

# Methods for retaining and monetizing local audiences of an online-only news organization

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## Chapter I: Introduction

*Where newspapers went wrong and why current models won't work.*

Newspapers are at a crossroads in their existence. Traditionally, the printed giants were able to hold monopolies in their respective municipalities because the barrier to entry for printing was high and the operating costs were expensive. A study published in 1978 – a decade before the Internet came to fruition – reported that local newspaper monopolies existed in more than 97 percent of U.S. cities<sup>1</sup>. But with the Web, that dynamic has vastly shifted. Widely accessible and affordable Web platforms eliminate both the barrier to entry and operating costs required to publish to a mass audience. As a result, newspapers have felt the impact, and recent numbers prove it.

From October 2008 to October 2009, newspaper circulation dropped by 10 percent – a 10.6 percent drop on weekdays and a 7.5 percent drop for weekend circulation<sup>2</sup>. And that number is just an average; newspapers that felt the largest hit were the San Francisco Chronicle (25.8 percent circulation drop), the Dallas Morning News (a 22.2 percent circulation drop), and the New York Post (an 18.8 percent drop)<sup>3</sup>. For that year-long timeframe, newspapers sold 44 million copies a day — a low not seen since the 1940s<sup>4</sup>. Advertising numbers declined too; in the first fiscal quarter of 2009, newspaper display advertisement sales dropped by \$2.6 billion, a

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<sup>1</sup> Barnett, Stephen R. "Local Monopoly in the Newspaper Industry: Some Skepticism about Its Economic Inevitability and Governmental Embrace." Education Resources Information Center. Dec. 1978. Web. 12 Nov. 2009. <[http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?\\_nfpb=true&\\_ERICEExtSearch\\_SearchType\\_0=no&accno=ED178925](http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?_nfpb=true&_ERICEExtSearch_SearchType_0=no&accno=ED178925)>.

<sup>2</sup> Perez-Pena, Richard. "U.S. Newspaper Circulation Falls 10%." *The New York Times - Breaking News, World News & Multimedia*. 26` Oct. 2009. Web. 26 Oct. 2009. <[http://www.nytimes.com/2009/10/27/business/media/27audit.html?\\_r=1](http://www.nytimes.com/2009/10/27/business/media/27audit.html?_r=1)>.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

quarterly mark not seen since 1985<sup>5</sup>. Classified advertising at larger newspaper chains dropped anywhere from 14 to 20 percent in 2007, while traffic to classifieds sites grew by 23 percent<sup>6</sup>. As more eyes ventured to the Web, subscriptions and newsstand sales saw the “biggest decline yet” of 7.1 percent from Oct. 2008 to March 2009<sup>7</sup>. The drop wasn’t limited to print; newspaper Web sites saw a financial plunge in the first quarter of 2009, dropping 13 percent to \$696 million<sup>8</sup>. A sudden recession combined with a drop in online ad spending made it difficult to justify transitioning to the Web where there were few advertisers and little money to gain from them. After looking at these numbers, there’s no denying it: The traditional newspaper business model is broken, and current online efforts don’t provide a remedy.

This research paper will not address whether newspapers are to blame for the decline of their own industry, but it will offer a fresh perspective for a content and revenue model that can survive in this digital crossroad. Currently, the newspaper industry is pursuing a few different revenue options: online paywalls or subscriptions (i.e. “freemium”), micropayments, and donation-based non-profits. Of the available paths for newspapers to date, none have proven to

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<sup>5</sup> "Newspaper Ad Revenue Drops a Shocking \$2.6B in Q1." *Internet Marketing News | Marketing Pilgrim*. Web. 20 Oct. 2009. <<http://www.marketingpilgrim.com/2009/06/newspaper-ad-revenue-drops-a-shocking-26b-in-q1.html>>.

<sup>6</sup> "On the Internet, A Tangled Web Of Classified Ads - washingtonpost.com." *Washingtonpost.com - nation, world, technology and Washington area news and headlines*. Web. 20 Oct. 2009. <<http://www.washingtonpost.com/wp-dyn/content/article/2007/08/30/AR2007083002046.html?hpid=sec-tech>>.

<sup>7</sup> "Newspaper circulation still falling nationwide - The Boston Globe." *Boston.com*. Web. 20 Oct. 2009. <[http://www.boston.com/business/articles/2009/04/28/circulation\\_still\\_falling\\_at\\_papers/](http://www.boston.com/business/articles/2009/04/28/circulation_still_falling_at_papers/)>.

<sup>8</sup> Nat, Ives. "Why 'going Galt' isn't the solution for newspapers." *Academic Search Elite*. EBSCO, 22 June 2009. Web. 20 Oct. 2009. <<http://search.ebscohost.com/login.aspx?direct=true&db=afh&AN=42007679&site=ehost-live>>.

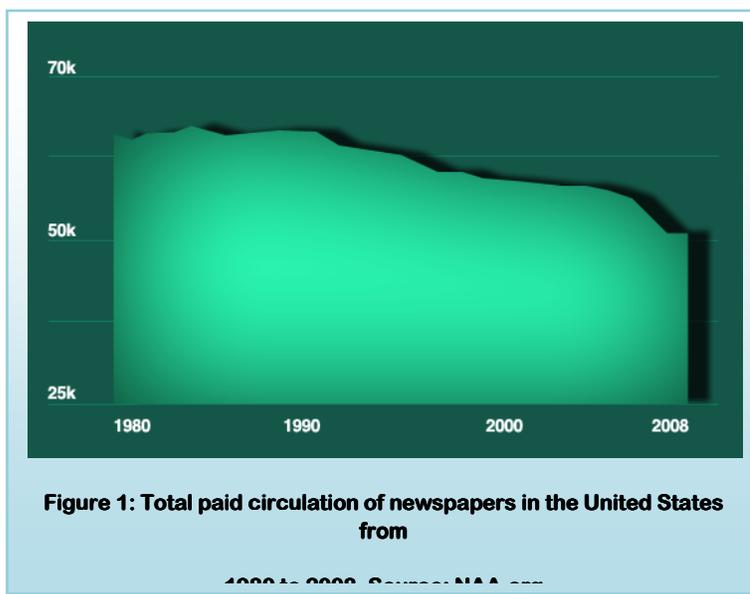
be viable, sustainable sources of revenue, especially in comparison to the revenues generated by major print publications<sup>9</sup>.

The paywall route, which gates off access to newspaper content online via a paid membership or subscription, has two distinct flaws. First, not every news site will charge for content, meaning users will flock to the free sites before pursuing paid sites. Michael Wolff, the founder of news aggregator *Newser*

said in a 2009 *Advertising Age* article that requiring payment would be “the greatest boon for native internet journalism and content producers that there could be.”<sup>10</sup>

Why? Because he would continue to run his site in the same fashion as always from within the gated path,

while still summarizing and linking to paid articles for free<sup>11</sup>. But when News Corporation chairman Rupert Murdoch announced in August 2009 that he would implement paywalls for all media properties he owns, he attributed the success of the *Wall Street Journal* – the only major



<sup>9</sup> Barnett, Stephan R. "Local Monopoly in the Newspaper Industry: Some Skepticism about Its Economic Inevitability and Governmental Embrace." *Education Resources Information Center*. Dec. 1978. Web. 20 Oct. 2009. <[http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?\\_nfpb=true&\\_ERICExtSearch\\_SearchValue\\_0=ED178925&ERICExtSearch\\_SearchType\\_0=no&accno=ED178925](http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?_nfpb=true&_ERICExtSearch_SearchValue_0=ED178925&ERICExtSearch_SearchType_0=no&accno=ED178925)>.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

publication to charge for access to its online content.<sup>12</sup> Of the top 25 newspapers in the United State, the *Wall Street Journal* is the only one that did not see a drop in circulation in 2008-2009; it, in fact, saw an increase in circulation by 0.61 percent<sup>13</sup>. (Although it should be noted that the United States experienced a recession in these years, the declining economy should not be a scapegoat for the problems facing newspaper advertising and circulation. There has been a steady print circulation volume decline since 1984— a drop from 63 million to 48 million in just over two decades, according to the Newspaper Association of America<sup>14</sup>). So although the *Wall Street Journal* remains afloat, Murdoch should not be so quick to jump to conclusions. Arguably, the *Wall Street Journal* paywall has only been successful because the publication provides niche information catered toward the economically inclined population. A 2007 report by the Audit of Bureau Circulations revealed that more than 75 percent of the *Wall Street Journal*'s readers have a college degree and the average reader income was \$234,909 – more than readers of the *New York Times* and *USA Today*<sup>15</sup>. Because this reader demographic is not representative of the average news consumer, it is unfair to assume, as Murdoch has, that such a model would work for *all* publications.

