How Big Is the Local Reporting Gap and Who Will Fill It?

How Big Is the Gap?

There were about 13,400 fewer newspaper newsroom jobs in 2010 than there were in 2006, dropping from 55,000 positions to about 41,600.1 Over the years, newsmagazines, local commercial radio, and local TV have reduced their newsgathering staffs, as well. At the same time, Internet sites, cable news, and public radio have created new journalism jobs. How does this net out? Is there some way of quantifying the gap between the current level of investment in journalistic activity by the public, private, and nonprofit sectors and the level of investment that would maximize the civic benefits of journalism?

It is an extremely difficult task. Weighing the value of “accountability journalism” compared with other kinds of reportage is a highly subjective endeavor. We have no expectation of calculating a definitive number, but we do believe it is important to get a sense of scale of the shortfall. We considered three different approaches: studying the drop in spending on news reporting at newspapers; estimating the change in journalists employed across different news media; and calculating an ideal staffing of accountability reporting beats and comparing that with media employment today.

Rick Edmonds of the Poynter Institute has studied the drop in reporting resources at newspapers. He calculates that with 2009 aggregate revenues of $37 billion, daily newspapers were spending $4.4 billion on news operations—an overall drop of about $1.6 billion in annual spending since 2006.2

Ava Seave, a management consultant and adjunct professor at the Columbia Business School and Journalism School, studied the same issue from another angle for this report. Looking both at jobs lost and new jobs created in the new media economy (such as by Patch and NPR), she concluded that there were between 7,000 and 10,820 fewer full-time journalists, and there was between $800 million and $1.3 billion less being spent on editorial salaries, in 2008 and 2009 than in an average year from 2001 to 2006.3

Edmonds and Seave approached the problem using entirely different methodologies and ended up with numbers that—even at their lowest estimates—reflect deep losses to the nation’s journalistic capacity. Recognizing that neither of these analyses is definitive, it is nevertheless likely that, in terms of both employment levels and dollars spent, the media economy is spending less on full-time journalism today than it did before the Internet upended traditional business models.

This gives a rough sense of scale but leaves many questions unanswered.

First, we cannot conclude that our current gap is therefore $800 million or $1.6 billion. Some of the jobs and dollars cut eliminated duplication. A newsroom that once needed 12 production people may now need only three due to technological improvements. Some layoffs eliminated nice-to-have rather than have-to-have slots—for instance, scores of local newspapers had their own movie reviewers. Some reporters now work part-time, or produce more copy than they used to. Disruptive as these cuts were to the individuals involved, American journalism can safely survive them. What’s more, a given reporter might be considerably more productive than his pre-Internet self, since some aspects of research take significantly less time than they used to.

Moreover, even before staffing cuts, many important stories were not being covered. So we cannot know with any precision if the $6 billion spending on news content by newspapers in 2006 was civically ideal—if only it had been allocated differently—or, for that matter, if it was still too little or was more than necessary. We do know from several studies of media ecosystems in particular cities that new media (though it adds value in myriad other ways) has not come close to replacing what old media lost in terms of basic reporting.
Another approach is to look at some of the basic beats that might need covering. According to 2007 census data, the U.S. contains 3,033 counties; 19,492 municipal governments; 16,519 townships. Each typically has a public safety function and other offices. There are also 14,561 public school systems; and 37,381 special districts—which oversee a wide range of municipal operations, including, hospitals, mass transit, airports, stadiums, solid waste disposal, and water supply. There are many facets of community life that probably can be adequately covered by an ad hoc combination of bloggers, volunteers, and occasional journalism. But we also believe that communities and citizens are seriously harmed—including financially—if there is not a critical mass of full-time professional journalists watching over the key institutions, such as state and local government, local schools, state and local courts, police, environmental planning, land use, transportation, and public health. Within particular jurisdictions, other beats will be essential. In West Virginia, a mine reporter is a necessity; in a university town, higher education must be covered. Covering all those units of government would take about 50,000 reporters.

Of course, even at the peak of journalistic employment in local media, not all personnel were working on the most civically significant beats. How many were focused on accountability beats? During the 1990s, data from Burrelle’s Media Directory indicates that only about 20 percent of reporters and editors at local newspapers worked on local news beats. If, to be conservative, we assume that 20 percent of people currently working in newspaper newsrooms, local TV station news operations, and other outlets are working on accountability beats, this would yield a total of 20,000 journalists now on the local and state government accountability beats. So, to get to the level of accountability journalism that likely existed in 2000, the media sector would need to hire roughly 5,000 reporters, costing about $265 million. To hire the 30,000 journalists that would bring the total working on local and state accountability beats to 50,000, it would cost $1.6 billion.

Trying to come up with a single number would give a false sense of precision. And we are pretty confident that merely replacing jobs lost, in the same configuration as before, would be truly misguided. Nonetheless, using what seem to be pretty conservative methodologies, it appears that the cost to society (commercial and nonprofit sectors) of filling the gap in local accountability journalism would be somewhere between $265 million and $1.6 billion per year.

