



BASF helps pharmaceutical companies
deliver medicine more reliably.

FIND OUT HOW. ▢

Economist.com

BUSINESS

The newspaper industry

More media, less news

Aug 24th 2006

From The Economist print edition



Newspapers are making progress with the internet, but most are still too timid, defensive or high-minded

THE first thing to greet a visitor to the Oslo headquarters of Schibsted, a Norwegian newspaper firm, is its original, hand-operated printing press from 1856, now so clean and polished it looks more like a sculpture than a machine. Christian Schibsted, the firm's founder, bought it to print someone else's newspaper, but when the contract moved elsewhere he decided to start his own. Although Schibsted gives pride of place to its antique machinery, the company is in fact running away from its printed past as fast as it can. Having made a loss five years ago, Schibsted's activities on the internet contributed 35% of last year's operating profits.

News of Schibsted's success online has spread far in the newspaper industry. Every year, says Sverre Munck, the executive vice-president of its international business, Schibsted has to turn away delegations of foreign newspaper bosses seeking to find out how the Norwegians have done it. "Otherwise we'd get several visits every month," he says. The company has used its established newspaper brands to build websites that rank first and second in Scandinavia for visitors. It has also created new internet businesses such as [Sesam](#), a search engine that competes with Google, and [FINN.no](#), a portal for classified advertising. As a result, 2005 was the company's best ever for revenues and profits.

Unfortunately for the newspaper industry, Schibsted is a rare exception. For most newspaper companies in the developed world, 2005 was miserable. They still earn almost all of their profits from print, which is in decline. As people look to the internet for news and young people turn away from papers, paid-for circulations are falling year after year. Papers are also losing their share of advertising spending. Classified advertising is quickly moving online. Jim Chisholm, of iMedia, a joint-venture consultancy with IFRA, a newspaper trade association, predicts that a quarter of print classified ads will be lost to digital media in the next ten years. Overall, says iMedia, newspapers claimed 36% of total global advertising in 1995 and 30% in 2005. It reckons they will lose another five percentage points by 2015.

Even the most confident of newspaper bosses now agree that they will survive in the long term only if, like Schibsted, they can reinvent themselves on the internet and on other new-media platforms such as mobile phones and portable electronic devices. Most have been slow to grasp the changes affecting their industry—"remarkably, unaccountably complacent," as Rupert Murdoch put it in a speech last year—but now they are making a big push to catch up. Internet advertising is growing rapidly for many and is beginning to offset some of the decline in print.

Newspapers' complacency is perhaps not as remarkable as Mr Murdoch suggested. In many developed countries their owners have for decades enjoyed near monopolies, fat profit margins, and returns on capital above those of other industries. In the past, newspaper companies saw little need to experiment or to change and spent little or nothing on research and development.

Set in print

At first, from the late 1990s until around 2002, newspaper companies simply replicated their print editions online. Yet the internet offers so many specialised sources of information and entertainment that readers can pick exactly what they want from different websites. As a result, people visited newspaper sites infrequently, looked at a few pages and then vanished off to someone else's website.

Another early mistake was for papers to save their best journalists for print. This meant that the quality of new online editions was often poor. Websites hired younger, cheaper staff. The brand's prestige stayed with the old medium, which encouraged print journalists to defend their turf. Still today at *La Stampa*, an Italian daily paper owned by the Fiat Group, says Anna Masera, the paper's internet chief, print journalists hesitate to give her their stories for fear that the website will cannibalise the newspaper.

For the past couple of years, however, newspapers have been thinking more boldly about what to do on the internet. At its most basic, that means reporting stories using cameras and microphones as well as print. The results can be encouraging. America's Academy of Television Arts & Sciences has introduced a new Emmy award for news and documentaries on the internet, mobile phones and personal media players. Five of the seven nominations for this September have gone to reports by nytimes.com and washingtonpost.com.

**For most
newspaper
companies in the
developed world,
2005 was
miserable**

It also means being more imaginative. In the late 1990s, the early years of the *Wall Street Journal's* [website](#), one of the paper's journalists came up with the novel idea of posting online a 573-page document that backed up an article. "It wasn't the most compelling content," remembers Neil Budde, its founding editor and now general manager of news at Yahoo!, an internet portal. But it was a start. Now newspapers have a better idea of what works online. This is not always traditional journalism as taught in journalism school. Brian Tierney, who became owner of the *Philadelphia Inquirer* after Knight Ridder sold it last year, noticed that a popular item on the paper's [website](#) has been a video of Mentos mints causing a 2-litre bottle of Diet Coke to explode into the air. "We should do more of that," he says.