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<sup>12</sup> "Google CEO questions Murdoch's online pay plan | Technology | Reuters." *Breaking News, Business News, Financial and Investing News & More | Reuters.co.uk*. Web. 20 Oct. 2009. <<http://uk.reuters.com/article/idUKTRE58G65M20090917>>.

<sup>13</sup> Vanacore, Andrew. "USA Today to post 17 percent drop in circulation - AOL Money & Finance." *Money - AOL Money & Finance*. Web. 20 Oct. 2009. <[http://money.aol.com/article/usa-today-to-post-17-percent-drop-in/711712?icid=sphere\\_blogsmith\\_inpage\\_bloggingstocks](http://money.aol.com/article/usa-today-to-post-17-percent-drop-in/711712?icid=sphere_blogsmith_inpage_bloggingstocks)>.

<sup>14</sup> "Newspaper Circulation Volume Statistics from 1940 to 2008." *Newspaper Association of America*. Web. 25 Nov. 2009. <<http://www.naa.org/TrendsandNumbers/Total-Paid-Circulation.aspx>>.

<sup>15</sup> "What Do the Rich and Powerful Read? - ABC News." *ABCNews.com - Breaking news, politics, online news, world news, feature stories, celebrity interviews and more - ABC News*. Web. 20 Oct. 2009. <<http://www.abcnews.go.com/Business/IndustryInfo/story?id=3421988&page=1>>.

In a micropayment system, each article, video, slideshow or other form of content would only be accessible after paying a very small amount of money. In a *Time* cover story from February 2009 called “How to Save Your Newspaper,” author Walter Isaacson argued in favor of this “iTunes-easy method of micropayment” in which users would pay a nickel or dime for the content they desire.<sup>16</sup> His ideas are not unique. Frank Fisher wrote a similar case for micropayments in the *Guardian*<sup>17</sup>, as did Gordon Crovitz in the *Wall Street Journal*<sup>18</sup>. In a column for the *Los Angeles Times*, reporter David Lazarus outlined a similar concept when he argued that the real problem facing the newspaper industry in the digital age is lack of a distribution model<sup>19</sup>. Lazarus said, “iTunes demonstrates that you can charge a fair price for online content and that consumers will respond favorably. The trick is coming up with a business model that works for everyone.” Although his pay-per-month solution varies slightly from Isaacson’s pay-per-article solution, both views abide by the same general premise that readers will pay a small amount of money to read the news they care about. But there’s a significant flaw in both Lazarus and Isaacson’s mode of thinking: they equate the value of an MP3 song to the value of a news article and assume the behaviors of each medium’s consumers are comparable. They’re not. The iTunes model works for music because users are paying a very small amount

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<sup>16</sup> Isaacson, Walter. “How to Save Your Newspaper - TIME.” *Breaking News, Analysis, Politics, Blogs, News Photos, Video, Tech Reviews - TIME.com*. Web. 20 Oct. 2009. <<http://www.time.com/time/business/article/0,8599,1877191-4,00.html>>.

<sup>17</sup> Fisher, Frank. “Saving journalism, a farthing at a time | Frank Fisher | Comment is free | guardian.co.uk.” *Latest news, comment and reviews from the Guardian | guardian.co.uk*. Web. 20 Oct. 2009. <<http://www.guardian.co.uk/commentisfree/2009/may/18/news-online-payment-journalism>>.

<sup>18</sup> Crovitz, Gordon. “Information Wants to Be Expensive - WSJ.com.” *Business News & Financial News - The Wall Street Journal - WSJ.com*. Web. 20 Oct. 2009. <<http://online.wsj.com/article/SB123534987719744781.html>>.

<sup>19</sup> Lazarus, David. “iTunes proves newspapers can and should charge for online access - Los Angeles Times.” *Featured Articles From The Los Angeles Times*. Web. 20 Oct. 2009. <<http://articles.latimes.com/2009/mar/01/business/fi-lazarus1>>.

of money for a reusable commodity; music will be replayed hundreds of times over again and be relevant to the consumer as long as he or she remains interested in it. In a study conducted by economists Tobias Regner and Javier A. Barria that examines behaviors of online music buyers, they determined that reciprocity is the main reason for voluntary pay<sup>20</sup>. They concluded that users feel *guilty* when they do not pay for music online. The same sense of guilt is not associated with newspaper content because it has always been free. Furthermore, news is disposable (not reusable like music) and becomes irrelevant after a certain amount of time has passed. Nicholas Carr, a former executive editor at the *Harvard Business Times* and writer for *The New York Times* and *Advertising Age* wrote in a reactionary blog post, “We don't want to own news stories; we just want to read them or glance over them.”<sup>21</sup> Another problem with micropayments is that news has viable substitutes in the marketplace; music does not. As Carr notes in his blog post, if you want to listen to the King of Leon’s “Sex on Fire,” a cover of the same song by Coldplay does not meet the consumer’s need – only that one version will suffice. A news article, on the other hand, is interchangeable among many different publications, meaning the window during which a publication has to actually sell an article is very brief.

The third new revenue path among the popular options on the table is a non-profit model. Popular examples of non-profit news today exist in online-only mediums, such as Spot.Us, in which users donate money to the stories they want to see reported upon, or Voice of San Diego, which seeks unsolicited, untargeted donations from its community. Joel Kramer, who was editor

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<sup>20</sup> Regner, Tobias, and Javier A. Barria. "Do consumers pay voluntarily? The case of online music." *Elsevier. Science Direct*, 2009. Web. 20 Oct. 2009. <[http://www.sciencedirect.com/science?\\_ob=ArticleURL&\\_udi=B6V8F-4W1SRKG-2&\\_user=521828&\\_coverDate=08/31/2009&\\_rdoc=1&\\_fmt=&\\_orig=search&\\_sort=d&\\_docanchor=&view=c&\\_acct=C00059579&\\_version=1&\\_urlVersion=0&\\_userid=521828&md5=acfa0c3c0265ec9404ba3663b8afd5f5](http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6V8F-4W1SRKG-2&_user=521828&_coverDate=08/31/2009&_rdoc=1&_fmt=&_orig=search&_sort=d&_docanchor=&view=c&_acct=C00059579&_version=1&_urlVersion=0&_userid=521828&md5=acfa0c3c0265ec9404ba3663b8afd5f5)>.

<sup>21</sup> Carr, Nicholas G. "The writing is on the payroll." Web log post. *Rough Type*. Nicholas G. Carr, 10 Feb. 2009. Web. 20 Oct. 2009. <[http://www.roughtype.com/archives/2009/02/misreading\\_news.php](http://www.roughtype.com/archives/2009/02/misreading_news.php)>.

and publisher of the *Minneapolis Star Tribune* during the 1980s and 1990s started a non-profit, online-only newsorg called MinnPost.com in 2008 with the mindset that high-quality journalism is not a “consumer good,” but a “community asset.”<sup>22</sup> On donations alone, Kramer raised \$1.1 million to fund his project. Although Kramer has not released his current staffing and operational costs, he says they are on target to break even by 2012<sup>23</sup>. Kramer’s goal isn’t to create a newspaper equivalent, as his small staff size suggests, but rather to focus solely on delivering and sustaining high-quality journalism.

Andrew Donohue, executive editor of the *Voice of San Diego*, another non-profit, reported that the site has an annual budget of \$565,000<sup>24</sup>. According to the article:

Using a model very similar to that of public radio, the site has an annual budget of \$565,000. Half of its revenue comes from foundations – including the Girard Foundation, Panta Rhea Foundation, Parker Foundation and San Diego Foundation, all in California – 20 percent from big donors, 20 percent from ads and corporate sponsorships, and 10 percent from individuals who pay at least \$35 to become members<sup>25</sup>.