Would it be worth it? Having less reportorial journalism means that governments are apt to waste more money, citizens’ rights are more likely to be infringed upon, and schools are more likely to underperform. The U.S. spends $560 billion a year on K–12 schools, with increasingly discouraging results. It would cost about $231 million a year to ensure that every school system has at least a half-time reporter covering schools. It is difficult to quantify the benefits foregone from a high school that could have been better or a river that could have been cleaner or a hospital that could have saved more lives. But we feel extremely confident in saying that the dollar value is orders of magnitude more than $1 billion.

How Fast Will Commercial Media Markets Evolve to Fill Gaps?

Will commercial media eventually fill these gaps? So far it has not, but we readily admit that we are only offering a snapshot of the media markets at a particular moment. Given the pace of change, might it be just a matter of minutes before someone will invent a new model that will solve the problems? Nonetheless, it would be a cop-out to throw up our hands and say we therefore cannot have any idea what is coming next. In this section, we assess the evidence related to a critical question: how likely is it that commercial markets will quickly address the existing problems in local media?

Signs That Commercial Markets May Fill Gaps Quickly

Positive Factors Affecting Advertising

BIA/Kelsey predicts that local advertising will double to $42.5 billion between now and 2015. As local advertisers spend more online, digital businesses geared toward local news and information could grow.
Some already are succeeding. The Batavian, an online news website in upstate New York, reports revenue in the $100,000 to $150,000 range—enough to make the business sustainable, since its staff consists of only the founder and his wife.8 A recent report on digital journalism by Columbia Journalism School described Baristanet, a site catering to affluent suburbs in New Jersey, as “one of the most successful local news sites in the country.” The website is able to charge high ad rates to local businesses and “keeps costs radically low,” making heavy use of free-lance and volunteer writers, photos, and community listings. “Everyone involved with the site has another job—even the two founders,” the report concluded.8 Other websites have gotten into the black by developing secondary revenue streams, such as creating consulting services that help local businesses use social media, reports Michele McLellan of the Missouri School of Journalism.8

Ad rates on the iPad are higher than on websites, raising hope that the spread of tablets could increase digital ad revenue.9 Gannett reports that it is currently charging Marriott a $50 CPM for Marriott ads embedded in its USA Today iPad application, more than five times the average CPM advertisers pay for ads placed on the USA Today website.9 In March 2010, the Wall Street Journal reported that it had obtained $2.4 million in ad revenue from deals relating to its iPad app.

Ad-serving technology has made it easier for advertisers to target their message, leading to the possibility of higher ad rates. Advertisers can target messages based on previous online consumer behavior and geographic location. If ad rates overall rose by even a few dollars it could make the difference between local news websites surviving or dying.

Yahoo! has created a service to help local newspapers benefit from targeting technology and the company’s sales force. The effort involves 821 papers (with 22 million circulation, accounting for 52 percent of all U.S. Sunday circulation).10 Yahoo! uses its aggregate data on what people read on the web, what they search for, and which ads and search results they click on to develop profiles of readers’ likely interests in different product categories. When those Internet users visit the websites of papers that are part of the Newspaper Consortium, they are shown ads that are geared toward their likely product interests. Because these targeted ads are more likely to match consumer interests and get results, advertisers sometimes pay a premium for them.10 Gary Pruitt, CEO of McClatchy, is encouraged: “We remain very pleased with the Yahoo! Consortium and believe it is helping to grow our retail online numbers at a substantial double-digit clip, 50 percent in the first half.”10

Experimentation with Pay Models

“Quality journalism is not cheap, and an industry that gives away its content is simply cannibalizing its ability to produce good reporting,” said News Corp.’s CEO Rupert Murdoch. “The digital revolution has opened many new and inexpensive distribution channels but it has not made content free.”10

Efforts to charge users are taking many different forms: among them, putting all content behind a paywall, charging only for certain content, and charging those who use the most content. Payment strategies might involve monthly subscriptions, per issue charges, or per-article fees. Some content providers are experimenting with a single fee for access to the organization’s content on all platforms.10 And they are testing the possibility of charging on some platforms—phones, and tablets, for instance—but not others. (See Chapter 5, Mobile.)

New services and enterprises have arisen to helping publishers charge for content. Google and Apple have introduced new systems that allow publishers to sell subscriptions and charge in other ways. Firms, such as Journalism Online, help newspapers and other content creators determine and implement the best strategy for their particular needs. The New York Times set up a metered-paywall system, and News Corp. recently launched The Daily, a paid online newspaper. Some major newspapers have joined together to create Ongo, a paid service that provides premium journalism content for a flat subscription fee.10 and major magazine publishers did the same with NextIssueMedia.10

Many bundle together online and print products, or use one to subsidize the other.

