to target advertisers' messages and better metrics to determine impact. But users find that many digital ads on news sites convey little information and value.

- **Digital platforms provide another way for advertising departments to attract new clients and retain old ones.** For salespeople who don't feel they have enough arrows in their quiver, online and mobile can be a way to get a reluctant advertiser into the fold.

  Impact: Media companies can bolster more profitable legacy sales in traditional media by adding digital, and in the process, can move their clients to newer platforms. But deals that combine legacy and digital ad sales make it difficult to determine how much revenue is truly attributable to new media. At some companies, half of digital sales have been "bundled" with print or broadcast, and the way those dollars are apportioned can be largely at the whim of the accountants, rather than being an accurate reflection of the value of the ads.

- **Many efforts to get readers to pay for content have been fitful, poorly executed and motivated more by ideology than economics.** Only a few publications have had a successful, long-term plan to get readers to pay, and even fewer have done it in a way that genuinely increases online revenue rather than simply protects their traditional businesses. Was free content journalism's "original sin"?[13] Perhaps, for news organizations must now ask readers to start paying for material that has been free for 15 years. Meanwhile, pay-per-article schemes, such as the one proposed in a 2009 Time cover story by Walter Isaacson, haven't caught on for journalism.[14] Unlike Beatles songs, news stories have little lasting value beyond a single use.

Impact: Users have unlimited access to most content, and publishers have unlimited access to most users. But circulation revenue, one of the mainstays of the traditional media business, has withered. And one of the methods that advertisers have used to judge audience quality—willingness to pay—has evaporated as well.

* * *

As one looks at this list, it becomes clear that most of the economic disadvantages have been fully realized at news organizations, while many of the benefits—such as a surge in mobile-phone advertising—are more potential than real. At the same time, some new models are emerging that can replace some, if not all, of the revenue news organizations have relied upon. Journalists and publishers, new and old, are responding to this new environment in a variety of ways. We'll examine how they have coped, transformed and endeavored to meet the challenges of the digital era.

---

1 Rick Edmonds, "An Online Rescue for Newspapers?", Poynter.org, Jan. 27, 2005. http://bit.ly/gphsCR

2 Figures from Newspaper Association of America data. http://bit.ly/h4dxxf

3 "State of the News Media 2011: Network by the Numbers," Pew Research Center's Project for Excellence in Journalism. http://bit.ly/eH71Ld

4 Carl Sessions Stepp, "State of the American Newspaper, Then and Now," American Journalism Review, September 1999. http://bit.ly/eDev0Y

5 Vin Crosbie, "The Placebo Called Convergence," June 9, 2010. http://bit.ly/ft8f8b

6 "Internet Gains on Television as Public's Main News Source," Pew Research Center for the People & the Press, Jan. 4, 2011. http://bit.ly/ia45aw

7 "State of the News Media 2011: Mobile News and Paying Online," Pew Research Center's Project for Excellence in Journalism. http://bit.ly/fsVAWf

8 "McClatchy Reports Fourth Quarter 2010 Earnings," Feb. 8, 2011. http://bit.ly/hsfERQ

9 Edwin Diamond, "Trouble in Paradise," New York Magazine, March 3, 1986, page 52. http://bit.ly/hPZgZP

10 Remarks made at Borrell Associates Local Online Advertising Conference, March 3, 2011.

[11] Lucas Graves et al, "Confusion Online: Faulty Metrics and the Future of Digital Journalism," September 2010. http://bit.ly/hBPwt7

[12] A study of local online media has this to say: "Content is king, but not the content most people think. News and information sites do indeed generate revenue, but the top five local online companies derive all their content from their own advertisers." From "Benchmarking Local Online Media: 2010 Revenue Survey," Borrell Associates.

[13] Alan D. Mutter, "Mission Possible? Charging for Web Content," Reflections of a Newsosaur, Feb. 8, 2009. http://bit.ly/gMqNxP

[14] Walter Isaacson, "How to Save Your Newspaper," Time, Feb. 5, 2009. http://ti.me/etDZzr