At the Associated Collegiate Press Conference in San Diego, California in February 2009, Donohue said during his keynote lecture that 95 percent of the money raised by *Voice of San Diego* goes directly to funding its reporting, as compared to only 15 percent on average at a

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<sup>22</sup> Perry, Suzanne. "Nonprofit Newshounds." *EBSCOhost*. EBSCO, Feb. 2008. Web. 20 Oct. 2009. <<http://web.ebscohost.com/ehost/detail?vid=1&hid=9&sid=57995f52-4f07-4b77-9280-6adc16237de1@sessionmgr4&bdata=JnNpdGU9ZWwhvc3QtbGl2ZQ%3d%3d#db=afh&AN=29415658>>.

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

traditional newspaper.<sup>26</sup> Comparatively, his profits are far less than a newspaper like the *New York Times*. Proportionately, however, less money is being wasted on production costs, which allows more money to be spent on actual journalism.

But the nonprofit model isn't perfect. In a media criticism column for *Slate* magazine, Jack Shafer writes that nonprofit newsorgs like the *Voice of San Diego* and the *Center for Investigative Reporting* have models equally as flawed as the traditional newspaper business model.<sup>27</sup> He says in the commentary:

Just as commercially supported journalists often find themselves dispatched to investigate the owners' hobbyhorses, nonprofit newsers are frequently assigned to chase after the idiosyncratic whims of funders<sup>28</sup>.

Furthermore, Shafer notes that extensive content analysis studies that compare donors and article content have not been researched by outside organizations, but only by the nonprofits themselves.

This paper has so far determined what *doesn't* work about the current online news business models – but the more productive question is what *will* work? Although taken separately each path has its distinct benefits and downsides, the goal of this research paper is to show how to take the best of each path to create a new, multi-faceted approach to news production. This report will examine:

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<sup>26</sup> Donohue, Andrew. "ACP Media Keynote." Associated Collegiate Press 2009 Conference. Marriott Mission Valley, San Diego, California. 27 Feb. 2009. Speech.

<sup>27</sup> Shafer, Jack. "The downside of MinnPost, Voice of San Diego, Washington Independent, et al. - By Jack Shafer - ." *Nonprofit Journalism Comes at a Cost*. Slate Magazine. Web. 21 Oct. 2009. <<http://www.slate.com/id/2231009/pagenum/all/>>.

<sup>28</sup> *Ibid.*

- (A) How to best structure and distribute news in a local setting to engage and capture local readers through niche reporting, blog networks, community involvement and curation.
- (B) How to extract optimum revenue from that audience using the best of emerging online revenue models, including the use of targeted advertisements, sponsorship endorsements, premium content for a fee, and community donations.

## Chapter II: Literature Review

*A summary of existing research about local news demographics, online business models, and web advertising*

There is scarce peer-reviewed research regarding the future business models of newspapers. Much of the coverage and brainstorming takes place in the form of ideas – rather than experiment-based statistics – relayed through blog posts and news articles. There is a lack of real data and numerical projections to back up predictions about how new ideas would play out in execution. Much of the existing information is speculative and uncertain. A problem with the methodology used by newspapers to gather data about the future of the industry is tied to the fact that journalists are directly impacted. Very little of the information about the state of the news industry is written or researched by business professionals outside the news industry. This is problematic because traditionally, journalists have no authority in the business realm of newspapers. When business is one of the huge problems plaguing the journalism industry, it would be useful and productive to have the business person's perspective. The benefit of having recent ideas and research chronicled through blog posts instead of journal articles or books is that the information is very fresh and up-to-date with recent industry trends.

### **2.1 Review of ideas for local content and distribution on the web**

One shining example of an online newsorg truly owning its local domain is Gazette Communications in Cedar Rapids, Iowa. The converged newsroom – which consists of a newspaper, TV station and Web site with a 70-person staff – takes an approach that the newsorg's online director Steve Buttry calls the Complete Community Connection, or C3 for

short<sup>29</sup>. Buttry has extensively documented every step of the newsorg's online expansion through his blog. The editors want the newsorg's Web site, Gazette Online, to be more than just a distributor of news; the goal is for Gazette Online to be a central hub for all information related to Cedar Rapids, Iowa<sup>30</sup>. Eventually, the site will have five highly-personalized categories: community content, personal content, entertainment, business connection services and enriched news<sup>31</sup>. In the category of community content, Gazette online provides information about driving (a map of gas prices, text alerts on traffic, gas pump inspection information and parking offenders)<sup>32</sup>; the home (real estate prices, databases of housing information for each community)<sup>33</sup>; conversation (with community-generated multimedia and easy-to-follow directories and search windows to help users find the niches and discussion threads that most interest them)<sup>34</sup>; an extensive, searchable, monetizable calendar (through the selling of tickets and reservations within the interface)<sup>35</sup>; and, finally, local knowledge, which consists of endless

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<sup>29</sup> Buttry, Steve. Web log post. Pursuing the Complete Community Connection. 16 Aug. 2009. Web. 26 Sept. 2009. <<http://stevebuttry.wordpress.com/2009/08/16/newspapers-original-sin-not-failing-to-charge-but-failing-to-innovate/>>.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Buttry, Steve. "Community-content opportunities: Driving." *Pursuing the Complete Community Connection*. 27 Apr. 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/community-content-opportunities-driving/>>.

<sup>33</sup> Buttry, Steve. "Community-content opportunities: Home." *Pursuing the Complete Community Connection*. 27 Apr. 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/community-content-opportunities-homes/>>

<sup>34</sup> Buttry, Steve. "Community-content opportunities: Conversation." *Pursuing the Complete Community Connection*. 27 Apr. 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/community-content-opportunities-conversation/>>.

<sup>35</sup> Buttry, Steve. "Community-content opportunities: Calendar." *Pursuing the Complete Community Connection*. 27 Apr. 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/community-content-opportunities-calendar/>>.

databases of salary information, high school football history, complaints against doctors, nursing home violations, building permits, professional licenses, public property, voting records, meth busts, sexual assaults, state test scores, school discipline and graduation rates—to name a few<sup>36</sup>. A goal of the site is also to have business directories, breaking news and investigative watchdog reporting. In summary, Buttry explains it best:

For consumers, we will be their essential connection to community life — news, information, commerce, social life. Like many Internet users turn first to Google, whatever their need, we want Eastern Iowans to turn first to Gazette Communications, whatever their need. For businesses, we will be their essential connection to customers, often making the sale and collecting the money. We will become the Complete Community Connection.<sup>37</sup>

There are few reports that outline reader habits of local audiences, perhaps because each local audience has different needs. Jarvis argues that newsorgs can't monetize their content until they reach and engage with a larger audience. He said that advertising is not over as a form of revenue for newsorgs, but that as rates increase, the loss should be compensated for in volume<sup>38</sup>. A few ideas he outlines include embeddable articles with ads, an open application programming interface, and hyper-personal news streams with targeted ads. He says that revenue will be easier to come by if newspapers define themselves as networked platforms rather than final destinations

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<sup>36</sup> Buttry, Steve. "Community-content opportunities: Local knowledge." *Pursuing the Complete Community Connection*. 27 Apr. 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/community-content-opportunities-local-knowledge/>>.

<sup>37</sup> Buttry, Steve. "A Blueprint for the Complete Community Connection." *Pursuing the Complete Community Connection*. April & may 2009. Web. 01 Oct. 2009. <<http://stevebuttry.wordpress.com/2009/04/27/a-blueprint-for-the-complete-community-connection/>>.

