



The U.S. Newspaper Industry in Transition

Suzanne M. Kirchhoff

Analyst in Industrial Organization and Business

July 8, 2009

Congressional Research Service

7-5700

www.crs.gov

R40700

Summary

The U.S. newspaper industry is suffering through what could be its worst financial crisis since the Great Depression. Advertising revenues are plummeting due to the severe economic downturn, while readership habits are changing as consumers turn to the Internet for free news and information. Some major newspaper chains are burdened by heavy debt loads. In the past year, seven major newspaper chains have declared bankruptcy, several big city papers have shut down, and many have laid off reporters and editors, imposed pay reductions, cut the size of the physical newspaper, or turned to Web-only publication.

As the problems intensify, there are growing concerns that the rapid decline of the newspaper industry will impact civic and social life. Already there are fewer newspaper reporters covering state capitols and city halls, while the number of states with newspapers covering Congress full-time has dwindled to 23 from the most recent peak of 35 in 1985.

As old-style, print newspapers decline, new journalism startups are developing around the country, aided by low entry costs on the Internet. The emerging ventures hold promise but do not have the experience, resources, and reach of shrinking mainstream newspapers.

Congress has begun debating whether the financial problems in the newspaper industry pose a public policy issue that warrants federal action. Whether a congressional response to the current turmoil is justified may depend on the current causes of the crisis. If the causes are related to significant technological shifts (the Internet, smart phones and electronic readers) or societal changes that are disruptive to established business models and means of news dissemination, the policy options may be quite limited, especially if new models of reporting (and, equally important, advertising) are beginning to emerge. Governmental policy actions to bolster existing businesses could stall or retard such a shift. In this case, policymakers might stand back and allow the market to realign news gathering and delivery, as it has many times in the past. If, on the other hand, the current crisis is related to the struggle of some major newspapers to survive the current recession, possible policy options to ensure the continuing availability of in-depth local and national news coverage by newspapers might include providing tax breaks, relaxing antitrust policy, tightening copyright law, providing general support for the practice of journalism by increasing funding for the Corporation for Public Broadcasting (CPB) or similar public programs, or helping newspapers reorganize as nonprofit organizations. Policymakers may also determine that some set of measures could ease the combination of social and technological transition and the recession-related financial distress of the industry.

Contents

Introduction	1
Industry History	2
Industry Conditions.....	4
Industry Cost Cutting: Key to Survival?	4
Declining Advertising Revenues, Recession, and the Internet	5
Other Factors	7
Alternative News Sources	9
Rise of the Web.....	9
Interdependence.....	13
Searching for New Business Models	16
Nonprofits.....	18
Public Policy Issues	20
Congressional Action.....	21
Industry Proposals.....	21
Supporting the General Practice of Journalism	22

Figures

Figure 1. Change in National Advertising Spending, 2007-2008	6
Figure 2. Newspaper Advertising Revenues from 2003- 2008.....	14

Tables

Table 1. Daily Print Newspaper Readership.....	3
Table 2. Top 20 U.S. Newspapers: Print Circulation	10
Table 3. Newspaper Website Readership.....	12

Contacts

Author Contact Information	23
----------------------------------	----

Introduction

The U.S. newspaper industry is in the midst of a historic restructuring, buffeted by a deep recession that is battering crucial advertising revenues, long-term structural challenges as readers turn to free news and entertainment on the Internet, and heavy debt burdens weighing down some major media companies. As the distress mounts—seven U.S. newspaper companies have filed for bankruptcy in the past year—lawmakers are debating possible legislation to assist the industry. Additionally, the Federal Trade Commission (FTC) will hold a series of workshops beginning in September 2009 to look at challenges facing newspapers, television, and radio in the Internet age.¹

Publishers are experimenting with new business approaches, but there is no widely agreed-upon model to restore the link between newspaper content and earnings, which has been partially severed on the Internet. Newspapers depend on advertising for about 80% of revenues. Even after investing major sums in technology, and attracting millions of online readers, less than 10% of overall newspaper ad dollars are Internet-driven.² At the same time, print readership is falling, further cutting into subscription and advertising revenues (see **Table 1**). Vin Crosbie, a noted Syracuse University professor and consultant, has predicted that more than half the approximately 1,400 daily newspapers in the country could be out of business by the end of the next decade.³