On the local level, there are a handful of encouraging examples. The Augusta Chronicle saw no decline in web traffic in the first three months after it started charging for content.10 The Dallas Morning News started charging in March 2011, an effort that will be closely watched, both because it is a metro newspaper (not a national entity) and be-
cause it has managed to hold on to a relatively large journalistic staff. A key question is whether that staff will provide reporting that is distinctive enough that subscribers will be willing to pay enough to support it.²⁵

Several small news services have been created to cover state government, using a different kind of paid model: reaching a small, intensely interested audience and charging high subscription prices. The Arizona Guardian sustains its reporters on this beat through expensive subscriptions ($1,800 for a “professional subscription” per year; $1,440 for nonprofits; and $360 for individuals).²⁶

New Forms of Bundling
As discussed in Chapter 4, Internet, the Internet can be seen as hostile to business models based on “bundles”: it undermined the existing print business model that allowed newspapers to offer a variety of content for a single subscription price (thereby allowing certain types of content to subsidize others). The Internet tends to excel at offering only the content you absolutely want, and not making you pay for a word more. But that is not to say that the Internet is devoid of models that create “bundles.” Netflix, Hulu, and Pandora offer a large variety of material for a single subscription price. On the iPad, magazines and newspapers are being sold more like they were in pre-Internet days, a single price allowing readers to access a variety of content. If this succeeds on a large scale, it might enable publications to re-establish the subsidy system that allowed for some forms of popular content to indirectly support costly forms of worthy reporting that generated less income.

Some national companies are experimenting with local content. The Wall Street Journal and the New York Times charge customers and now offer local content as part of targeted editions, available in print and online.²⁷ They already invest in the printing and other infrastructure cost, so the additional cost of creating local editions is limited largely to paying the salaries of local reporters and ad salespeople.

The Huffington Post is a general interest website in which popular content, such as entertainment news, in some ways subsidizes less popular content. In the wake of the merger with AOL, executives are pledging to increase their hiring of journalists. Founder Arianna Huffington has maintained that a major reason for her interest in this deal was to do more for local news and information AOL’s Patch service has hired more local editor/reporters than any other media company in the last year. As of March 2011, there were 800 Patch sites, employing about 800 reporter/editors.²⁸ Patch engages in another form of subsidizing: it has built a single technology platform that can be used by content-creators throughout the country. Another company that has created a national infrastructure to enable the creation of local content is, Examiner.com, founded by entrepreneur Phillip Anschutz. It has sites in 233 cities and has recruited 67,000 (mostly part-time) “examiners” to write on local topics. In November 2010, Examiner.com sites drew 24 million unique readers and generated 68 million page views.²⁹

“Quality journalism is not cheap, and an industry that gives away its content is simply cannibalizing its ability to produce good reporting,” said Rupert Murdoch.

Technology Continues to Drive Down the Cost of Information Gathering
Capturing video, distributing it, researching, publishing text, transmitting photos, editing audio—all of these functions have become easier, cheaper, and accessible to a broader range of people due to less expensive cameras, new software, and many other technological advances. Will things continue in this direction?

Camera technology improves by the day, allowing video gathering to be done inexpensively. The cost of bandwidth and storage continue to drop, so journalists wanting to offer audio and video may eventually be able to do so without busting their budget. And Skype and other video streaming services allow for remote interviews that are infinitely less expensive than sending out crews, and they will only become more common as quality improves. Governments putting more data online will facilitate more data-driven research projects.

Open source code has become more varied, now providing entire content management systems for new websites—saving startups hundreds of thousands, if not millions, of dollars. The Journal Register newspaper chain recently asked its local papers to create websites using open source code only.³⁰

Perhaps most important, the rise of cloud computing has lowered capital costs for start-ups. Rather than building an expensive technology infrastructure, web-based companies can rent a slice of the cloud for a fraction of the cost.
It Is Early
The collapse of newspapers spurred many journalists and entrepreneurs to try to create new models. But they have
only been at it for a few years. It may take time to learn, from trial and error, what works best. In some cases, busi-
nesses that were started to perform one function have evolved toward performing another.

Cato Institute adjunct scholar Tim Lee argues that disruptive technologies often start off at the low-margin
eend of the market, but they eventually move toward products that can generate premium margins:

“The most successful sites are getting tired of the thin margins at the lowest rungs of the ladder and have started looking
upward. The New York Times alone generated $387.3 million in digital revenue last year. That might not seem like a lot of
money to the grey lady, but it looks like a huge jackpot to a still-small company like the Huffington Post. They—and dozens of
their competitors—are working hard to find ways to take a piece of that pie.”

It’s hard to overstate how much mental and creative energy is going into solving these problems. Dan Gill-
mor, the director of the Knight Center for Digital Media Entrepreneurship wrote:

“The entrepreneurial, startup culture has infiltrated journalism in a big way—because so many people are trying new things,
mostly outside of big enterprises but also inside the more progressive ones; because Digital Age experimentation is so
inexpensive; and because we can already see the outlines of what’s emerging…. But the worriers appear to assume that we
can’t replace what we will lose. They have no faith in the restorative power of a diverse, market-based ecosystem, because
they have little or no experience of being part of one.

