

2006 – International Symposium on Online Journalism

Day 1, Panel 1: Audience and Business Models: Will the Online News Industry be Able to Finance Quality Journalism?

Moderator: Lorraine Branham, Director, School of Journalism, University of Texas at Austin

Panelists:

Vin Crosbie, President and Managing Partner, Digital Deliverance

Gary Meo, Senior Vice President, Print and Internet Services, Scarborough Research

LORRAINE BRANHAM: In the interest of time we are going to go ahead and get started. I won't give a long introduction to our panelists-you've already heard the introduction for Dr. Picard. The introduction for our other two panelists, Gary Meo and then-Vin, how do you pronounce your?-

VIN CROSBIE: "Vin Crosbie"

LORRAINE BRANHAM: Vin Crosbie-is in the book. But I did want to say that Gary is senior vice president for print and Internet sales for Scarborough media. And Vin, whose bio I had read earlier and didn't read again, is the managing partner of Digital Deliverance of Greenwich-it's a firm that advises the news industry about online businesses. I think this will be interesting to follow the discussion that Dr. Picard started about what's happening with the bottom line of newspapers in particular and online journalism. What we'll do is, we'll have each of our panelists start off by giving a brief presentation of their thoughts about the future of online journalism and this new business model, and how are we going to make money online. Then we can start asking some questions. I think we'll start with Gary, then we'll follow up.

GARY MEO: Thank you very much for having me, number one. I found Dr. Picard's presentation quite fascinating. Earlier this week I attended the Newspaper Association of America's annual convention in Chicago, which is primarily made up of the publishers of the major newspaper around the United States. My wife, who also worked for a few years in the newspaper business, we were talking on the phone one night, and she said, "What's your impression of the conference?" And I said, "It's a bunch of old white guys in complete denial" (laughter). And I think that that's basically what we heard this morning. What I'm going to talk about a little bit is, what we do at Scarborough is, measure the audiences of newspapers and their Web sites. And so I'm going to focus primarily on the audience.

Dr. Picard said that the audience is basically the primary underlying component of the newspaper business model. And so that's what I'm going to kind of focus on. And

2006 – International Symposium on Online Journalism

so my agenda is to just tell you quickly about Scarborough and what we do, and we'll look at the readership trends in printed newspapers, and then we'll look at the newspaper Web site audience in terms of size and composition, talk a little bit about newspaper economics and how these changes in audiences are affecting the economics, and then I'm just going to pose a couple of ideas that y'all might want to think about as the symposium progresses.

At Scarborough, what we do is a local market syndicated study. So we're in 80 markets around the country and we measure consumer behavior, retail behavior, media usage, demographics, etc. But we are essentially the ratings service for the newspaper industry—so in the way Nielsen is for TV, Arbitron is for radio, Scarborough is for newspapers. And we utilize a two-phased methodology in our data collection: we call people up on the phone and ask them about their media usage and we mail them a product booklet where we collect other information. And just about every major metropolitan daily newspaper in the markets that we measure is a subscriber to our service as well as the advertising agencies and advertisers who place advertising in newspapers.

This is an old story—this is the average issue newspaper readership trend over the last few years. When I say it's an old story, it's old because we all know that newspaper audiences are eroding, but it's old because it is an old story—newspaper audiences have been eroding since the early 60s. And it has been exacerbated somewhat in recent years as a result of the Internet. And as Dr. Picard pointed out, there's also this generational gap, whereas people got older they tended to pick up the newspaper as they got more rooted in their communities and were interested in what the school board was doing and those sorts of things, they became newspaper readers. But today that dynamic is not happening to the same degree because younger people are used to getting their news from digital means.

Just a point about readership—readership and circulation are not the same thing, and I just wanted to point this out because I often see these terms used interchangeably in the trades and they're really not the same thing. Circulation is the number of newspapers sold, so it's actually numbers of newspapers sold that the newspapers count, and then an organization called the Audit Bureau of Circulations audits those counts and says, "Yes this is the circulation of a newspaper." And circulation was very much in the news in the summer of 2004, where a lot of prominent newspapers were caught basically cheating on their ABC statements, and that became a big news item.

Readership, however, are the number of adults who read the paper. So when we're talking about readership we're talking about people, with circulation we're talking about papers. And readership is measured with survey readership—and that's what we do at Scarborough. So I just want that distinction clear because I so often see these terms used interchangeably in the media, in the newspapers even. Just a point about newspapers: I mean, newspapers in a lot of ways have pioneered the digital news industry, if you will. One of the earliest news Web sites was The (San Jose) Mercury News' Web site, Mercury Center. So newspapers have been at this for quite

2006 – International Symposium on Online Journalism

a long time. And there have been success stories but there are still a lot of problems and challenges, as we've heard about.

This date is from November of 2005. I'm sorry it's not newer-Nielsen Net Ratings is very protective of their information. If anybody out there has newer information, I'd be happy to hear you say it. But basically in November of 2005, newspaper Web sites reached an all time high in terms of audience of 55 million users. That's a huge amount of people-that's a 30 percent increase over the previous year. In November of 2005, almost a third of all active Internet users visited newspaper Web sites. Unique visitors to newspaper Web sites jumped 21 percent from January of '05 to December '05, and page views increased by 43 percent over that same time period. And 11 of the top 25 national news and information Web sites are newspaper Web sites, and this is all from Nielsen Net Ratings.