<sup>38</sup> Jarvis, Jeff. "Hyperdistribution «." BuzzMachine. 25 Aug. 2009. Web. 27 Sept. 2009. <<http://www.buzzmachine.com/2009/08/25/hyperdistribution/>>.

for news<sup>39</sup>. With hyperdistribution, newsorgs deliver news to readers, instead of expecting readers to seek it out. In his words: “This ain’t about getting people to come to your home pages anymore.”<sup>40</sup>

## 2.2 Review of published research for online revenue models

In Jeff Jarvis’ book *What Would Google Do*, referenced in the introduction, he argues a similar point to Buttry about connecting a community through highly-localized, specific, personal and searchable content<sup>41</sup>. Although Jarvis is a newspaper man who worked at the *New York Daily News* and *Chicago Tribune* in his earlier years, his book does not focus primarily on the newspaper business model, but how relationships can impact *all* different kinds of business, from the soda pop industry to the real estate industry. His primary argument is that for any business to be successful online, it must join a network and become a platform; the more connections there are, the greater the value<sup>42</sup>. If Google had followed the “old media” model and tried to wall up its product in a centralized, controlled way, it wouldn’t be the fastest-growing global brand<sup>43</sup>. The new media model of openness is what allowed Google to hand over the control to its users so that they can create the content and use it wherever they want. In the traditional media model, a company like Google would have sued someone like Paul Rademacher who manipulated Google maps in an unauthorized manner to create his own

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<sup>39</sup> Ibid

<sup>40</sup> Ibid.

<sup>41</sup> Jarvis, Jeff. *What Would Google Do?* New York: Harper Collins, 2009. Kindle E-book.

<sup>42</sup> Ibid (l.n. 490-505, 555-571).

<sup>43</sup> "Google Fastest Growing Global Brand, Study Says." *The high-tech studio for a changing world*. Web. 01 Dec. 2009. <<http://www.atelier-us.com/advertising-and-marketing/article/google-fastest-growing-global-brand>>.

product – a map mashup of real estate listings<sup>44</sup>. But instead, Google hired Rademacher. It's this open mindset that has allowed them to gain value and a monetizable audience. The more that users contribute to Google, the more valuable its content becomes, resulting in more users and more money in a perpetual cycle of value creation.

Other research about online revenue models circles around targeted advertising, subscriptions, and a freemium model, which combines both. The freemium model is compelling because it allows for the optimum range of users: both causal free-riders and evangelist users who are willing to pay a fee to support the rest of the users. Chris Anderson, author of the book *Free*, explains it as follows:

Instead of giving away five percent of your product to sell 95 percent, you give away 95 percent of your product to sell five percent. The reason this makes sense is that for digital products, where the marginal cost is close to zero, the 95 percent costs you little and allows you to reach a huge market<sup>45</sup>.

Anderson cites the success of online services like TurboTax as a freemium success story; the program is free to use for federal taxes, but costs money to use for state taxes<sup>46</sup>. In his book, he reports that 70 percent of users opt to pay for the state version. Andersen notes that although it's true that advertising-based business models have dominated the web, freemium is the up-and-coming model to replace that system<sup>47</sup>.

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<sup>44</sup> Jarvis, Jeff. *What Would Google Do?* New York: Harper Collins, 2009. Kindle E-book. (l.n. 572-88).

<sup>45</sup> Anderson, Chris. *Free: The Future of a Radical Price*. Hyperion, 2009. Print. (p. 247-250).

<sup>46</sup> *Ibid.* (p. 248)

<sup>47</sup> *Ibid.* (p. 234)

### 2.3 Review of published research for online news revenue models

As mentioned in the introduction, there are a couple business models that news industry leaders are exploring, such as the non-profit model, paywalls, freemium and micropayments. There is little research about combining more than one of these elements like micropayments and donations or paywalls and micropayments. The *Wall Street* journal is one of the few newspapers on a freemium service.

Abroad, European models are finding creative ways to thrive online. Although European newspapers are feeling much of the same hit that American newspapers are experiencing, they've leveraged online revenue better and the impact is therefore coming a lot slower<sup>48</sup>. For example, a newspaper in Oslo, Norway took advantage of a classifieds system, which brings in 25 percent of the publication's total revenue<sup>49</sup>. Another newsorg, VG Nett, began taking in donations from its readers and rivals Google as the most popular Web site in Norway<sup>50</sup>. They also developed a social network for users which is free to use, but costs money for full access to upgraded profiles, i.e. a freemium business model<sup>51</sup>.

### 2.4 Review of the local audience

There is plenty of research that shows niche and hyperlocal publications work well in print, but there is little about how a niche publication works online. An article in the *Christian Science Monitor* titled, "A Newspaper Business Model That's Working," argues that while everyone is focusing on the doom and gloom future of the newspaper industry, they ignore one

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<sup>48</sup> Pfanner, Eric. (2009, March 30). European Newspapers Find Creative Ways to Thrive in the Internet Age :[Business/Financial Desk]. *New York Times* (Late Edition (east Coast)), p. B.4. Retrieved September 27, 2009, from ProQuest Newsstand. (Document ID: 1669337371).

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

fact: community newspapers are thriving<sup>52</sup>. Nationwide, advertisers cut their spending at newspapers by 21 percent, but on the local level, newspapers only saw 7 percent of that loss<sup>53</sup>. Although small newspapers are not immune entirely to the Internet revolution and economic downturn, they are hurting less. Although the article argues that community newspapers adapted to emerging business models and the needs of their readers, it fails to follow up such claims with tangible anecdotes, examples or numbers.

## 2.5 Literature review conclusions

There is a lot of mixed information surrounding the future of the newspaper industry. Some articles refer to the “demise of print” as though it has already become an undisputed fact, while other articles reference statistics like only 50 of 14,000 newspapers are actually losing money. The facts are spread and many assumptions are referenced without solid evidence. The general consensus tends to be the fact that the future of the industry is uncertain and the future does not come in a single form. There is not even a consensus over whether print is here to stay or doomed to fail. One argument that was never addressed in my preliminary research is *why* print should continue to exist besides the fact that it is the main source of revenue.

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<sup>52</sup> Bauer, Alan & McDonough Jr, Dan. (2009, May 6). A newspaper business model that's working. *The Christian Science Monitor*, p. 9. Retrieved September 27, 2009, from ProQuest Newsstand. (Document ID: 1700773451).

<sup>53</sup> *Ibid.*

## Chapter III: Discussion

### *An exploration of the specific elements of an online newsorg business model*

The solution to the plight of the newspaper industry in this research paper will merge from two separate analyses: case studies of online business models in general, and case studies of newspaper Web sites in general. The overlap between the two reveals that a viable model for an online-only newsorg would combine elements of targeted advertising and sponsorships, community donations and a “freemium” system.

#### **3.1: The best content for a local, online newsorg**

There are a few case studies that point newspapers in the right direction when it comes to understanding what the local online audience wants to read. The LoudounExtra, for example, was the brainchild project of the so-called mastermind of online journalism, Rob Curley. The project was started as a subset of the Washington Post and was dubbed by many in the journalism world as a “hyperlocal” endeavor that launched on July 16, 2007<sup>54</sup>. The site featured articles about Loudoun County written by Washington Post reporters. It contained local crime maps and police blotters, weather, community calendars, a continuously-updated blog, a local restaurant guide, a church guide, a searchable school directory, databases of public records, photo galleries, video, in-depth coverage of local high schools, and a “moving to Loudoun County” guide. In many ways, the project was what defined hyperlocal for news, since an endeavor of this magnitude had not been attempted yet<sup>55</sup>. Yet less than a year later, a headline

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<sup>54</sup> Curley, Rob. "LoudounExtra.com launches ...." Web log post. *Rob Curley*. Rob Curley, 16 July 2007. Web. 3 Oct. 2009. <<http://robcurley.com/2007/07/16/loudounextracom-launches/>>.

<sup>55</sup> *Ibid.*

across the top of page B1 of the *Wall Street Journal* read, “Big Daily’s ‘Hyperlocal’ Flop.”<sup>56</sup> In the article, the author Russell Adams explained the site as “a journalistic powerhouse with a dream team of Internet geeks to build a virtual town square for one of Virginia’s and the nation’s most-affluent and fastest-growing counties.<sup>57</sup>” But by that point, Curley left the publication for the *Las Vegas Sun* while the hyperlocal site struggled to find an audience. The big problem was that the group of so-called “Internet geeks” signed onto a hyperlocal project without taking the time to get to know Loudoun County’s 270,000 residents<sup>58</sup>. Curley also attributed the “flop” to a disconnect between the sub-site and its parent site, WashingtonPost.com:

Mr. Curley says whenever a big story breaks involving Loudoun County, the Post typically publishes it on Washingtonpost.com without a link to LoudounExtra. That deprives LoudounExtra of potential traffic. Nor does the Washington Post’s own dedicated Loudoun County page send visitors directly to its online sibling.<sup>59</sup>

Two other problems Curley noted about LoudounExtra were that (1) the hyperlocal site catered to an entirely different audience than the Washington Post, which mostly attracts national traffic for its politics coverage and (2) the web team did not immerse itself fully into the Loudoun community like it should have<sup>60</sup>.