“The diversity that’s coming—in fact, is already arriving—is breathtaking. As we all come to demand better from our information
sources, and create trustworthy information ourselves, we’ll have the choices we need at our fingertips.”

It may be that new models will be so fundamentally different, that it will take time for them to develop. Jeff
Jarvis of CUNY’s Graduate School of Journalism says, “The future is not the big, old, dumb company being replaced
by the big, new, smart company.” Instead, a hundred individual local bloggers or small companies might join to-
gether to sell ads, never gathering in a single newsroom.

What is more, the first wave of local news start-ups were launched by journalists, many of whom had limited
business skills. “Just because a bunch of journalists and civic minded folks can’t figure out a business model for local
news does not mean that business models aren’t still to be invented,” Michele McLellan says.

Signs That the Commercial Media Will Not Fill the Gaps Soon

The Nature of News as a Public Good
As noted in Chapter 4, Internet, economists view news and information as “public goods” with big public benefits but
a large “free rider” problem. People know they can get the news—and the benefits of reporters’ work—without fully
paying for it. We see nothing on the horizon that would change this attitude. In fact, free riding is easier than ever. For
all the attention given to paid news apps on the iPad, the vast majority of news apps are free, so consumers know they
will often have a free alternative. That doesn’t make charging for content impossible, but it means that the material
has to be truly unique and distinctive—while not being overly expensive to produce—and the uptake on pay schemes
will be lower than it might be for other types of paid content.

By contrast, people have always been willing to pay more for entertainment programming than for news. Though there are problems with piracy, free riding is a much less significant problem when it comes to entertainment
content than it is for news: If you don’t pay for the movie, you will have a hard time being able to see it. If you don’t pay
for the news, there are many other ways you can get it. Hence the success of Netflix and Hulu as “bundled” business
models probably does not tell us much about the likelihood that bundled models attempting to finance labor-intensive
reporting will be successful.
Precision Metrics Encourage Managers to Shift Away from Low ROI Products

Just because a large company is generating a profit does not mean it will spend some of its earnings on local journalism. Indeed, publicly traded companies are under tremendous pressure to maximize profits. Justifying investment in expensive services with limited or negative return on investment (ROI) is difficult.

One factor that has contributed to the current situation is that managers now have much better information about the ROI a particular piece of content produces. Years ago, newspapers had a general sense that they were probably losing money on their overseas coverage, but it was more a hunch than a certainty since no one knew with any precision how many people actually read the foreign stories. Now, managers know in agonizing detail how many page views an article reported from, say, Rwanda receives, and therefore they can calculate exactly how much money they are losing by sending a reporter there. Companies can certainly decide to sustain losing propositions in the service of some greater corporate goal—improving prestige or brand, for instance—but each time the CEO or the finance department assesses the performance of its products, the ones that lose money will have bulls-eyes on their backs.

In fact, when we look again at the national entities that seem most likely to finance local journalism, we can see the pressures under which they operate. For instance, it is telling that the Huffington Post, which has news at its core, nonetheless decided that rather than funding investigative journalism it would create a foundation to do so. Former Huffington Post CEO Eric Hippeau says that they created (and later spun off) the Huffington Post Investigative Fund as a separate nonprofit, instead of making it part of the main company, because that kind of journalism was just too expensive to support. So far, the Huffington Post’s local properties have followed the same model as its national news—heavily relying on aggregation, summarization, and unpaid bloggers. This formula may prove to be as popular on the local level, but, regardless, the company’s financial success comes in part from its disciplined refusal to spend much money on original reporting. As previously noted, both Patch and Examiner have succeeded in part because they, too, avoid spending significant money on labor-intensive investigative journalism.

What about efforts by the New York Times and the Wall Street Journal to create local journalism? Though the Journal’s New York City edition has been met with success, the paper has decided, at least for the next year, not to expand to other cities. The economics cannot sustain sinking significant reportorial resources into other cities. And, tellingly, the New York Times has created its local editions in part by partnering with local nonprofits. Again, the model works only by placing tight limits on how much one spends on local journalism.

Local Obstacles to Bundling

What about local media companies? Isn’t it possible that their core mission—serving a particular community—might allow them to re-establish the subsidy model and finance the important-but-not-lucrative reporting that newspapers used to support?

Those attempting to do so on a free, ad-supported model will face all of the aforementioned forces that drive down Internet ad rates—plus a new one: On the Internet, one does not have to be a local content creator to be a venue for local advertising. For instance, in studying several cities, the FCC found that the top news destinations for local residents were national websites like Yahoo! News and AOL. It is impossible to know how much local versus national content residents are seeking on those sites, but, significantly, even if users in, say, Toledo go to Yahoo! News for national content, they are likely to see local advertising. Even though sites like Yahoo! News do not invest in creating local content, they are winning some of the local ad spend that used to go to newspapers and TV stations, and that might otherwise have gone to independent web start-ups.