Now what newspapers like to do, or like to talk about, is the amount of additional audience that they get because of their Web sites. We know that regular print audiences are eroding, but their online audiences are growing. So they're making a big push to put these audiences together to be able to tell advertisers "we're not actually losing audience, we're actually gaining audience." And some of you may have noticed that the Newspaper Association of America put out a press release earlier this week basically touting this very fact. And this is some data from the Houston Chronicle, where basically their daily paper over the course of a week reaches about 47 percent of adults in the Houston DMA, but when you factor in their Web site, they get another eight percent of reach of the marketplace, so they're actually reaching 55 percent between the print and online products. And on Sunday, you see a similar kind of pattern, because there are some people who are just reading the paper online. And so they're picking up an additional audience, not only an audience that's duplicated. Now I do want to make the point that, for most newspaper Web sites that we look at, the audience is primarily duplicated. In other words, the people that are going to the Web site are also reading the paper in print. So there is not a huge amount of new readers that were not reading the papers at all. Though there is, we're starting to see, a fair amount of migration of people who were reading it in print, and now are just reading it exclusively online.

These audiences are sizeable if you compare them to other media. For example, if Chron.com, which is the Houston Chronicle's Web site, was a radio station, its weekly audience would be the number one radio station in the market. This is showing the weekly drive-time audiences of the top five radio stations compared to the weekly audience of Chron.com, and these are percentages-percent coverage of adults. So if Chron.com was a radio station, it would be the number one radio station in the market. Does it get the revenue that the number one radio station in the market gets? No.

Another important point about the audiences of newspaper Web sites is that they tend to be younger than the printed newspaper, though they are just as upscale, and in some ways more so. So as Dr. Picard talked about the newspaper audience, the printed audience, as its getting smaller, it's getting older, and these people tend

2006 – International Symposium on Online Journalism

to be more upscale-better educated, higher income, better employed, for example. But if you look at the newspaper Web site demographically, they're just as upscale, but they're younger. And what I'm using here are indexes where 100 is the average, and if you index over 100, you're doing better for that group, if you index below 100, you're not doing as well. So you can see the indexes for the upscale demographics are very high for both audiences, but the age indexes are exactly the opposite. So this is something that newspapers are touting among the advertising community and they're saying, "Well everybody thinks we don't reach young people any more, when in fact we are reaching young people with our Web sites."

And with audience, comes revenue. As we heard, the audience is the underlying component of the business model, so as the audience moves online, revenue online is increasing. Advertising revenue for general market newspaper Web sites is expected to reach two-and-a-half billion dollars this year, and newspaper Web site revenue will comprise five percent of total newspaper revenue this year. Now, again, it's not a big number in terms of the percentage of the overall revenue pie, but it's growing, that's the point. And it's growing because newspaper Web sites reach affluent, upscale, and young audiences. And this information is from the Newspaper Association of America.

Let's just talk about newspaper revenue by type for a second. At your typical newspaper, about 81 percent of their revenue comes from advertising, and about 19 percent of their revenue comes from circulation, or 20 percent or so. So let's say, for example, in this brave new world, where people are no longer reading the print edition but they're going online, if the online site is not a paid model, like say The Wall Street Journal, for example, then that circulation revenue goes away. So if you're putting your content up there for free and you're not charging for it, then there is no circulation revenue. And very few papers are willing to charge. As a matter of fact, papers are starting to move away from having their users register because they want to put more emphasis on traffic and less emphasis on trying to get demographic information about their users. So that's a big problem, obviously.

And when you look at just advertising revenue, this is the way it kind of breaks down: about 17 percent, the smallest category, is national. At smaller newspapers that category would actually be much smaller than 17 percent, but in general it's about 17 percent of the total advertising pie. National advertising are things that come from national advertisers like airlines, for example. Forty-six percent comes from retail, that's the biggest advertising category, as we've already heard. There's a lot of pressure on that retail advertising and a lot of things are happening there where retailers are consolidating, retailers are going out of business, Federated is owning everything and pretty soon you're not going to have a department store brand, it's just going to be Department Store. I mean, right now everything's Macy's, but pretty soon it's just going to be generic Department Store.

So that's a big problem for newspaper because their traditional advertising base is eroding. And then nearly 40 percent of that revenue comes from classified advertising. And classified advertising has been the one area that's been growing for

2006 – International Symposium on Online Journalism

newspapers. One of the reasons why McClatchy, who just recently bought Knight-Ridder, is selling The (San Jose) Mercury News is because, during the boom years of the Internet and Silicon Valley, The (San Jose) Mercury News' "Help Wanted" classified advertising was just huge. Now it's tiny and it's in a slow-growth market, and so here's a paper that was so successful just a few years ago that McClatchy is getting rid of because it doesn't fit into their growth market plan. But the point I'm trying to make here is that that Internet has really been digging in to this classified revenue for newspapers. I mean, just imagine Craig's List, I mean, you could sell your car on Craig's List for free, so why would you buy a classified ad in the Austin American-Statesman? Folks here from the Statesman, though, I want you all to know that classified in print works people should buy it, they should use it (laughter). I wasn't trying to bad mouth you-you all are my client, so I have to treat you well. But the point is: what 40 percent of the revenue is coming from classified, when classified competitors on the Internet start taking small pieces away of that revenue, you can see the large impact it has on a newspaper and its revenue.