Concerns extend beyond the tens of thousands of reporters and editors losing their jobs. A robust, free press has been viewed by many as an essential check on government and business since the early days of the Republic. “The only security of all is in a free press,” Thomas Jefferson wrote in 1823.⁴ House Speaker Nancy Pelosi, in a March letter to the Justice Department, argued that current problems in the newspaper sector pose a significant challenge to democracy.⁵

Despite First Amendment sensitivities, Congress has intervened in the past to assist newspapers and other media, building a broad record of regulation and support. Federal actions include the 1970 Newspaper Preservation Act, providing limited exemption from antitrust law; laws allocating the public airwaves;⁶ copyright and fair content regulation;⁷ postal subsidies;⁸ and financial aid through the Corporation for Public Broadcasting (CPB) and indirectly through the National Endowment for the Humanities (NEH).⁹ Congress has ratified treaties governing fair use

¹ Federal Trade Commission, “Extra! Extra! FTC Announces Workshop: ‘Can News Media Survive the Internet Age? Competition, Consumer Protection, and First Amendment Perspectives,’” May 19, 2009.

² Pew Research Center’s Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*. <http://www.stateofthemedial.org/2009/index.htm>.

³ Crosbie, Vin, “Transforming American Newspapers,” *Corante*, Aug. 20, 2008. http://rebuildingmedia.corante.com/archives/2008/08/20/transforming_american_newspapers_part_1.php.

⁴ Thomas Jefferson to Lafayette, 1823. *The Writings of Thomas Jefferson*, Memorial Edition (Lipscomb and Bergh, editors) 20 Vols., Washington, D.C., 1903-04, Vol. 15, p. 491. See University of Virginia Library, Thomas Jefferson Digital Archive, *Freedom of the Press*. <http://etext.virginia.edu/jefferson/quotations/jeff1600.htm#Top>.

⁵ Letter from Nancy Pelosi, Speaker of the House, to the Honorable Eric Holder, Attorney General, March 16, 2009.

⁶ CRS Report R40009, *Fairness Doctrine: History and Constitutional Issues*, by Kathleen Ann Ruane.

⁷ CRS Report R40194, *The Google Library Project: Is Digitization for Purposes of Online Indexing Fair Use Under Copyright Law?*, by Kate M. Manuel.

⁸ CRS Report R40162, *Postage Subsidies for Periodicals: History and Recent Developments*, by Kevin R. Kosar.

⁹ CRS Report RS22168, *The Corporation for Public Broadcasting: Federal Funding Facts and Status*, by Mark Gurevitz and Glenn J. McLoughlin.

of intellectual property on the Internet,¹⁰ and, in the 111th Congress, the House has considered and passed the Free Flow of Information Act of 2009 (H.R. 985) to give journalists a right to withhold information in grand jury proceedings.¹¹ The bill was referred to the Senate Judiciary Committee.

Congress is now debating whether current financial problems, which have been most acute at large, general-interest daily papers, pose a public policy issue that requires federal action. If the answer is “yes,” options might include aiding existing newspapers as they grapple with the transition to a digital news world; supporting the practice of journalism writ large; or taking a hands-off approach to allow what might arguably be a major social, political, and technological realignment in the way Americans choose to inform themselves about local, state, and national news. Lawmakers have so far expressed little interest in a broad bailout of the industry, similar to aid for the automobile or financial sectors. Senator Benjamin Cardin, who has introduced S. 673 to make it easier for newspapers to reorganize as nonprofit organizations, has said he does not support a financial rescue for newspapers.¹² The bill was referred to the Senate Finance Committee.

There are critics of government action. Ken McIntyre, of the Heritage Foundation, has argued that nonprofit status could “de-fang” the press, by preventing newspapers from endorsing candidates or taking positions against whatever political party was in power.¹³ McIntyre endorses the concept of a technology shift of Gutenberg proportions, citing media expert Clay Shirky: “... We’re collectively living through 1500, when it’s easier to see what’s broken than what will replace it ... Society doesn’t need newspapers. What we need is journalism.”¹⁴

Industry History

The newspaper industry has gone through prior periods of boom and bust. The popular press took off in the 1830s with the creation of the so-called penny press: inexpensive papers that were sold by street vendors, instead of the previous up-front subscription model.¹⁵ The industry grew in importance, profitability, and influence, including the rise of sensationalistic “yellow journalism” in the late 1800s.