On a local level, traffic is so fragmented that it is difficult for one site to garner large numbers of monthly page views: top local news sites are likely to generate only a few million. A typical site with two million page views generates $15,000 per month assuming an average effective CPM of $2.52 and three ads per page. The fourth ranking website in Toledo generated 73,408 page views. Even if it were to charge double or triple the average ad rates, it would be extremely difficult to sustain a newsroom on that kind of revenue.
What about models that combine advertising with charging for content, perhaps through tablets? While there have been some positive early returns for national media companies that charge—the New York Times and The Daily—the track record for local media is discouraging. Editor & Publisher magazine assessed the situation as of January 2011 as follows:

“The late, though not necessarily lamented, 2010 was supposed to be the Year of the Paywall for newspapers. But consumers overwhelmingly repudiated the efforts of the few publishers who dared to demand payment for access to the news, leaving newspaper content about as widely and freely available on the Web at year’s end as it has been for the past one-and-a-half decades....

“As revealed in a survey of paywalls at three dozen newspapers by Belden Interactive, less than 1 percent of consumers on average were willing to subscribe. After experiencing alarming drops in readership at their websites, papers in places such as Harlingen, Texas, and Sonoma, Calif., quickly restored free access to their sites. With paywalls off the table, publishers now are moving toward hybrid systems that will let them charge some kinds of fees for some kinds of content under certain kinds of circumstances.”

PaidContent listed 13 local newspapers for which information was available about paywall performance. The newspapers’ circulation totaled 883,000, with the circulation of the online-only paid products totaling 10,755.

There are some in-between possibilities: It is possible that paywall experiments will eventually work, and yet still not lead to more funding of local accountability journalism. If history is any guide, consumers will be more willing to pay for financial, health, and entertainment content as well as other service content that materially and directly helps them in some way. Or, publishers may be able to add incremental revenue but not in a “game changing way.” In looking at the Augusta (GA) Chronicle, for instance, one of the most successful paywall experiments to date, analyst Alan Mutter calculated:

“Based on the experience to date and assuming a constant number of new subscribers on every day of the year for 12 months, the annual revenue from the pay system could range from about $43,000 (if two people subscribe each day) to $173,000 (if eight people subscribe each day). So long as the newspaper has enough page views to produce enough advertising inventory to satisfy demand, the subscription revenue would appear to be sufficient to support one to four additional bodies in the newsroom (although there can be no guarantee that this is where the windfall would land).”

Local publishers contemplating a paywall model for mobile devices immediately have to reckon with the fact that their competitors are offering news content for free. While monopoly newspapers benefited from lack of competition, the local online space is actually quite competitive. A newspaper that wants to charge for its content, whether on its website or an iPad app, will have to do so with the knowledge that the local TV station will likely offer basic local news for free.

High-priced newsletters that serve relatively small groups of readers may well succeed financially. The question here is whether democracy is served in the same way if the journalism is behind a prohibitively high paywall. It is possible that the mere reporting of unpleasant information might have an accountability effect even if the audience is relatively small, especially if the readers are influential. But politicians and CEOs tend ultimately to worry only when they think it will impact their re-election chances, so material that doesn’t break through in popular media will have less impact. It is also possible that newsletters gear their coverage toward the interests of their readers. If those readers are mostly lobbyists, the coverage decisions may evolve toward topics of most interest to them.

**Negative Advertising Trends**

Many of the trends outlined in Chapter 4, Internet—that pushed toward lower ad rates—are likely to continue.

We noted, for instance, that advertising is increasingly less dependent on content. This phenomenon became apparent with the flood of advertising dollars going to search. But it is just as true of the ad vehicles growing most rapidly now—social media, coupons, and geotargeting. Currently only 20 percent of digital marketing spending goes to legacy media companies (TV, magazines, radio, billboards, etc.), and that amount is projected to decline to 13 percent
Managers have much better metrics about the Return on Investment of particular pieces of content. Each time the CEO assesses the performance of its products, the ones that lose money will have bullseyes on their backs.

by 2020. Media analyst Jack Myers estimates that 50 percent of digital marketing growth will go to social media, coupons, and other platforms that largely bypass content-based media. Rafat Ali, founder of PaidContent.org, a leading analyst of online publishing, predicts that Facebook will become a major player in the local advertising space. Local advertisers will have more ways to reach customers without working with traditional content-creating media:

“Facebook is blowing the lid off any kind of local advertising. Some of the savvier local businesses have figured that the way to reach people is directly through social [networks]. Will [traditional] media be an intermediary in that experience? Maybe. But why would local businesses want to add that layer?”

There is much investment activity around efforts to geotarget ads directly on one’s cell phone, again bypassing traditional media. “Very local, geotargeted [ad systems] are going to come in,” Ali says. “Where is media? Nowhere. They’re an afterthought of an afterthought.”

“Daily deal” oriented services, such as Groupon, have been popular with consumers, but it is not yet clear whether local media will benefit. On the one hand, local media are trying to create their own Groupon-like services or create affiliate arrangements where they might get a slice of revenue in exchange for marketing help. On the other, it means more ad dollars going into a mechanism that can bypass local media entirely. In general, private investment seems to be attracted to platforms that bypass content-based media to reach consumers directly. Ali puts it even more provocatively: “All of the innovation is coming from people who don’t need the news industry.”