I just want to end with some things to think about because I think what we heard in our keynote presentation this morning is that there's a lot of bad news out there. I think there's some good news out there too. Some things to consider (and these are all things that have just happened with in the past few months): the McClatchy Company buys Knight-Ridder for four-and-a-half billion dollars, and that included 32 daily newspapers and a sizable number of Internet businesses. In 1998, which was not that long ago, McClatchy bought the (Minneapolis) Star Tribune, one newspaper, for \$1.4 billion. Granted, at that time, people thought McClatchy paid too much for the (Minneapolis) Star Tribune, but I think it's pretty clear that the Knight-Ridder sale was a fire sale. I mean, McClatchy got Knight-Ridder for a relatively small amount of money. The Washington Post recently announced that they're cutting 80 editorial jobs, that's nine percent of their newsroom, due to pressures on advertising and circulation. IR ratings for the New York Times company, Tribune Company, and Scripps have been put under review by Moody's Investor Service with an eye to downgrades, and Merrill Lynch just the other day downgraded Dow Jones from neutral to sell on fears of slower than anticipated revenue growth at their flagship, The Wall Street Journal. Locke Communications owner of the Toledo Blade and Pittsburgh Post-Gazette will close its five-person D.C. bureau, which has operated out of the National Press Building since 1927. And in September, the EW Scripts-owned Cincinnati Inquirer gave buyouts to 15 editorial staffers, decreasing their newsroom from 80 to its current 65. Buyouts are still being offered, so if another five take it, that would mean a 25 percent reduction in staff since last fall. We're talking about quality journalism-all of these things have an impact, obviously, on quality journalism.

But, on the other side of the coin, The New York Times launched Times Select, which is providing access to specific content for a fee-50 bucks a year and you get to read Maureen Dowd online-and it's free to print subscribers. And they boasted about 135 thousand paid subscribers in the first two months of Times Select. The St. Petersburg Times has begun offering free private-party classified ads-individuals can sell personal merchandise through free ads online and in print, and ads may be renewed

2006 – International Symposium on Online Journalism

one time for free, and sellers can purchase upgrades to enhance their ads like color, or bolded type, things of that nature. But this is a radical change for a newspaper to be giving away classified ads. The Associated Press and MSN just recently launched the AP Online Video Network, providing 40 video clips per day covering national, international, technology, business, and entertainment news that their subscribers can use on their Web sites.

U.S. newspapers are beginning to introduce podcasting and vodcasting-I hope it's pronounced "vodcasting"-to reach young people through digital channels. The Newspaper Association of America reported that total newspaper advertising revenue grew 1.4 percent in the fourth quarter of 2005, largely due to spending online. Print advertising was up a scant four-tenths of a percent in that period, but online advertising was up 32 and a half percent-so all of the growth is coming from online advertising. And at the World Economic Forum in Switzerland, New York Times Company Chairman and Publisher Arthur Sulzberger Jr. said that their online product NewYorkTimes.com has moved from being an ancillary product to being a core product for the company. So when they talk about core, they're not just talking about the printed New York Times, they're talking about NewYorkTimes.com. So I think you can see that there's definitely a sea change going on in what's happening in terms of the way newspapers are bring news to the public.

What does this mean for quality journalism? Will newspapers be able to figure out the right economic model to fund these large news-gathering and editing organizations when the revenues are going to be so much smaller? I don't have the answer to that-if I did, I would be much more sought after than I currently am (laughter.)

I'd like to thank you for listening. I'd be happy to answer questions after next presentation (applause).

VIN CROSBIE: That's the question-will the online news industry be able to finance quality journalism? And I apologize for the slide, it's a horrible one to show at a college-it's very politically incorrect. But there was a time, not so long ago, when some of us-and I know some of the people in the room are old enough-when we actually looked like this, wore these clothes, and had out sidelines this length. Forgive me-I think it's the only politically incorrect one I'm gonna have.

So the question is: are we winning, are we on target to generating enough money to sustain quality journalism if print goes down and online goes up? And actually, that big ship there, I should say that actually it's a battleship-what I'm going to give you data for and what I'm going to be talking about is not so much the national newspapers, The New York Times, for instance, is in a class by itself being more of a national (inaudible). In the U.S., there's only, I think as I recollect, about 15 newspapers that have more than a quarter million daily circulation. The other 1476 have less than that, and so this is really going to apply more to the smaller papers. But then, of course, that's where most newspapers are (inaudible).

2006 – International Symposium on Online Journalism

The good thing is that there's a whole sea of money out there and newspapers are getting it-probably getting a lot more than people think. There's still some people who think "well are these sites profitable?" I was skeptical in articles I was writing for a long time, but yes, they are actually generating a lot of revenue-more than most people think overall. I should probably tell you where I'm getting my figures from-my company represents Burrell Associates oversees. Burrell, like Scarborough, is a research company that specializes, in this case, in online-Scarborough is doing print (inaudible), Burrell is the one who is keeping track of online news expenditures for a variety of companies we will see here, and I'm going to move through these slides fairly quickly.

But what we've got is data from local ad spending in pretty well every major U.S. market, by which I mean about 250 markets. Online spending-where we actually go into the sites, newspapers, TV, pure play, and ask them confidentially how much money they're making. And we also talk to local advertising experts in those areas. Because a lot of the figures you're seeing in the press-I think (inaudible) what was it, something like two point something or the other billion they believe that newspapers-we're actually showing a lot more. If you look at the small 10 thousand circulation dailies who actually are making money and add that in, because there are so many of them, it's actually a higher figure (inaudible).

I want to share you the add share chart a little bit in terms of where this is going. And this is a little wider scale than the '98 to 2005 that Gary just showed. This is ad share, and again, not round dollar numbers as Professor Picard mentioned, but ad share itself of the industry over the last 60 years. "Newspapers" is that solely declining line, obviously, on top. And we are still, in the newspaper industry, the dominant advertising medium in most markets. Broadcast TV came up in the '50s, peaked sometime in the '80s and still has a fair share, particularly with national advertising, but it's less than newspapers and it's also declining. Radio, which is our oldest competitor, probably, in the newspaper business (inaudible) is pretty well flat in terms of its ad share. Cable TV, which came up in the '80s, has done pretty well and has pretty well equaled, at least in the U.S., the market share in advertising for radio. Here, however, is the Internet, which started more or less in '97 or '96 when the first banner ads were put online-and look at the slope, look at how that's going up. It's a particularly strong climb, and you'll notice it's starting to intersect some of the other media.