During the Great Depression, plunging revenues and competition from the emerging technology of radio hurt newspapers. Newspaper advertising revenue fell 45% from 1929 to 1933, and was still down 20% in 1941. Hundreds of newspapers went out of business or suspended operations, while a third of newspaper salaried workers lost their jobs. Radio increased in importance and was the only media segment that realized gains in advertising during the Depression.¹⁶

¹⁰ CRS Report RL34292, *Intellectual Property Rights and International Trade*, by Shayerah Ilias and Ian F. Fergusson.

¹¹ CRS Report RL34193, *Journalists’ Privilege: Overview of the Law and Legislation in the 110th and 111th Congresses*, by Henry Cohen and Kathleen Ann Ruane.

¹² Cardin, Benjamin, “A Plan to Save Our Free Press,” *Washington Post*, April 3, 2009, p. A19.

¹³ McIntyre, Ken, “Death of Newspapers Does Not Mean the End of Journalism,” *U.S. News and World Report*, May 8, 2009.

¹⁴ *Ibid.*

¹⁵ Emery, Edwin and Michael Emery, *The Press and America: An Interpretive History of the Mass Media*, Fourth Edition. Englewood Cliffs, NJ: Prentice-Hall, 1978. pp. 119-123.

¹⁶ *Ibid.*, pp. 399-400, p. 428, p. 436.

With the rise of television, the newspaper business faced another major transformation. In the 1960s, television surpassed newspapers as a source of information, and TV networks became more adept at capturing national advertising.¹⁷ Thereafter, the newspaper sector consolidated as family-owned papers were bought by growing chains. Between 1960 and 1980, 57 newspaper owners sold their properties to Gannett Co. By 1977, 170 newspaper groups owned two-thirds of the country's 1,700 daily papers. From 1969 to 1973, 10 newspaper companies went public, including the Washington Post Co., New York Times Co., and Times Mirror Co.¹⁸

Table I. Daily Print Newspaper Readership

Percentage of Total Adults Who Read a Print Newspaper on a Weekday

Year	Percentage of Total Adults	Percentage of Men	Percentage of Women
1998	58.6	62.2	55.2
1999	56.9	60.6	53.4
2000	55.1	58.8	51.7
2001	54.3	57.5	51.3
2002	55.4	58.2	52.8
2003	54.1	56.8	51.5
2004	52.8	55.5	50.2
2005	51.6	54.1	49.2
2006	49.9	52.3	47.6
2007	48.4	51.0	45.9

Source: Scarborough Research Top 50 Market Report 1998-2007, prepared by Newspaper Association of America.

As chain ownership grew an increasing number of cities became one-paper towns, leading to concerns about lack of competition and a diminished watchdog role for the media—similar to worries voiced today. In 1910, nearly 60% of cities had competing daily papers. By 1930, that figure had fallen to 21%, and by 1971 to 2%.¹⁹

Some local papers around the country tried to combat the economic stresses by pooling advertising and circulation operations. The U.S. Supreme Court in the 1969 decision *United States v. Citizen Publishing Co.* ruled against such arrangements. In response, Congress passed the Newspaper Preservation Act of 1970 (P.L. 91-353; 15 U.S.C. 43).²⁰ The law provided a limited antitrust exemption for certain newspapers that combined financial functions but maintained separate newsrooms. While there were 25 to 30 such agreements in force at any one time in recent decades, just a handful remain today, and they have not been sufficient to save

¹⁷ Matthei, Harry, "Inventing the Commercial: the imperium of modern television advertising was born in desperate improvisation," *American Heritage*, May/June 1997, Volume 48, Issue 3.

¹⁸ Neiva, Elizabeth M., "Chain Building: The Consolidation of the American Newspaper Industry, 1955-1980," *Business and Economic History*, Volume 24, No. 1, Fall 1995.

¹⁹ Report of the Assistant Attorney General in Charge of the Antitrust Division, In the Matter of: Application by the E.W. Scripps Co. and MediaNews Group Inc. For Approval of a Joint Operating Agreement Pursuant to the Newspaper Preservation Act, File No. 44-03-24-15 (September 8, 2000), p. 16-17.

²⁰ *Ibid.*

some weakening newspapers.²¹ The *Seattle Post-Intelligencer*, *Minneapolis Star Tribune*, *Rocky Mountain News*, and *Tucson Citizen*—papers that were part of joint operating agreements—recently closed, declared bankruptcy, or moved to Web-only production.