Though there are reasons to believe that ad targeting can increase rates (see above), there is just as much evidence that its impact will be minimal. In the past, the benefits of targeting were washed out by the sheer growth of the Internet. The volume of page views grew so rapidly that advertisers had an abundance of choices and could insist upon lower and lower rates, even for targeted ads. In addition, although targeting might work well on a national level, it often falls apart on a local level. As a practical matter, a website that gets 500,000 monthly unique visitors and then starts slicing its community into advertisable chunks—say, middle-aged men ready to buy a car—ends up with an actual number of targetable customers too small to interest advertisers. In aggregate, these small, targeted audiences might be valuable, but most big national-brand advertisers have no interest in contracting with 1,000 small websites to reach their desired audience. Hence, the lion’s share of advertising dollars now goes to the top few players, such as Yahoo! and AOL. This means that local news sites will have a harder time benefiting from hyper-targeting than big national sites.

Finally, privacy concerns have led both policymakers and companies to look for ways to restrict the ability of advertisers to gather information about consumers’ online behavior.

More Shoes to Drop for Traditional Media

Although increased broadband penetration has tremendous benefits (see Chapter 29, the Internet and Mobile) it will also create further dislocations for traditional media business models in the short run. Gordon Crovitz, former publisher of The Wall Street Journal and co-founder of Journalism Online, says his research over the years has shown an “inverse correlation between broadband penetration and newspaper profitability.” Broadband has not yet spread throughout the land. Twenty-two percent of Americans are not Internet users, and 35 percent do not use broadband Internet at home.

In other words, for people without easy access to the Internet, it still may be easier today to read and post classified newspaper ads and to clip coupons inserted in the local paper than to shop and sell on Craigslist. This, along with less competition from local TV news, may help explain why small-city newspapers and community newspapers have been faring better than their big-city brethren. Eventually, broadband should and will reach these audiences as well—and the old media business models in their towns will suffer, too.
Similarly, as Internet radio arrives in cars, traditional broadcast radio will suffer; and as IPTV (Internet TV) becomes a more common form of TV watching, local TV stations may suffer, too. In each case, the higher ad rates charged on traditional media will likely be undercut by the lower ad rates on the Internet. A recent survey of iPad users by the Donald W. Reynolds Journalism Institute at the University of Missouri found that 58 percent of print newspaper subscribers who also use their iPad a lot “said they were very likely to cancel their print subscriptions within the next six months.”

Of course, none of this is an argument against universal broadband, but it is an argument for realism about the inevitable by-products of this trend.

Another factor weighing against traditional media is human mortality. Media usage is generationally skewed. Seventeen percent of 18 to 24 year olds read a daily newspaper “regularly,” whereas 40 percent of folks ages 40 to 49 do. The same pattern can be seen with network TV, where the median age of the audience watching nightly newscasts is 62.3 and rising. A generation that sustained the high-CPM business models of newspapers and television will gradually be replaced by a generation that prefers new technologies, which alas are the ones that rely on low-CPM business models. Finally, we can anticipate that one more leg of the traditional media advertising stool—advertising inserts in the Sunday paper—will also erode, as direct marketers shift to either deal-of-the-day sites like Groupon or web-, email-, and social-media-based direct marketing.

**Separation of Distribution and Content**

In the old system, media companies often acted as both content creators and distributors. Newspapers and TV created the content and invested in and profited from the distribution networks. They could use profits generated through distribution to subsidize content creation. In the modern system, most often those functions are performed by separate companies. Phone companies that provide Internet access, either through landlines or wireless pathways, earn tremendous revenue from consumers using the Internet to access content (and for other purposes). Yet the Internet service providers (ISPs) share none of that revenue with content creators. Viewed in terms of spectrum resources, we can see a similar shift. Spectrum used to be held by entities that both distributed and created content: TV and radio stations. Now, spectrum is shifting toward wireless companies, which earn their revenue entirely through distribution.

In addition, a tremendous amount of the revenue that previously went to the content-creator/distributors now flows to search engines. Though not “distributions pipes” in the traditional sense, search engines create most of their value by directing people to content rather than creating it.

As publishers look to paid content models as a potential solution, they see the possibility that some of the savings generated by the lower cost of publishing online may be eaten up by the entities best positioned to distribute the content. Coincidentally, while a typical newspaper’s costs of raw materials (e.g., paper, ink) and distributing the paper was 31 percent of revenues, Apple keeps 30 percent of the revenue from publishers that sell subscriptions on iTunes. In that sense, technology has not brought the anticipated drop in distribution costs for newspapers.

Interestingly, there have been few efforts aimed at getting ISPs to share the wealth with content creators, as there have been with cable service providers. (See Chapter 27, Cable Television, for more on the battle between cable operators and programmers for “retransmission consent” fees.)