And what we've found in adding the figures together, not just for newspapers but all online media, and this is research from other companies we're aggregating here, is that in the U.S., about 17 billion in revenue was generated from online advertising. Now put that in perspective: the entire newspaper industry is about 44 billion in revenue. That's a sizable number. It surpassed the amount of money spent on Yellow Pages advertising-online has actually surpassed that. It will surpass radio advertising revenues in this country sometime in the next 18 months, and it already has in the U.K. (inaudible). And it's already surpasses billboard advertising here in the U.S. And it has surpassed magazine advertising in the U.S.-the magazine industry generates

2006 – International Symposium on Online Journalism

about \$16 billion a year; there's 17 billion now online, a lot more money than you'd think.

These are the relative shares. We've been able to track about \$3.8 billion in newspaper revenue that's coming from online in the United States among the 15 (inaudible) papers. Total share is about 22 percent. The local share, again, it's the dominant medium, is 41 percent. And you can see the other figures here. Other print magazines etc., about a little under 400 million; TV 2.2 billion, 14 percent overall but smaller amount local, it's mostly national advertising. Radio, you can see the figures (inaudible). Pure play companies-Google, Yahoo, companies that don't have any traditional, legacy online media, 9.6 billion-the majority share, 52 percent of all online advertising. Look at the local share-31, 32 percent almost. They are the number two player for local online advertising-these are the city guides, and again Google and Yahoo primarily. Total about 17 billion.

Traditional media companies have done fairly well in terms of the growth. I've highlighted them here in yellow and I hope you can see that slide fairly well. These are the revenues over the last four years, and the right-hand column, farthest right, is the compound average annual growth. And they're ranging from, for instance, The New York Times' 25 percent increase year and year and year in online revenue. Some others, like McClatchy, 35 percent; Lee Enterprises, 45 percent. Media General, part of the Google growth, 63. So the amount of revenue that's climbing here in these media companies is fantastic, almost geometric rates-doing very well in terms of the growth.

And what's propelling that, to a large degree, is, of course, the increase in advertising spending nationally. But there's an odd thing going on between local and national here. All advertising in all media, not just online, is roughly balanced between national and local-roughly 50 and 50. However, right now, online, circa the end of 2005, local was only about 26 percent, 77 percent national. But what we're seeing is more and more local advertisers are starting to go online, which is kind of a trend that's been true in all media. When TV came out, initially it was the national advertisers using it for the first five, 10 years, but then the local advertisers started to realize they could advertise on TV too. And so the local stuff seems to be driving these fantastic growth rates right now (inaudible).

And so this all seems good-we'd like it to grow this way forever. And there's a lot of people in the industry, the trade industry in particular, the NAA and others, who are thinking, "This is great, look at how it's growing-if it goes this way forever we're going to be fine." In fact, I saw in that same reaction story to the NAAP somebody interviewed John Morton, the newspaper analyst, and he said, "Well if this keeps up in classified, online classified revenue in another 10 years will equal where it is in print right now (inaudible)."

The problem with this is that you need to look beneath the surface a little bit because there are some caveats here. And when people start talking about this type of growth forever, you obviously got to get a little worried what's in the water here.

2006 – International Symposium on Online Journalism

Because there are some fundamental differences between the business model of traditional and online.

Yeah, we're selling space in print or on TV commercials, and we're selling "space" online, but there are some fundamentals here and these fundamentals are some of the things that keep the revenues lower right now for online than print. After all, we've been doing this for 10 years almost-or, maybe '97 when the first banner ads came out-for a long time, but we're only making about three percent of what print is making right now despite the fact they've (inaudible) audiences.

A couple of changes here: Professor Picard had mentioned that one is choice. In Austin, 20 years ago you probably had one newspaper that you could get home delivered-the Statesman-and you had access to maybe three TV channels, ABC, NBC, and CBS. This has changed. The amount of choice consumers have gotten over the last 10, 15 years has been fantastic. And if you kind of a supply-demand equation on that, they've got more supply, which is kind of a lesson (inaudible). To a large degree this is perception that people can get national news anywhere means that they're no longer necessarily willing to pay for it online in this new media.

(Inaudible) If you want it in print, yeah, you've got to pay this much, but online there's so many other sources that people aren't willing to pay. Plus there's also a kind of fragmentation going on here because if, in the old days, you had one newspaper, you wanted to read news in text, you'd go to the Statesman for international, national, financial, and sports-every purpose. But online-forgive me, I don't mean to pick on any one paper, I'll just pick on Austin because I'm here-a lot of people aren't going to go to the Statesman's Web site for international news, they're probably going to go to The Times, CNN, or (inaudible). They're not necessarily going to go to the Statesman's homepage for all their financial news, not when they can go to The Journal homepage or some other. Or for sports, they're going to go to ESPN. So they're not willing to pay the same amount for the package-the package has fragmented. And, again, the value has gone down on this. Nowadays they've got the cornucopia of news. They can get this stuff from all sorts of sources, and again, as I've just said, that fragmentation (inaudible).

So you've got a supply and demand equation here-people aren't willing to pay. And the key to this is they're not willing to pay the circulation revenue, as Gary had mentioned. Gary, I think you'd said that the publishers are less willing to charge-I disagree, they love to charge. It's the consumers who aren't willing to pay (inaudible). The Journal can get away with it because they're a business paper to a large degree-they're not necessarily a general interest newspaper. But out of 1500 newspapers in the U.S., I'm tracking right now 40 that charge anything and only one of those is above 50 thousand subscriptions (inaudible). There's not many that can do it.