The valuable lesson learned from this hyperlocal catastrophe is that before a team can launch and market a hyperlocal site, it has to truly familiarize itself with the area that it will be

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<sup>56</sup> Adams, Russell. “Big Daily’s ‘Hyperlocal’ Flop - WSJ.com.” *Business News & Financial News - The Wall Street Journal - WSJ.com*. Web. 03 Oct. 2009. <<http://online.wsj.com/public/article/SB121253859877343291.html>>.

<sup>57</sup> *Ibid.*

<sup>58</sup> *Ibid.*

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

covering. To avoid a problem like Curley's, an ideal solution would be to hire a team that is already local or has the ability to get to know the community quickly. A second lesson learned from the hyperlocal flop is the power of building networks. LoudounExtra was a standalone site that didn't cross-promote with the Washington Post's main site. But going back to Jarvis' lesson on hyperlinking, perhaps the site would have been more successful if it was part of a larger network of local bloggers.

### **3.2: Changing the mindset: An online newsorg is not a digital newspaper**

The concept of a one-way conversation is gone and even the two-way form of communication is phasing out and being replaced by a multi-directional form of communication in which the members of the audience are interacting with reporters, other readers and their friends. No longer are editors and reporters working to fill a two-page spread in the Sunday edition. As Jarvis argues in *What Would Google Do?*, news Web sites should not see themselves as a final destination for readers, but instead see themselves as a larger network of information distributors<sup>61</sup>. An important part of enhancing the quality of content on a local news site will mean becoming part of a local network of citizen journalists and community bloggers and linking to them. Although aggregators like Google and Yahoo are winding up in court as defendants for doing this very thing, it does not mean the future of link-journalism will fall by the wayside<sup>62</sup>. If anything, the decision of companies like the Associated Press to take aggregators to court is just one more example of how backwards the news industry mindset is. In his book *What Would Google Do*, Jarvis emphasizes the power of the link economy:

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<sup>61</sup> Jarvis, Jeff. *What Would Google Do?* New York: Harper Collins, 2009. Kindle E-book. (l.n. 2, 218-28)

<sup>62</sup> Abel, John C. "AP to Aggregators: We Will Sue You | Epicenter | Wired.com." *Wired News*. Web. 02 Oct. 2009. <<http://www.wired.com/epicenter/2009/04/ap-to-aggregato/>>.

The AP, like the papers it serves, thought its content was its value and its magnet. But online, content without links is the tree that falls in the forest that nobody hears (and turns into newsprint) (Jarvis).<sup>63</sup>

Hyperlinking is a vital part of the web and linking to outside sources should not be seen stealing, but as a gift<sup>64</sup>. Without links, content would have no way of become viral and being spread among the masses online. Newsorgs should seek to distribute news to its readers no matter the channel and let go of the notion that their sites – like newspapers once used to be – are a final destination for news seekers.

### **3.3: Journalists as curators at an online-only newsorg**

An online newsorg will also have to take ownership in its audience, allowing them to be a part of the content distribution system. On the web where everyone's is a producer of content – through Facebook updates, tweets, blog posts, Flickr photos, etc. – journalists are valuable because they are the trusted and accountable sources of information. Steve Rosenbaum, co-founder of Magnify.net, said in a *Business Insider* article that “mixed in with this cacophony of consumer content, there is contextually relevant material that needs to be discovered, sorted, and made ‘brand safe’ for advertisers.”<sup>65</sup> Through curation of the social web, journalists can provide context and organization for the mass amounts of information being spouted by the minute. At a local, online-only newsorg, this concept makes sense because it would be impossible for a staff of fewer than a dozen to cover everything on their own. With the help of the community, citizens can produce valuable content, and journalists can legitimize that content. Scott Karp, founder of

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<sup>63</sup> Ibid (l.n. 2, 114-45)

<sup>64</sup> Ibid (l.n. 435-50)

<sup>65</sup> Rosenbaum, Steve. "Can 'Curation' Save Media?" *The Business Insider*. 2 Apr. 2009. Web. 02 Oct. 2009. <<http://www.businessinsider.com/can-curation-save-media-2009-4>>.

Publish2 – a company that creates collaborative reporting tools for newspaper Web sites<sup>66</sup> – coined the term of “social journalism” that intertwines with curation of the social web. He explained social journalism as anything from following Twitter hashtags<sup>67</sup>, to searching for topical blog posts to scanning YouTube for local videos, and then posting all that content with context<sup>68</sup>. Journalists can fill this role because they understand how to put different pieces of information together from different sources to tell a linear story. This concept of social journalism is a credible way to utilize community-generated content.

### 3.4: Getting local readers to pay for online news

Another case study of a newsorg called INDenverTimes shows that local audiences are not willing to pay a small fee to get highly localized news, even when it is coming from credible journalists with whom the readers are familiar. INDenverTimes launched on March 16, 2009 following the February 27, 2009 closure of the *Rocky Mountain News*<sup>69</sup>. Initially, the group of former *Rocky Mountain News* journalists hoped to attract 50,000 subscribers to pay \$4.99/year for access to their online publication<sup>70</sup>. They failed to reach that goal, accumulating only 3,000 subscribers by their goal deadline of April 23, 2009. Kevin Preblud, the main investor for INDenverTimes didn't speculate as to why they only attained 3,000 readers, but did admit in a

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<sup>66</sup> Full Disclosure: Upon graduation, the author of this senior project will be employed by Publish2.

<sup>67</sup> A Twitter hashtag is a shorthand way of categorizing a tweet so the public can search for the tag and follow any conversation on Twitter that uses the same tag.

<sup>68</sup> Karp, Scott. "Social Journalism: Curate the Real-Time Web." *Publish2 Blog*. 27 July 2009. Web. 02 Sept. 2009. <<http://blog.publish2.com/2009/07/27/social-journalism-curate-the-real-time-web/>>.

<sup>69</sup> "Meet our Staff and Contributors | INDenverTimes." *INDenverTimes.com*. Web. 03 Nov. 2009. <<http://www.indenvertimes.com/about-us/>>.

<sup>70</sup> Ibid.

news article that 50,000 was a high bar to set for themselves: "50,000 was certainly a lofty goal. But the reality is, 3,000 is a pretty strong number given what I've come to know about subscription sizes for online sites. Setting aside the *Wall Street Journal*, 3,000 is a pretty good number."<sup>71</sup> Because they fell short of expectations, the newsorg announced it would no longer pursue a subscriber-based online model. Instead, the new model being pursued combines subscribers, users, and pageview figures, according to its co-founder Kevin Preblud<sup>72</sup>. Paid subscribers get access to an Insider Channel, "where you can have a direct, real time conversation with [their] editors and writers" as well as a number of other applications and tools. "Insight, perspective, live blogging, live chatting, commenting, interactivity with writers and other readers" are amongst the benefits offered to paying readers<sup>73</sup>. This case study reveals that the most efficient business model for an online newsorg does not necessarily have to come in one shape and size, but rather as a hybrid of existing models. It also shows that while not *every* reader is willing to pay a small subscription fee, there is a small chunk of dedicated users who *will* pay the fee, creating the perfect recipe for a freemium model.

Another site launched around the same time as a result of the *Seattle Post Intelligencer* closure on March 17, 2009. The resulting hyperlocal experiment, the *Seattle Post Globe*, is strictly non-profit, with readers funding the site through donations<sup>74</sup>. Kevin Murakami, the

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<sup>71</sup> "Investor Kevin Preblud: Only 3,000 subscribers signed up for InDenver Times - Denver News - The Latest Word." *The Denver Westword Blogs*. Web. 01 Dec. 2009. <[http://blogs.westword.com/latestword/2009/04/investor\\_kevin\\_preblud\\_only\\_30.php](http://blogs.westword.com/latestword/2009/04/investor_kevin_preblud_only_30.php)>.