**Corporate Structure Issues Remain Unchanged**

Much of the debate about media concentration—whether a small number of companies own too many media outlets—has usually focused on whether it has reduced the diversity of voices.

While an important debate, our analysis indicates that the more significant risk of concentration may relate to its secondary effects: increasing percentages of media operations became subject to Wall Street pressure to focus on short-term profits over long term goals. Both TV stations and newspapers could have cut fewer core journalistic functions than they did in recent years, had their owners been willing or at the liberty to accept lower margins and had they been under less pressure to make debt payments. James Hamilton of Duke University did a provocative thought experiment for the Future of Media project:
If, in 2008, the newspaper industry had accepted a 9 percent cash margin instead of taking 13 percent, it could have generated enough additional cash to avoid virtually all of the layoffs that occurred around that period.1

If TV stations had been willing or able to reduce cash flow margins in 2009 by just two percentage points (e.g., accept 21 percent cash flow margins rather than 23), they could have increased newsroom spending by $269,070 per station, or 11 percent, and reduced pressure to fire staff.

We offer these estimates not to indicate bad faith on the part of those media managers. Indeed, it could be argued that they had a fiduciary responsibility to maximize profit. But this dynamic—the pressure to achieve short-term profit goals—is an important part of the story, and there is no reason to think that it will be any better in coming years. Andrew Lack, CEO of Bloomberg Media, described the huge investments Bloomberg is now making in hiring reporters around the globe to staff its now 127 bureaus. “The whole ambition is to have a civic impact,” he said. Lack, a former executive at two publicly traded companies (Sony and NBC), then added, “I don’t think we could execute this strategy as a public company.” The pressures for short-term profit margins are too high, and the payback on journalistic investments take too long.2 And that is the problem: the nature of being part of a large publicly traded media corporation makes investment in labor-intensive journalism difficult, because companies are not rewarded fully in the market for their longer-term or more journalistically ambitious choices.

**Limits to How Much Technology Can Drive Down Accountability Journalism Costs**

Technology has in some ways reduced workload, but it other ways it has increased it. In Chapter 3, TV, we heard one-man band TV reporters saying that, far from enabling them to do more reporting, having to serve as reporter-producer-cameraman has led them to be more scattered. And in Chapter 1, Newspapers, many reporters described themselves as having insufficient time to report and think, a state the Columbia Journalism Review referred to as “the hamster wheel.”

In addition, financial incentives still drive companies to apply cost savings to the bottom line, rather than investing in low-ROI journalism. It may take 10 reporters to do the work it took 15 reporters to do a decade ago, but society has little to cheer about if newsroom managers mull that fact and decide to therefore employ only eight. Companies have seen their traditional revenue models collapse. Does it surprise anyone that they would apply cost savings to the bottom line?

Technology has created downward pressure on journalistic wages, which ultimately will reduce cost, but eventually you hit a floor: it costs far more to employ a full-time professional to work on a story for a few weeks than it does to reprint someone else’s work.

Finally, the movement to make government data more available will certainly help, but it still requires a critical mass of full-time watchdogs to make it work. In one town, the decision to put court records online delayed their accessibility and slowed down their distribution.3 The drive toward greater transparency in government will invariably run up against human nature: governments will never enjoy putting out data that makes them look bad. Full-time (read: costly) journalists will need to keep up the pressure.

**A Shift in Thinking?**

For all these reasons, even some of the biggest evangelists for new media now argue that there may be some gaps that commercial Internet players will not sufficiently fill.

No one is more ardent in his belief that the new media can replace and improve upon the old media systems than writer and professor Jeff Jarvis. Yet at a Future of Media workshop, Jarvis said, “There are areas the market will not support—most likely broccoli journalism,”4 a reference to journalism that might be unpopular but good for society.

Clay Shirky, another highly respected new media advocate, believes most of the contraction of old media will be offset, and then some, by new media—yet he also says there is an important exception: “One function that’s hard...
to replace is the kind of reporting that comes from someone going down to city hall again today, just in case. There are some in my tribe who think the web will solve that problem on its own, but that’s ridiculous.”

Hal Varian, Google’s chief economist, concluded that the “online world reflects offline: news, narrowly defined, is hard to monetize.”

Esther Dyson, an Internet pioneer and investor predicts that venture capital will gravitate toward social media and “service journalism—press release news, and consumer electronics. These are all things that provide good context for advertisers.” But, when it comes to accountability journalism, she believes the nonprofit sector will need to play a bigger role.

And then there is John Hood, president of the John Locke Foundation, a market-oriented think tank in North Carolina. The foundation’s Carolina Journal finances nonpartisan investigative journalism, motivated, in part, by seeing the number of reporters covering the statehouse plummet over the years. “In North Carolina, several [out-of-town] TV stations had reporters. None has a bureau now. We were responding to changes in the market,” Hood says. Although politically conservative, Hood is skeptical that commercial markets will sufficiently provide local accountability journalism. “When you get to the state and local level, the collapse of the traditional business models imperils the delivery of sufficient public interest journalism—and we do believe that donor driven journalism can be a very important model.”