The other one is frequency in usage and this has a great effect on how much money we make. There are 54, actually, it's about 51 million, print readers per day in the U.S. That's the circulation weekday. The average reader reads it about five to six

2006 – International Symposium on Online Journalism

days a week, I think it's 78 percent of the time, so they're using it about 28 times monthly, and during a month they might read, if the average paper is 20 pages, 460 pages a month they'll actually be exposed to. And if you look at the figures in the Readership Institute at Northwestern and other places, they spend about 28 minutes, 30 minutes a day, so that equals about 10 hours a month in usage.

I'm putting the figures in monthly terms here because in the online world (inaudible). Keep these in mind when you compare the online newspapers' Web sites with (inaudible). I've just realized I've got European papers there and I'm using U.S. figures. But that's good-for those of you in Texas who've never been abroad, they do have newspapers there (laughter). And actually, second forgiveness, this is an old slide from The New York Times Web site, it's not the new design (inaudible). But the figures are current. You've got about 52 million people using newspaper Web sites in the U.S. right now. However, the average person only comes in about six to eight times per month, sees-(inaudible) figures from Nielsen here from about September-sees a total of about 29 Web pages all month long. That's all. And spends about 28 minutes all month long going to those newspaper sites. In other words, they're using it the same amount of time in a month that a print user uses it daily, which is a problem if you're charging for exposure because you've gotten much less exposure here, which I'll get to in a minute.

So the frequency is much less, the usage is much less, the numbers are the same, roughly, in terms of user-ship, but it's a much less well-used product. And, oddly enough, I hate to throw cold water on stuff, 10 years into Web publishing, news sites are seen by fewer people much less often and much less thoroughly than (inaudible) print products. That's not necessarily a good situation to be in.

Another one is that, when an advertiser takes an ad out in a print paper he pays for the entire print run, not the number of people who actually see the ad. And, if traffic increases in a newspaper, in other words, if there's more circulation, then the publisher can generally charge more for an ad. And these are kind of important concepts for the difference between revenue online and print because, in the Web, you're not charging for scarce ad space-if you get more traffic, it basically means you've got more ad inventory you've got to find banner ads for. Let me explain it this way: if you've got a print edition of, say, 50 pages of which about 20 pages of that is advertising, and here in the U.S. it would actually be more like 30, and miraculously the circulation of the newspaper actually doubled, the publisher wouldn't necessarily have to print 100 pages. He'd probably print a few more because he could probably afford it but, what instead he would do, rather than doubling the number of pages he's going to print, is double the amount he'd charge for that page, for the ad space, because he's got twice the demand.

However, look at the equivalent in the Web. If you've got a Web edition, which gets five million page views a day, or a month, and each page has a banner ad on it, so you've got five million banner ads you've got to sell each month, if the next month, you all of a sudden get 10 million, in other words, your traffic has doubled-can you double your ad rate because you've got double the traffic? No-all of a sudden you've

2006 – International Symposium on Online Journalism

now got to sell five million more ads-you've got to find buyers for five million more ads. And the effect of this difference of selling scarce space in print and surplus space online is it tends to depress the CPM, the rate per thousand that you can charge on this. My little brother and I publish a 10 thousand circulation daily in Connecticut (inaudible). We charge about \$1500 for a full-page ad-it's actually about nine thousand circulation. The New York Times, which is a thousand times our size, will charge, oh, I don't know what the rate is running, about 100, 125 thousand per page open rate right now. So add rate is roughly proportional in print to the size of the circulation. However, if you go to my newspaper's Web page, look for the ad rates, or got to The Times page (inaudible), you'll find that we're each selling banner ads for about 15 to 50 dollars, generally 15 to 20 if we can get it, per thousand because of this effect. The more traffic you've got on the site, the more ads you have to sell. There's some amelioration of this in terms of inventory and other things, but that's basically how the function works.

The problem is that it's different-the more traffic you've got, you can't raise your rates, you've got to just sell more ads. And that depresses the amount of CPM charges. So unlike traditional media, increased traffic doesn't lead to higher ad rates, which is a problem for us online right now. And, as I mentioned before, an advertiser in print will pay for the entire press run no matter the actual number of people who see the page which his ad is on. Whereas online, you bill the advertiser only for the actual number of ads exposed. So if your user is only coming in six times a month, as I mentioned, compared to print where, you're charging the reader every day even if it just piles up on the reader's porch, you've got a revenue problem.

And the result of all this-I think that's the longest, most type-laden slide I've done in years-is that you get much less revenue in print than online. Ten years into this, that's why we've only got five percent even though we've got huge audience numbers.

At Burrell, we took a look at 250 U.S. Web sites and got either their public statements about their revenue from the online operation or actually, confidentially through non-disclosure agreements, got the actual figures they were getting. And we cranked them out to figure out how much they're making per year per user. And here's the range in various circulation categories. This is 2004-we're about to release a newer version of this. And it ranged from about six dollars to 36 dollars per year, per user of a newspaper Web site. Per year, remember.

Maybe that sounds pretty good, but if you actually compare that to print-those are the figures in print-because if you take a printed newspaper and you take the circulation revenue-I forget what the Statesman review charges per year versus The Times, but at The Times I know I'm paying \$620 a year for that, and you add to that how much each user is worth to your advertising-simply take the ad revenues divided by circulation, put the numbers together-the average newspaper in the U.S. is earning about \$500 to \$900 annually per print user. So you can see there's a huge gap here in terms of how much newspapers are earning per print user versus per online user. In fact, the figure is about, depending, anywhere from about 20 to 100

2006 – International Symposium on Online Journalism

times (inaudible) per user. In other words, as a printed newspaper loses a subscriber in print, well, you hear a lot of publishers talk about "well yeah, print numbers are going down but look at how many people our Web site is getting" as if they're equivalent. Well, unfortunately, and I wish it was otherwise, they aren't equivalent-there's a huge difference. For every print reader you lose right now at a newspaper, you've got to make that up by anywhere from 20 to 100 Web users. (Inaudible.) And that's a big problem, particularly as the companies (inaudible). And the same is true, to a degree, we have similar figures for TV and (inaudible).