More newspaper companies are likely to treat their websites as a priority these days. "Before, newspapers used their second- and third-rate journalists for the internet," says Edward Roussel, online editorial director at Britain's Telegraph Group, "but now we know we've got to use our very best." Many companies are putting print journalists in the same room as those who work online, so that print writers are working for the website and vice versa. Some insist that this is a mistake. "It is completely wrong not to separate web and paper operations," says Oscar Bronner, publisher of *Der Standard*, a daily paper in Austria. Print journalists don't have time to reflect and analyse properly if they also have to work for the website, he argues.

Running to stand still

How impressive are the results of these online experiments? At lots of newspaper companies, internet advertising is growing by at least 30% a year, and often more. At *la Repubblica* in Italy, for instance, the paper's [website](#) gets about 1m visitors a day, nearly double the circulation of the printed paper. The value of online ads grew by 70% in the first half of 2006. For the first three months of 2006, the Newspaper Association of America announced that advertising for all the country's newspaper websites grew by 35% from the same period in 2005, to a total of \$613m. But to put that in perspective, print and online ads together grew by only 1.8%, to \$11 billion, because print advertising was flat. At almost all newspapers the internet brings in less than a tenth of revenues and profits. At this point, says Mr Chisholm, "newspapers are halfway to realising an audience on the internet and about a tenth of the way to building a business online."

The big problem is that readers online bring in nowhere near the revenues that print readers do. All but a handful of papers offer their content free online, so they immediately surrender the cover price of a print copy. People look at fewer pages online than they do in print, which makes web editions less valuable to advertisers. Gavin O'Reilly, president of the World Association of Newspapers in Paris, says that print readers are much more valuable than online readers, who use newspaper websites in a "haphazard and fragmented way". Vin Crosbie, of Digital Deliverance, a consulting firm, recently estimated that newspapers need between 20 and 100 readers online to make up for losing just one print reader. Many newspaper bosses would say this is too pessimistic: one British paper, for instance, reckons that one print reader is worth ten online. But even that is a daunting multiple.

Newspapers today concentrate on only two parts of the market for internet advertising. They earn little or nothing from internet search, which is bigger than either display or classified ads. Especially in America, newspapers rely heavily on classified ads online and have fewer display ads, says Mr Crosbie. Elsewhere, the pattern may be reversed, but newspapers still lack a broad base of internet-advertising revenue; for instance, Juan Luis Cebrián, chief executive of Grupo PRISA, the owner of *El País*, says the Spanish newspaper is enjoying strong growth in display advertising, but has few online classified ads.

On the other hand, newspapers' websites have higher profit margins than print does, because they have no newsprint or distribution to pay for. The *Wall Street Journal* is one of the few papers that charges for its content online. Others may follow suit, especially if growth in advertising slows. The online business model is still in flux, argues Richard Zannino, chief executive of Dow Jones & Company, publisher of the *Wall Street Journal*. The average price of ad space in the printed paper is now only three times higher than on Wall Street Journal Online, says Mr Zannino, compared with six to seven times for the industry as a whole in America. He expects the relative price of an internet ad to rise.

The secret of making money online, according to Schibsted, is not to rely on news aggregators like Google News and Yahoo!. Three-quarters of traffic to the websites for Schibsted's *VG* and *Aftenbladet* comes through their own home-pages and only a quarter from other websites. "If visitors come from Google to stories deep in the paper and then leave," explains Mr Munck, "Google gets the dollars and we get only cents, but if we can bring them in through the front page we can charge €19,000 [\$25,000] for a 24-hour banner ad." In spite of this, most newspapers still depend on news aggregators.

The danger for newspapers is that all their efforts on the internet may only slow their decline. Doing the obvious—having excellent websites and selling ad space on them—may not be enough. The papers with the best chance of seeing their revenues grow are those experimenting with entirely new businesses online and off.

**Readers online
bring in nowhere
near the revenues
that print readers
do**

Some are launching profitable new ventures that are only indirectly related to journalism. Schibsted, for instance, has started an online slimming club, called *Viktklubben.se*, using its *Aftenbladet* newspaper brand. *Viktklubben.se* charges its 54,000 members €50 each every three months. The Telegraph Group in Britain uses the *Daily Telegraph* to sell readers everything from goose-down pillows to Valentine's Day topiary baskets to insurance. The division now contributes close to a third of the firm's total profits, according to an executive at the company. "Newspapers will have to get into new businesses and extract more value from their audience," says Paul Zwillenberg, global head of media and entertainment at OC&C Strategy Consultants in London. Examples like these are fairly rare, though. Most newspaper companies still insist that producing high-quality journalism and distributing it in new ways will be enough to keep them growing.