Given the speed and magnitude of change, anyone in the media or information technology space has to be pretty humble about making predictions. Strong arguments can be made on both sides. However, we conclude that at a minimum it is not a certainty that commercial markets alone will fill the reporting gaps—and that even if they eventually do, that transition period could be long and, for communities, quite painful.

The New Relationship Between the For-Profit and Nonprofit Sectors
We see the beginnings of a new paradigm in which the for-profit and nonprofit sectors work together more symbiotically than ever before.

The for-profit sector and nonprofit sectors realize that they need and can help each other. Throughout this report we have noted examples of such budding collaborations: the Texas Tribune working with the New York Times, ProPublica partnering with the Washington Post, the journalism school at Arizona State working with the local newspaper, the University of Missouri journalism school helping run the KOMU-TV station, the NBC station in San Diego working with voiceofsandiego.org, and California Watch providing investigative journalism for newspapers throughout the state. In each case, the commercial media entity benefits from a level of accountability reporting that the commercial model cannot sustain. The nonprofit media gets something extremely valuable, too: use of the massive distribution networks that the commercial media has built up over time. Nonprofit media simply could not pay to have that kind of distribution. Even better, in some cases, commercial media outlets are paying cold-hard cash, enabling nonprofits to create a new revenue stream through fee-for-service journalism.

In economic terms, commercial media are getting help from nonprofit media for the functions that have been rendered cost-ineffective. This system can work well—but only if the nonprofits have healthy flow of funds from donors or other revenue.

The New Relationship Between Print, TV, and Radio
Unusual collaborations are sprouting not only between for-profit and nonprofit sectors, but also within the commercial sector. In some cases, entities have decided to collaborate in areas where competition among them was minimal anyway. In Ohio, newspapers around the state joined together to help finance statehouse coverage. This makes sense since these papers really don’t compete much with each other for readers since they are in different parts of the state.
In other cases, media entities have decided to focus their limited resources on certain functions and rely on partnerships for others. For instance, Bloomberg now helps prepare the Washington Post’s business section.6

Such partnerships are not always easy. Each corporation has a different culture, style, set of standards, and business model. Beneficial collaborations often involve the melding of complementary rather than similar business models. As business models change, the types of companies that cooperate may change too. For instance, local TV stations and newspapers in some ways would have more reason than ever to cooperate, potentially pooling resources to maximize reporting efficacy. But in other ways, they now compete with each more directly than before, each trying to draw more readers online. Media executives also argue that ownership rules discourage collaboration.

The New Relationship Between New Media and Old

As the new media took off, traditional media felt threatened. Warring camps developed. Advocates for “traditional journalism” sometimes mocked and belittled the value of the new media. At the same time, some new media advocates minimized the implications of the newspaper collapse, and the value of professional full-time journalism.

We sense that the positions have become more nuanced in the past year, with most new media experts acknowledging that some functions are not, and will not be, adequately dealt with by the new media economy and that there is an important role for full-time, professional journalists. Meanwhile, most traditional media players have become far more respectful of the power and journalistic potential of new media, having now spent some time creating more dynamic web experiences for their readers or viewers, and using social media as a reporting tool.

The next step would seem to be embracing a fairly obvious idea: the old and new media improve each other’s effectiveness. Crowds can pore through document dumps and reporters can find the source within the agency to describe the significance or reveal which documents were withheld. Citizens can offer Twitter updates from a scene, and reporters can look for patterns and determine which tweets might be self-serving or fraudulent. Traditional media may come up with a scoop, and new media can get it disseminated quickly and inexpensively; new media, may come up with a scoop, and traditional media can cast the information more broadly.

Parents or retirees can attend the school board meeting to write about what happened, and a well-sourced reporter can find out what went on behind the scenes—and then the parents can spread the word through social media and dog the issue after the reporter has moved on to other subjects. A block association can take pictures of potholes; a reporter can follow up to find out whether blocks in certain neighborhoods get their streets fixed faster than those in others.

Professional reporters can go where volunteers do not have the time or access to visit—for instance, prisons, war zones, the corridors of city hall—and citizen reporters can, through their numbers, be in many more places than reporters can hit.

Indeed, the combination of all these tools enables the news ecosystem to meet needs it has struggled with for centuries. Traditional mass media had to operate on a grand scale to reach a large enough audience to appeal to advertisers; but covering vast geographic areas with a relatively fixed number of reporters meant that very local matters were often neglected. Even at their peak, the accountability beats—schools, city hall, planning boards, hospitals, and the like—never had nearly enough reporters. Yet, if a community does not have a critical mass of full-time professional journalists, it will not harness the benefits of this new system. Indeed, it will be worse off than it has been in years. Full-time journalists are not just useful parts of this new machine. They are its essential components. New media elements—citizen journalism, crowdsourcing, public databases, blogs, and social media—are not just cool new bits of sizzle. They are at the heart of the new ecosystem. Without both, a community will not get the information it needs. With both, it can have the best media system it has ever had.