So again, we've got to greatly increase these revenues or we are in big trouble, as Professor Picard was mentioning, sometime, in the near future, in our lifetimes. And, to a degree, this shouldn't be surprising because if new media and new technologies create more efficient markets, it would kind of make sense that online advertising means that the revenue you're going to get is going to be lower because it's reducing the middleman, reducing friction in the market on it. So it shouldn't be surprising there's this difference-theoretically it would make sense, there's a logic behind it. Unfortunately, we're the middlemen being cut out.

I don't know if you can see that and even if you know who these guys are, but this is the Bunker brothers, Chang and Ang, they were born in 1848 in a country we now call Thailand, which used to be known as Siam, and these are the original Siamese twins, hired by Ringling Bros. and Barnum & Bailey Circus as a freak show, an attraction. They toured the world for about 60 years, then retired to Chapel Hill, North Carolina and became farmers, oddly enough. But, to a degree, to my mind, this is an illustration of online and traditional media. As Professor Picard had mentioned earlier, they're dependent on each other right now-very dependent because online, right now, gets its news from the traditional newsroom. Yeah, we are integrating to a degree, but basically the reason why all those reporters that are out there exist is, again, because of the print side, or the TV side if you're in TV. And the radio side. There were very few newspapers, or radio stations, or TV stations that are doing original reporting or have their own reporters for the online side. More and more it's happening, but there aren't that many out there.

The other part is most of the revenue, frankly, is coming as a result of having a traditional side. It's different at a large paper like The Wall Street Journal or The New York Times or U.S.A. Today, national papers, but 73 percent of most U.S. newspapers' Web site revenues come from up-sales to print-somebody calls up the print side, says "Hey, I want to take out a classified ad in print." "Oh, would you also like to put that online for an extra dollar?" "Sure." Or, maybe they don't even ask about an extra dollar, they just put it online and then their accounting provides a portion of that to the online operation.

So there's very few of these operations-newspaper Web sites, TV station Web sites, whatever you want to call it, legacy media-that you can actually place an ad just on the online side. You generally have to go through, at least in the classified side, the traditional part. And there's very few, with the exception of the major newspapers, national newspapers, who have their own sales staff just for online. Out of 1500

2006 – International Symposium on Online Journalism

newspapers, there's probably 100 that have their own sales staff for online. So again, the revenue is dependent upon having the traditional side. And, as I mentioned, you know, unfortunately there's this huge difference between the revenue value of a print user and an online user. So, as the print industry gets a little more mature, you want to have your online side of the business start to be hooked up to the older guy. Actually in the case of the Bunker brothers, they were both healthy one night, and Ang, who I believe is the one on the right woke up the next morning to find Chang was dead. And that didn't make him too happy because if one Siamese twin dies, well you can imagine how long the other one survives-it actually was about 12 hours before Ang died. And, if we're so dependent upon the traditional media side, and the revenue difference between print and online is so great, we've really got to do something because, when we hit that abattoir point that Professor Picard mentioned, we could go down with it. So that's not a very cheery message, I'm sorry.

This is a picture of the circulation revenue, U.S. weekday newspapers, slightly longer term than the one Gary mentioned here, peaked actually circulation in '85 and has been going down ever since. And actually this looks not that bad because it's 54 million to 62 million. But bear in mind that during this time the U.S. population went up by 50 percent and the number of college-educated Americans actually doubled. So this number should have gone up to like 80 million just to keep pace with population growth, nonetheless education, but it's gone down instead. And you've seen some of the circulation figures for major newspapers going down five, six, seven percent or more over the last year or two.

So can we increase the revenue fast enough to get to the point where we can take over on the online side and support quality journalism and even support the print side if necessary? Well I mentioned the local is increasing greatly, but that's finite to a degree-sooner or later it's going to reach a rough equilibrium. And more and more national advertisers are getting involved. So this is why the swell the whole thing, and we believe the rates will go up. But we don't believe it's going to grow at 20 to 30 to 40 percent for more than a few years. Five years? Six years? I mean, it's illogical to think otherwise.

So you've got this number here about the Internet, that great slope line, but bear in mind that's not necessarily all newspaper, TV, radio companies-companies that do journalism. A good degree of that upslope that we looked at has to do with the pure play companies, the Googles and Yahoos because their revenues are skyrocketing. A lot of newspapers are very surprised to find that Google is now starting to get more and more local advertising, local growth. So as that local part of the pie increases, a lot of it's not going to journalism or companies that support journalism-a lot of it's going to the Googles and Yahoos. It's a very dangerous thing for journalism.

So how can online be independent? I could go on for hours on suggestion on that, but let me give you two suggestions, just to throw out. One practical, which could be done fairly easily by most media companies. The other one, which is kind of longer or medium term, which I think would be wrenching, but I think is also part of the

2006 – International Symposium on Online Journalism

equation here. One of the problems we've noticed is that 80 percent of U.S. newspaper Web site revenue is coming from the three traditional advertising categories. I mean, talk about thinking within the box. You know, this is roughly proportioned: 43 percent of the revenues coming from job classifieds or display classifieds online, property/real estate 12 percent, autos 15 percent. The problem with that is that if you look at the amount of advertising spending online in local markets, it's only 10 percent of what advertisers are spending in markets like Austin. The rest of it, the 90 percent, is for other types of things-it could be putting an ad on MySpace, putting things on a city directory, it could be other types of things that aren't traditional newspaper categories. So, to a large degree, the newspaper industry has fallen into, I think Clayton Christenson at Harvard calls it a disruptive technology trap where, you know, they focus on the old stuff and are oblivious to the bigger picture that's opened up and created opportunities for them. I think it's another one that London School of Economics' Donald Sull, who talks about active inertia, the companies continue to do what they've always done forgetting that they might want to go in another direction. So companies-and this is not an ad conference, I know-but if it was an ad conference I would be begging the people there from newspaper and TV companies to look outside of traditional stuff and expand the market because there's a lot of money out there. And this is the money that Google and Yahoo and others are going after. So, practically, that's something that can be done on most media company Web sites now to help support the newsroom.