<sup>72</sup> Deards, Helena. "INDenverTimes and the Seattle PostGlobe: filling the gaps in Denver and Seattle - Editors Weblog." *Editors Weblog*. 22 Apr. 2009. Web. 13 Oct. 2009. <[http://www.editorsweblog.org/analysis/2009/04/indenvertimes\\_and\\_the\\_seattle\\_postglobe.php](http://www.editorsweblog.org/analysis/2009/04/indenvertimes_and_the_seattle_postglobe.php)>.

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*

leader of the *Post Globe's* site, said that he stayed away from a subscriber model because he is not trying to make money, but perform a civic good<sup>75</sup>. Unlike other big non-profit endeavors like the *Voice of San Diego* and *MinnPost*, which garnered huge support and deep-pocket donations, the *Post Globe's* largest contribution upon launch was only \$500<sup>76</sup>. Perhaps one of the most telling lessons from the *Post Globe's* experience is the value in collaboration for both revenue and content. The *Post Globe* reached a deal with *Seattle Weekly* to share advertising and split the revenue 50/50<sup>77</sup>. The newsorg is also partnering with public TV and radio stations like KCTS-TV to converge content, while still remaining separate entities. Since its launch in 2005, the *Voice of San Diego's* reader donations have remained steady; they have raised \$3.5 million since 2005, averaging about \$700,000 a year to pay for their 11-person staff<sup>78</sup>. These consistent numbers show that reader donations are a sustainable source of revenue for a small investigative team.

### 3.5: The Freemium business model

The “freemium” system, as the name suggests, is a business model that combines both free and premium content. The term was coined by Jarid Lukin, who suggested the phrase in the comments of a blog post by venture capitalist Fred Wilson in 2006<sup>79</sup>. Wilson, explaining it as his “favorite business model,” described freemium as follows:

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<sup>75</sup> *Ibid.*

<sup>76</sup> *Ibid.*

<sup>77</sup> *Ibid.*

<sup>78</sup> Mutter, Allan D. "Size matters in non-profit news." *Reflections of a Newsosaur*. Web. 09 Oct. 2009. <<http://newsosaur.blogspot.com/2009/09/size-matters-in-non-profit-news.html>>.

<sup>79</sup> Wilson, Fred. "My Favorite Business Model." *A Venture Capitalist*. 23 Mar. 2006. Web. 05 Oct. 2009. <[http://www.avc.com/a\\_vc/2006/03/my\\_favorite\\_bus.html](http://www.avc.com/a_vc/2006/03/my_favorite_bus.html)>.

Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base<sup>80</sup>.

Although the concept is not widely adopted by newsorgs, it has proven to be successful for a handful of popular Web sites and Web-based tools like Flickr.com, Skype, Vimeo and Dropbox. Flickr, one of the top 20 Web sites in the United States by traffic according to Alexa Web Information<sup>81</sup>, offers free photo hosting and sharing up to 100 MB per month of photos<sup>82</sup>. But for the amount of \$24.95 a year, users get unlimited photo storage, and up to 500 MB per week of video uploads, plus dozens of other minor perks like more customizable organization options. Vimeo, a video sharing site, offers a similar plan, as does Dropbox, a virtual storage service. Skype, which is a tool for Voice over IP (VOIP) calls and instant messaging, is free for its basic usage, but offers levels of plans from \$2 to \$10 per month for calling out to landlines, forwarding calls to a cell phone, or making international calls<sup>83</sup>. The theory at play is that you get users to trust and value the free product enough to be willing to pay for additional features. You build a strong customer base, then through your brand, user trust, word of mouth marketing and a good quality product, get the evangelists to pay so the everyday users don't have to. Estimates from

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<sup>80</sup> Ibid.

<sup>81</sup> "Flickr.com - Site Info from Alexa." *Alexa the Web Information Company*. Web. 05 Oct. 2009. <<http://www.alexa.com/siteinfo/flickr.com>>.

<sup>82</sup> "Flickr: Help: Free Accounts, Upgrading and Gifts." *Welcome to Flickr - Photo Sharing*. Web. 05 Oct. 2009. <<http://www.flickr.com/help/limits/>>.

<sup>83</sup> "Unlimited calls to landlines – any time, day or night." *Skype – Make free calls and great value calls on the internet*. Web. 05 Nov. 2009. <<http://www.skype.com/intl/en/allfeatures/subscriptions/#mexicanSubscriptionTab>>.

the book *Free: The Future of a Radical Price*, estimates that five to 10 percent of users of freemium sites upgrade to access premium content<sup>84</sup>.

The introduction of this paper outlined how the iTunes model of micropayments does not translate to news because the products (news vs. music) have different value for users; music is reusable and thus has more value, while news is disposable and has limited value. The freemium model has a similar problem in a journalistic context. Generally, users are paying for a physical product (i.e. ability to call long distance or upload more photos). The product is tangible and guaranteed. News, on the other hand, is a qualitative product, by which its value is judged on the whim of the user. Getting readers to pay an extra fee for “premium” news content would be a slippery slope because news is not predictable or tangible.

A new company called Journalism Online has a goal of helping newsorgs achieve financial stability by using a freemium model. As outlined in the source documents of Journalism Online’s business model, the company will provide a platform for publications to implement a subscriber-based system by which only 5 to 15 percent will be behind a paywall, and the rest will remain free with advertisements for non-subscribers<sup>85</sup>. The Journalism Online model would work as follows:

Each publisher's website is powered with the Journalism Online e-commerce engine, which allows customers to have one easy-to-use account common to all the publishers' websites. This allows consumers to sign up just once to purchase annual or monthly subscriptions, day passes, and single articles from multiple publishers. The password-

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84 Anderson, Chris. *Free: The Future of a Radical Price*. Hyperion, 2009. Print. (p. 247).

85 "Newspaper Association of America Paid Online Content Executive Summary and Business Model." Docstoc – Documents, Templates, Forms, Ebooks, Papers & Presentations. Web. 05 Oct. 2009. <[http://www.docstoc.com/docs/document-preview.aspx?doc\\_id=11141407](http://www.docstoc.com/docs/document-preview.aspx?doc_id=11141407)>.

enabled payment system is integrated into all of the member-publishers' websites, and the publishers have sole discretion over which content to charge for, how much to charge, and the manner of charge<sup>86</sup>.

So the looming question of this model is for which content *should* an online newsorg charge? If a freemium model is going to work for news, the content for which readers are paying has to have guaranteed value; readers have to go into the monetary commitment knowing that what they'll get at the end of the transaction is worth their money. This value could come in the form of established columnists, a database of information, or extra content like in-depth, documentary style videos. Of the aforementioned options, the most viable would appear to be database information, because it's the only kind of information that's not already being offered for free. For example, the *Wall Street Journal*, one of the few newspaper Web sites that has a paywall, charges users for news alerts, an online market data center and news scoops<sup>87</sup>. In a local context, the premium information would take the form of a searchable database of public records relating to crime, education, housing and government. In terms of articles, premium information could include in-depth articles beyond surface reporting (second day follow-ups). According to an article from the Nieman Foundation for Journalism at Harvard, online users want news to read about news that relates to their lives – news about where they live, where they work, where they socialize, where they obtain services (education, health, shopping), where they worship, etc<sup>88</sup>. Online readers also want news that is personal and community-based: "There is a 'collective'

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<sup>86</sup> Ibid.

<sup>87</sup> "The Wall Street Journal." *Business News & Financial News - The Wall Street Journal - WSJ.com*. Web. 05 Oct. 2009. <[https://order.wsj.com/sublf2/choose\\_form?offer=136](https://order.wsj.com/sublf2/choose_form?offer=136)>.

<sup>88</sup> "What Readers Mean When They Say They Want Local News." *Nieman Foundation*. Web. 09 Oct. 2009. <<http://www.nieman.harvard.edu/reportsitem.aspx?id=100121>>.

element embedded in there—a concern not just for one’s self but for the health of the community," said Mary Nesbitt from Northwestern University’s Readership Institute<sup>89</sup>. The content that caters most to these desires is what should be included in the subscription model.