It's the journalism, stupid

Consultants advising newspaper groups argue that they need to adjust their output. Research into the tastes of mainstream newspaper readers has long shown that people like short stories and news that is relevant to them: local reporting, sports, entertainment, weather and traffic. On the internet, especially, says Mr Chisholm, they are looking to enhance their way of life. Long pieces about foreign affairs are low on readers' priorities—the more so now that the internet enables people to scan international news headlines in moments. Coverage of national and international news is in any case a commodity often almost indistinguishable from one newspaper to the next. This impression is exacerbated as papers seek to save money by sacking reporters and taking copy from agencies such as Reuters. "Our research shows that people are looking for more utility from newspapers," says Sammy Papert, chief executive of Belden Associates, a firm that specialises in research for American newspapers. People want their paper to tell them how to get richer, and what they might do in the evening.



Few newspaper companies like to hear this and they tend to ignore the research they have paid for. Most journalists, after all, would rather cover Afghanistan than personal finance. But some are starting to listen. Gannett, the world's biggest newspaper group, is trying to make its journalism more local. It has invested in "mojos"—mobile journalists with wireless laptops who permanently work out of the office encamped in community hubs. Morris Communications, based in Augusta, Georgia, recently launched a new home-delivered free paper for Bluffton, a fast-growing area of Beaufort, South Carolina, called *Bluffton Today*, with a page of national news, one of international and the rest "hyper-local". Its [website](#) has pictures and blogs from readers and detailed community information. "Back in the 1940s and 1950s papers used to be full of what we call 'chicken-dinner news'—the speakers at civic clubs and whose daughter won a blue ribbon in canoeing," says Will Morris, the firm's president. "But then newspapers started to lose touch with their readers."

The more adventurous newspaper companies, like Morris Communications, are showing themselves willing to embrace content and opinions from readers. Rather like OhmyNews, a Korean "citizen-journalism" operation that many people think heralds the future for news-gathering, Schibsted exhorts its readers to send information and photographs. When a mentally disturbed man ran amok and killed people on a tram in Oslo in 2004, it was a reader with a mobile-phone camera who sent *VG* its front-page picture of the arrest. At *Zero Hora*, a Brazilian paper owned by RBS Group, the circulation department asks 120 readers what they think of the paper every day and Marcelo Rech, the editor, receives a report at 1pm. "They usually want more of our supplements on cooking and houses and less of Hizbullah and earthquakes," says Mr Rech.

Still more changes to the content and form of newspapers are likely as businesspeople gain power at newspaper firms. "You won't be able to have many sacred cows...Newspaper companies will have to become more commercial," says Henrik Poppe, a partner in McKinsey. Some leading titles, including the *Wall Street Journal*, have recently decided to put advertisements on the front page for the first time. For the moment, the trend towards greater commercialism is most evident in America, but is likely to spread elsewhere as newspaper companies struggle financially. At the *Philadelphia Inquirer*, Mr Tierney, a former advertising executive, shocked people by announcing that he would bring in an advertising person to redesign the paper—traditionally a task strictly for editorial. In future, businesspeople are likely to insist that newspapers adopt practices that are already standard in other industries. Mr Tierney, for instance, says it is unreasonable to expect everyone from the age of 18 to 88 to buy the same product. The industry needs to sell papers for different age and demographic groups, he says.

The most shocking development for traditional newspapers has been the wild success of free dailies, which like the internet have proved enormously popular with young people. Roughly 28m copies of free newspapers are now printed daily, according to Metro International, a Swedish firm that pioneered them in 1995. In markets where they are published, they account for 8% of daily circulation on average, according to iMedia. That share is rising. In Europe they make up 16% of daily circulation. Metro calculates that it spends half the proportion of its total costs on editorial that paid-for papers do. In practice that means a freesheet with a circulation of about 100,000 employing 20 journalists, whereas a paid-for paper would have around 180. Metro's papers reach young, affluent readers and are even able to charge a premium for advertising in some markets compared with paid-for papers.

"The biggest enemy of paid-for newspapers is time," says Pelle Törnberg, Metro's chief executive. Mr Törnberg says the only way that paid-for papers will prosper is by becoming more specialised, raising their prices and investing in better editorial. People read freesheets in their millions, on the other hand, because *Metro* and others reach them on their journey to work, when they have time to read, and spare them the hassle of having to hand over change to a newsagent.

Some traditional newspaper firms dismiss free papers, saying they are not profitable. Carlo De Benedetti, chairman of Gruppo Editoriale L'Espresso, publisher of *la Repubblica*, for instance, says that Metro loses money in Italy and that other freesheets are struggling. Globally, however, Metro has just become profitable.

Consultants say that lots of traditional newspaper companies are planning to hold their noses and launch free dailies. In France, for instance, *Le Monde* is planning a new free daily, and Mr Murdoch's News International is preparing a new free afternoon paper for London, to be launched next month. Deciding whether or not to start a freesheet, indeed, perfectly encapsulates the unpalatable choice that faces the paid-for newspaper industry today as it attempts to find a future for itself. Over the next few years it must decide whether to compromise on its notion of "fine journalism" and take a more innovative, more businesslike approach—or risk becoming a beautiful old museum piece.