The other one is a little more conceptual and a little more out of the box, but right now, you guys are supermarkets of news. The Statesman review, I don't know, might publish-what's the story count? 40, 50 stories a day at most-but you've probably got maybe 75 to 100 stories that your reporters are doing or have drafted or want to do, you've got maybe 1000 realistically if you eliminate write-throughs coming off AP data features, you've got the syndicates, you've got probably 3000 stories a day coming into your newsroom right now and you publish 50. So you're a supermarket of news, but the problem is, you publish 50, which your editors pick on the basis of the greatest demographic interest, because your press can only print one edition at a time. And the result of this is you've got a product that is basically like a supermarket, where you've got all this stuff, but instead you wind up giving every single reader exactly the same bag of groceries, exactly the same edition, exactly the same content, even though you've got a whole cornucopia of other things out there.

Forgive me, I'm going to pick on The Times again only because I'm a subscriber and I love the paper. But I'm a soccer and formula one racing fan having spent a lot of time in Europe. I can't get those stories. I don't see them in The New York Times except maybe one story a month, yet I'm the former Reuters executive who sold them the soccer wire, who sold them the European sports wires-I know they've got soccer stuff. They've got the Swiss (inaudible) League scores, they've got the Turkish Third Division, but I can't get that. I can find it on the Web site, thank god, but I've got to click down through about 20 levels to find it. So to me, this is a mismatch of content-the stories are out there that people want, but they aren't getting

2006 – International Symposium on Online Journalism

necessarily to the right people because we're still using the industrial era model of doing the same edition for everybody. Yeah, part of that's important-you want to make sure people have some serendipitous stories, they get the urgents and the bulletins, but a lot of stuff here is a mismatch because the press can only print one thing to each person, and that doesn't work in this century where we're going into a mass customization era.

Call it personalization, individualization, but we've got to find a better way of mixing content to match people's interests. We all have some generic interests-each of us here worries about the weather, or Iraq in this country, or something of that sort. But all of you have very individual, specific interests. And each of you is a unique mix of those interests, and we've got to find a way in our businesses, to take the stories, because they're out there, and find a way of matching things to each person's interests as well as giving them the major stories they need to know. And people, probably, I'm guessing here, I don't have data to back it, might be willing to pay for such a service. Because the reason people went, a billion people now on the Internet, they gravitated to the Internet not necessarily to read tradition media-they already had that. They went in there to find the individual mix of stuff they're looking at. That's why they go to Google; that's why they go to Yahoo. So we've got to find a better way of matching content, delivering the content, which is already out there, to people's interests.

Also, the other problem is we tend to use our own brands. I don't subscribe to my local paper in Greenwich, Connecticut because it's all Tribune and AP, and like that's fine, but I'd like some other sources of content. We've also got to find a way of breaking down the walled garden approach to be able to give people, if they want the national news, the international news from The Times, the local news from Austin, the financial news from The New York Times, to match this stuff-find the infrastructure, put it together, to be able to match a person's content. Otherwise the Googles and the Yahoos are going to do it, and that's going to be a wrenching change for our industry in the next little while, being able to find a way to do that. Because it will happen. And it's also going to be an interesting change for journalism professors, who have traditionally done the mass media approach of everybody gets the same thing, this type of change.

So those are two things: go after the 90 percent of local online ads that you're not focusing on right now-most papers can do that. And the other one is we've got to find a better way of mixing and matching to get people to pay for the service and add revenue because there's a lot out there. And that, in the interest of time, end it (inaudible). (Applause.)

LORRAINE BRANHAM: We're running a little over time, but we want to take time to have some questions. There's been a lot of interesting things thrown out there in the last two hours. We know the audience is eroding, the traditional advertising base is eroding, online advertising is growing but, unfortunately, most of that money is not going to newspapers. And newspapers will need, what do you say, 20 to 100 new users to make up for what they're not getting. So I guess the question still remains:

2006 – International Symposium on Online Journalism

how do we support quality journalism in this brave new world of the Internet and online journalism? Dr. Picard, would you like to-particularly if you believe-I mean, one of the things about journalism and news is that, and you mentioned, I think, in your presentation that people have never just bought the newspaper for news, but in journalism, this whole idea of it being the foundation of democracy and a public service, and not just infotainment

ROBERT PICARD: I mean, that certainly is a huge problem because, if we believe that, in the future, society needs a source of information that helps the democratic process, and if we believe that the newspaper has to be that role, we have to do something different than we're doing today.

I'm a believer that there's nothing sacred about newspapers. Newspapers took on this role a century and a half ago because there needed to be an intermediary between the government and the public. (Inaudible) a large-scale society, that was not possible in other means. The newspapers filled that role, as have other media, quite well for many decades.

Do they need to do that in the future? That becomes a really interesting question. If the newspapers don't do it, someone else will-some other function will solve it. We solve problems in a very different way. The problem with quality is that none of us know what it is. And that journalism education has been ongoing now for 80 years on a regular basis. Nobody has yet been able to define what journalism quality is.

We define it by its absence (laughter). We know it when we don't see it. But we don't know it when we see it, so it's a real problem when we deal with those questions of quality, I think.