### 3.6: Display advertising

Making money off of an online audience is a puzzle that continues to plague the newspaper industry. But for those non-paying readers, effective advertising is going to be a key money-maker. All display advertisements on a Web site should be well-integrated into the design of the Web site; an article in *BusinessWeek* points out that in order for online advertisements to be effective, users have to actually pay attention to them, but to accomplish that, they have to be pleasing to the eye (i.e., no annoying flash and popup ads that catch us by surprise)<sup>90</sup>. Although a seemingly simplistic and obvious notion, this means rethinking the way art is summoned for ads. Traditionally in the print world, an advertiser submits his or her own art work that conveys the desired message. But online is a different medium. Instead, a newsorg should have full control over the design and integration of the ad, allowing the advertiser to only have a say in the *content* of the ad. Of course, general premises like the advertisers’ branding have to be incorporated, but additional typography and colors should match the branding of the newsorg’s site. More importantly, ads have to be targeted, which can be done by offering local coupons, using algorithms that track user preference and analytics to track geolocation. According to a study from the United Kingdom Internet Advertising Bureau, more than one half (51 percent) of

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<sup>89</sup> *Ibid.*

<sup>90</sup> "Internet Ads: Irritating and Ineffective - BusinessWeek." *BusinessWeek - Business News, Stock Market & Financial Advice*. Web. 05 Sept. 2009. [http://www.businessweek.com/debateroom/archives/2008/08/internet\\_ads\\_ir.html](http://www.businessweek.com/debateroom/archives/2008/08/internet_ads_ir.html).

Internet users click on ads that they find relevant to their lives<sup>91</sup>. The same report shows that 43 percent of users also click ads that they find useful, i.e. coupons with online redemption codes<sup>92</sup>.

### 3.7: News sponsorships

If the newsorg has established trust with its readers, sponsorship is also a viable source of revenue in addition to display ads. A “sponsor” would be a company or product that is not only paying for a prime ad spot, but that the news staff approves of and uses regularly. Sponsorships could be interpreted as a newspaper’s endorsement of a certain product, thus giving the product an extra layer of credibility. This is a concept that would be new to newsorgs since, traditionally, they stay away from any kind of editorial/advertising crossover. Leo Laporte, a technology journalist who hosts a weekly radio show called “This Week in Tech” and produces 17 other tech podcasts weekly, uses the system of sponsorship. Laporte is revolutionary in the world of online journalism because he ditched traditional media – he once had a spot on Tech TV – to build an online empire that allows for more user engagement and interactivity than a traditional newsorg could ever provide. Because of the relationship Laporte has been able to build with his online community – through nearly 24-hour livestreams, live chats with his viewers, community tutorials and more – his endorsements of products are highly valued by listeners. Any other online newsorg could emulate this model, and many newsorgs are already doing endorsements/sponsorships with political candidates/parties. Different from an old-media advertorial, the new media endorsement is conversational and honest. As Laporte explained in a

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<sup>91</sup> "Which Online Ads Get Attention?" *Market research & statistics: Internet marketing, advertising & demographics - eMarketer*. 31 Mar. 2009. Web. 09 Oct. 2009. <<http://www.emarketer.com/Article.aspx?R=1007003>>.

<sup>92</sup> *Ibid.*

blog comment defending his sponsorship model two years ago: “ I only do ads for products I myself use and recommend. I'm pretty picky and reject many sponsors for that reason. My recommendations are sincere.”<sup>93</sup> Because of his highly engaged community, Laporte is able to better monetize his sponsorships; instead of charging the average \$12 CPM or less that most online newsorgs do, Laporte charges \$70 CPM. Laporte’s newsorg has annual costs of \$350,000 with seven employees, but his revenue is \$1.5 million and it’s doubling annually<sup>94</sup>. Although the business model described in this paper is meant to be applicable to local newsorgs and Laporte’s model is used on a national scale, there are still parallels: both are niches. Laporte’s audience is a niche of tech-savvy geeks; a local newsorg’s niche would be the surrounding community. Although different audiences, it’s still the same concept.

### 3.8: Projected costs and revenue

Table I below outlines the projected expenses associated with starting an online newsorg,

**TABLE I: Projected expenses for an online-only newsorg**

Item	Expense per year
7 employees, each being paid \$45,000 \$55,000/year + benefits	~\$315,000
Office space + electricity, etc.	~\$3,500/month
- Web hosting for site (dedicated servers)	\$1,000/month
Equipment (cameras, printers, Macs, video)	\$5,000

<sup>93</sup> Laporte, Leo. "Re: Why can Leo Laporte and Disney do it, but Mike Arrington and TechCrunch can't?" Web log comment. *Scobleizer: Exploring 2010 Web*. Robert Scoble, 23 June 2007. Web. 2 Oct. 2009. <<http://scobleizer.com/2007/06/23/why-can-leo-laporte-and-disney-do-it-but-mike-arrington-and-techcrunch-cant/#comment-662248>>.

<sup>94</sup> Laporte, Leo. "ONA 09 Keynote." Online News Association Conference 2009. Hilton, San Francisco. 3 Oct. 2009. Speech.

cameras, tripods, audio recorders, etc.)	
<b>Yearly total</b>	\$387,000

The following data in Table 2 outlines the sources of revenue that would need to be generated for the first year in order to sustain the projected costs and generate revenue.

**TABLE II: Projected costs for an online-only newsorg**

Subscriptions to niche content: 1,300 subscribers with a \$20/year subscription (freemium model)	~\$260,000
Display advertising: 1 million page views with a \$20 CPM (cost per thousand page views):	1 million page views with a \$20 CPM (cost per thousand page views): ~\$20,000
Donations	~\$400,000 (significantly less than Voice of San Diego)
Sponsorships	No data available yet, but the potential for up to \$1 million/year based on the This Week in Tech model (niche only) which reported millions/year on that model alone.
Yearly Revenue:	\$780,000 (incl. sponsorship estimate)
Gross Profit:	\$393,000

Although the gross profit is only \$8,000, the MinnPost (which currently relies on only two revenue paths, advertising and donations) has yet to break even going into its second year, so any profit within the first year is a success.

Over a period of five years, the newsorg could generate a minimum of nearly \$40,000, assuming all factors remained the same and no growth occurred. Although the staff is small compared to a traditional newspaper, it's not impossible to run a newsorg on seven employees;

it's already happening right now with a mere 10 reporters at *The Voice of San Diego*, which has been able to raise nearly \$1 million in donations alone each year. In some cases it will be necessary to have several part-time reporters on retainer, as is the case at the MinnPost, which has four full-time and "several" part-time reporters on retainer<sup>95</sup>.

The CPM for display advertising could be significantly higher (\$35-\$50) depending on how targeted the content is, which would eventually generate more revenue. Sites like This Week in Tech don't even bother with display ads, but if they did, they would have higher CPMs due to the targeted content and audience. The goal of any online news organization using the "freemium" model is to have a small percentage of the newsorg's readers paying to help keep the site alive and the content free for the remaining users. As noted above, considerable revenue can come from only 1,300 readers being paid subscribers.

Although revenue of a few hundred thousand dollars bears no comparison to the multimillions traditionally raised by newspapers, the cost of production for an online newsorg is tremendously cheaper. For example, *The New York Times* spends more than \$240 million/year on printing and raw materials<sup>96</sup>. To put that into perspective, they spend about \$600 million/year on wages and benefits, of which only \$200 million goes to reporting<sup>97</sup>. In total, that would put their delivery costs at around \$600 million/year<sup>98</sup>. The delivery costs for an online newsorg is

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<sup>95</sup> "Joel Kramer: Lessons We've learned after a year running MinnPost." *Nieman Journalism Lab at Harvard University* » *Aiming for the Future of Journalism*. Web. 01 Oct. 2009. <<http://www.niemanlab.org/2009/03/joel-kramer-lessons-ive-learned-after-a-year-running-minnpost/>>.

<sup>96</sup> Carlson, Nicholas. "Printing The NYT Costs Twice As Much As Sending Every Subscriber A Free Kindle." *The Business Insider*. 30 Jan. 2009. Web. 09 Oct. 2009. <<http://www.businessinsider.com/2009/1/printing-the-nyt-costs-twice-as-much-as-sending-every-subscriber-a-free-kindle>>

<sup>97</sup> *Ibid.*

<sup>98</sup> *Ibid.*

only the cost of hosting the site itself<sup>99</sup>. In the business model outlined above, 87 percent of the expenses are spent on reporting<sup>100</sup>.

The budget outlined above includes a total for community donations, which have proven to be successful at other entities. For example, Spot.Us – a site founded by Columbia University journalism graduate and contributor to the *New York Times* David Cohn<sup>101</sup> – thrives solely on community donations. In fact, the tagline for the company is “Community funded journalism.” Each article is posted with a goal amount of money to be raised, ranging from a few hundred to a few thousand dollars (these are generally more in-depth, investigative or feature stories and not simply bread-and-butter city council meetings). Once the amount is reached, the article is reported upon and published. The stories that the community cares most about get funded quickest. In a speech, Cohn explained community-funded reporting as “the act of distributing the cost of hiring a reporter across a lot of different people.”<sup>102</sup>

The concept of donations can be applied to for-profit organizations. Legally, for-profit organizations are allowed to accept donations, but the difference is that donors don’t get to deduct the contribution from their taxes<sup>103</sup>. Another emerging mode of business is a low-profit limited liability (L3C) that bridges the gap between for-profit and non-profit that lets business

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<sup>99</sup> Ibid.

<sup>100</sup> Table 1.

<sup>101</sup> Full disclosure: From Oct. – Dec. 2009, the author of this project served as a freelance Web designer for the Spot.Us project and worked directly with the Spot.Us founder, David Cohn.

<sup>102</sup> Cohn, David. "David Cohn on Spot.us." Tides Momentum Leadership Conference. Hilton, San Francisco. 08 Sept. 2009. Speech.

<sup>103</sup> Kaiser, Menachem. "Can the New York Times accept charitable donations? - By Menachem Kaiser -." *Slate Magazine*. Web. 02 Nov. 2009. <<http://www.slate.com/id/2233151/>>.

raise internal revenue, while still attracting donors for social causes<sup>104</sup>. Although this business status is currently only legal in five states (Vermont, Michigan, Utah, Wyoming and Illinois), it's being considered for adoption six other states<sup>105</sup>. Maryland Senator Benjamin Cardin is proposing a bill called the "Newspaper Revitalization Act" which, much like an L3C, would allow a hybrid business model to emerge in the newspaper industry<sup>106</sup>. Combining non-profit and for-profit elements, this new business model would allow newspapers to both earn revenue and accept tax-deductible contributions. If either of these policies is adopted on a large scale, it would be easier for newspapers to accept donations with an incentive of tax deduction for its donors.

In addition to organizational donations, individuals could also donate money toward specific stories, as is the case with Spot.Us. Allowing users to donate money to specific stories allows for a means of funding investigative stories that the community cares about. Those articles which get the most community donations will be pursued first. Using this system will balance out the coverage, allowing the community of citizens to help cover local, everyday news, and allowing the trained journalists to still keep the watchdog role.

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<sup>104</sup> Ibid.

<sup>105</sup> "About Low-Profit Limited Liability." *Americans for Community Development*. Web. 02 Dec. 2009. <<http://americansforcommunitydevelopment.org/about.html>>.

<sup>106</sup> Kimelman, Donald. (2009, April 20). A 'hybrid' path for saving newspapers. *Boston Globe*, p. A.11. Retrieved September 27, 2009, from ProQuest Newsstand. (Document ID: 1683451581).

## Chapter IV: Conclusion

### *A recap of findings and analysis of unanswered questions*

To start a newsorg based on the premises of this research report, it will require a vast shift in the mindset of journalists. It's no longer a matter of filling a two-page spread in the Sunday edition or having a reporter at every single city council meeting. As Jeff Jarvis puts it, it's a matter of "acting small and thinking big."<sup>107</sup> This means that the wasted resources of a traditional newspaper (multiple editors, copy editors, photographers, a printed product, etc.) will have to be cut out of the picture. Reborn will be a new breed of news that consists of a small, centralized staff that uses the community for news tips and pulls in a network of local bloggers, resulting in well-rounded coverage that the community is highly vested in. To survive, journalists need to detach themselves from the notion of news being a product or of a news Web site being a final destination. Journalists need to stop taking possession over their content and be open to building networks on a platform as Jarvis suggested:

For news organizations, going digital is not as simple as filling web pages. This transformation requires them to reinvent themselves — how they think of themselves, how they operate, how they relate to the public, how they make money— and fast . . . News organizations can no longer rely on the idea that the world will beat a path to their door. People are finding their own ways to news through new routes: friends' blogs, aggregators such as Google News and Dayslife, collaborative news sites such as Digg,

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<sup>107</sup> Jarvis, Jeff. *What Would Google Do?* New York: Harper Collins, 2009. Kindle E-book. (l.n. 2, 218-28)

feeds on Facebook or Twitter, apps on mobile phones, and who knows what comes next.<sup>108</sup>

As technology makes the capturing and publishing of news easier, everyday people are bound to take on the task on their own. Clay Shirky, a journalism professor at the City University of New York graduate school of journalism, equates it to an analogy of the driving industry: when cars were first invented, people hired professional chauffeurs to drive them around. As driving became more accessible and easier to conduct, people stopped hiring chauffeurs and started driving themselves. In a sense, they became “citizen chauffeurs,” much like “citizen journalists:”

We still pay people to drive, from buses to race cars, and there are more paid drivers today than there were in the days of the chauffeur. Paid drivers are, however, no longer the majority of all drivers.<sup>109</sup>

But with all that information being spread as journalism seeps into the population at large, journalists will have to take on the role as accountable curators of news. This is where Jarvis’ network concept becomes so important – we need journalists to be the watchdog whistle-blowers. But for the everyday news that takes place in a community, journalists have to find the clarity among the noise of tweets and blog posts, pull in those that are most relevant, and play a truly important role as distributors of information. After curating that information to build readership and value, monetization is the next step.

A viable business model for an online newsorg would have five main components. At the surface level, there will be highly-targeted ads that will be tailored to the local audience. To

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<sup>108</sup> Ibid. (l.n. 2, 117-27).

<sup>109</sup> Shirky, Clay. "NOT AN UPGRADE — AN UPHEAVAL." *Cato Unbound*. 13 July 2009. Web. 03 Nov. 2009. <<http://www.cato-unbound.org/2009/07/13/clay-shirky/not-an-upgrade-an-upheaval/>>.

further boost user engagement, the ads will be designed to match the flow of the Web site. In applicable cases, display advertisements will also have redemption code incentives. After a certain level of trust is built between the community and the newsorg, sponsor advertisements can also be featured on the site for businesses and products the newsorg endorses, based on the Leo Laporte model of sponsorship.

Beyond advertising, there are two main sources of revenue: subscriptions and donations. The subscription model will not be required, but it will be an opt-in feature for those users willing to get extra information about the community – a system known as the “freemium” model. For the most part, vital information will be free and open to the general public, but community-based forums, databases and calendars will be available by subscription only. The donation option allows readers to either donate money to proposed story ideas on an open editorial calendar, pitches from community members, or to the organization in general. Combined, all four elements (ads, sponsorships, subscriptions and donations) create multiple streams of revenue that could adequately keep the newsorg afloat and ensure sustainability of income.

Questions still remain about how to monetize the news. Will businesses care to advertise through a news site when they have free tools like Twitter and Facebook at their dispense to do their own mass marketing? What’s to stop the community from curating the news in their own ways? Will local bloggers be willing to collaborate? The only way to answer these questions is through experimentation.

In the digital era, news doesn’t take a single form. News is produced by individuals, communities, and professionals. It comes in the shape of 140-character tweets, 500 word blog posts, 50-photo Facebook albums, 40-second YouTube videos. It is through the collaborative

network of these three groups that the stories of people's lives, happenings of their communities, and decimation of information with thrive in an era where everyone is a publisher.

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