LORRAINE BRANHAM: Gary, do you want to take a stab at that?

GARY MEO: Well, I mean, one thing we've sort of been focusing on this morning is the print edition and the online edition. But I've heard, you know, Arthur Sulzberger of The New York Times talk about being platform agnostic. And, over the course of time, obviously, there are going to be other platforms on which to deliver news and information. So maybe we have to think outside of just the print and Web site paradigm-it's hard thinking about other things, I mean, we all have hand-held devices and we're going to be using those more for news and information.

At this publishers' conference I was at earlier this week, there was a gentleman from Europe that did a presentation about mobile technology and monetizing mobile technology. So I guess one of the ways is to look for news and different revenue streams beyond just the print product and the Internet site. But again, this is very challenging because of the way the business model works and the capacity of the print edition to generate cash. And it's really very, very difficult to duplicate that in a platform that is not press and pulp and ink.

2006 – International Symposium on Online Journalism

LORRAINE BRANHAM: I'm sure our audience is dying to ask questions. Maybe. Comments, questions? Yes, back there.

AUDIENCE QUESTION: Probably more for Vin but to all of you, I'm curious about, as you look at this conflict between the infinite size of the Web for advertisements and the very restricted size of the Web page for advertisements. No one really mentioned that, but I'm wondering if that's also one of the keys to our low percentage of revenue?

VIN CROSBIE: I think anybody who's designed a Web site and tried to deal with that small, enclosed video monitor space knows how hard it is to solve that problem. But I don't think it's necessarily the space, I think it's more what Gary mentioned earlier, that the advertisers themselves are building sites and starting to dis-intermediate us on this stuff. That's become a bigger problem on the ad side.

GARY MEO: I would just add that I think broadband technology is kind of doing away with that space issue in the sense that you can click on something and, if you have a good broadband provider, like we do here in Austin most of the time, that page will come up almost instantaneously. So there's just really a lot of creative opportunity that you get online via broadband that you don't get in print. So I would suggest that the technology opens up a bigger window, if you will, for advertising creativity.

ROBERT PICARD: I directed a project for the European Commission for two years talking to 250 top advertisers in Europe and what did they actually want to do with Internet, mobile, and interactive technology. And it was one of the most revealing things that I've ever been through in talking to them. And essentially, they want to cut out anybody that they have to pay anything to (laughter). And, the problem is, all of these new technologies provide essentially a good capacity to do that, and for them to reduce their overall marketing expenditures by bringing it in-house to their own (inaudible.). And for anybody who looks at business model of media, whether it be magazines, newspapers, television, or online, those things are absolutely scary.

VIN CROSBIE: To actually answer one thing from Clyde's question more directly now that I'm thinking, the other possibility, which fits in with Gary talking about new modes, we are starting to see the first experiments with electronic paper in Europe right now. It's not yet the saran-wrap type thing you roll up and put in you pocket, but it's (inaudible) the business paper in Belgium, and Les Echos in Paris, are now starting to equip readers with these things-the idea, you beam it into them and it's a larger space, but it's also interactive. Click on the quote, hear the quote. Click on the picture, see the video. Click on the link and it's hyperlinked. It's basically what you saw in the movie Minority Report, which, by the way, was designed by the MIT media lab. And so we may be going to cases where you have the layout of print, or you have something larger than a mobile, tiny screen, but all the interactivity of the Web. That'll solve some of the problems.

2006 – International Symposium on Online Journalism

GARY MEO: I just wanted to make, about that question about funding. Professor Picard made a point earlier about innovation and the lack of investment in R&D at newspaper companies. I think that's very important. I deal with the research departments at 130 major newspapers around the country and I can tell you that 99 percent of those research departments spend all of their time and effort in creating information to sell advertisers. They do not look at new product, they do not do research on innovation. I think that's something the industry really has to change and invest in R&D and innovation, and not spend all their research resources on just selling advertising.

AUDIENCE QUESTION: I realize, and agree that the newspaper industry does need to be looking at that other 90 percent of that share of potential Internet advertising. But is it still worthwhile, do you think, to go after the traditional classified verticals, like in real estate, I mean, is it still worth our while since you have these companies that are building their own sites and doing fairly well at that?

ROBERT PICARD: It depends on where you're located and what your paper is. If, for instance, you're in a community where the auto dealers' association is not particularly active yet, the key is to engage them and become their supplier. The key is to become the real estate person's supplier along the way. But, I mean, I get scared when I go to sites like Rent.com, which just scares the hell out of me-if you haven't been to it, go look at it. Rent.com, in fact Ebay bought it this year because they liked it some much. Rent.com, if you have a house or apartment to rent, you go to Rent.com, you don't pay them anything and they pay your listing. If it rents, you pay them, I think it's current price about \$400, which is very, very low cost (inaudible). Out of that \$400, they take \$100 and give it to the person who went to the site and rented through the site (inaudible). Now, you want to talk about being scary for newspapers, those are the kind of things they that newspaper have allowed to happened by not getting in there themselves and by thinking about how you make money in this business in a very traditional way. And those are the things newspapers have got to change along the way. If newspapers are not the primary provider for advertising and information in the communities, they're dead in the years to come one way or another.

VIN CROSBIE: And there's some irony in this in that I was at a newspaper conference-I think it was '98-where one of the speakers said, "Look, most of you people are from Hearst, McClatchy, Knight-Ridder, Dow Jones, Gannett-companies named after people who took risks and did new things. What have you guys done?" That's a good question.

GARY MEO: But I think, in the short term, you definitely have to stay in that classified space because if classified is such a big part, you can't abandon it. You need to partner with your local classified advertisers and try to keep that revenue coming as long as you can. Otherwise, you're going to take the trip to the butcher a lot quicker than you want to.