The increasing importance of cable television in the 1980s had a far-reaching impact on newspapers, as consumers turned to 24-hour cable news stations for information. Still, many newspapers continued to enjoy extremely profitable, quasi-monopoly status in their communities. Major newspaper companies posted double-digit returns on equity (profit compared to average shareholder equity) through most of the current decade. Profits peaked at 22.7% in 2000 and declined to just over 10% in 2008, as newspaper companies instituted severe budget cuts and layoffs.²² Cash flow margins for big, public newspaper companies reached their high in the late 1990s at 29%, an average that declined to 13% in 2008 with large differences from paper to paper.²³

Industry Conditions

There are now about 1,400 daily newspapers in the United States and thousands of community papers, which generally publish weekly or biweekly. A handful of papers, including the *Wall Street Journal*, *USA TODAY*, and the *New York Times*, have a national print readership topping a million or more.²⁴ The top 50 papers account for about a third of circulation, among them the big city papers that had some of the largest circulation declines last year.²⁵ Overall, the newspaper industry, including printers, reporters, advertising salespeople and other personnel, was a roughly \$50 billion business in 2002, according to Census Bureau data, employing about 400,000 people.²⁶

Industry Cost Cutting: Key to Survival?

For the traditional, general-interest print newspapers analyzed in this report, labor makes up about 50% of costs, with production and distribution accounting for 30% and other expenses for the rest.²⁷ Newspapers have taken dramatic steps to cut costs as their financial picture has worsened, including trimming the size of the print newspaper, eliminating staff, or reducing the number of days the print newspaper is delivered to subscribers.

²¹ Jones, Fredrick, “The Newspaper Preservation Act: Is it a Necessary Loophole in Antitrust Laws?,” paper presented at the Annual Meeting of the Association for Education in Journalism, August 8-11, 1981. Farhi, Paul, “The Death of the JOA,” *American Journalism Review*, September 1999.

²² Morton, John, “Not Dead Yet,” *American Journalism Review*, June/July 2009 issue.

²³ Fine, Lauren Rich, “Bad Public Relations or Is This a Real Crisis?: YES,” Duke Conference on Nonprofit Media, May 4-5, 2009. <http://www.pubpol.duke.edu/nonprofitmedia/documents/dwcrichfinefinal.pdf>.

²⁴ Audit Bureau of Circulations, “Circulation Averages for the Six Months Ended March 31, 2009.” <http://abcas3.accessabc.com/ecirc/newstitlesearchus.asp>.

²⁵ Pew Research Center’s Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*. <http://www.stateofthemediamedia.org/2009/index.htm>.

²⁶ U.S. Census Bureau, Industry Statistics Sampler, NAICS 511110, Newspaper Publishers.

²⁷ Fine, Lauren Rich, “Bad Public Relations or Is This a Real Crisis?: YES,” Duke Conference on Nonprofit Media, May 4-5, 2009.

Daily papers cut their newsrooms by 11% in 2008, the biggest one-year drop since 1978. Daily newsroom staffing is off 17% from the recent, 2001 peak of 56,400.²⁸ According to Erica Smith, a reporter with the *St. Louis Post-Dispatch*, nearly 10,000 journalists were laid-off or took buyouts in the first five months of 2009 alone.²⁹ The number of reporters covering state legislatures in 2009 is down more than 30% from 2003.³⁰ The number of papers seeking press credentials for Washington-based reporters is two-thirds below the levels of the 1980s. (However, the total number of daily reporters seeking credentials remained basically steady due to an increase in foreign press and specialty publications targeted at specific industries or niche markets.³¹) Newspapers from 23 states had Washington-based reporters in 2008, compared to 35 in 1985.³²

Declining Advertising Revenues, Recession, and the Internet

On the other side of the ledger, retail, classified, and national ads account for 80% of newspaper revenues. Subscriptions and newsstand sales make up most of the rest. Sunday newspapers, with their bulky ad inserts and extra sections, along with papers published later in the week, can account for more than half of newspaper print dollars.³³ Underscoring the importance of the Sunday paper, the *Atlanta Journal Constitution* has launched an advertising campaign called “Unplug. It’s Sunday,” asking readers to buy the Sunday print edition, rather than read the paper online.³⁴

The traditional advertising model for years generated healthy profits, subsidized expensive foreign, investigative, and other reporting and helped keep subscription and newsstand prices low. But the model is breaking down. Newspapers have seen a dramatic drop in advertising during the recession. While other media have also been hurt, newspapers have had some of the sharpest declines (see **Figure 1**). The situation appears to be getting worse. TNS Media Intelligence says newspaper ad revenue fell by 25.5% in the first quarter of 2009, compared to a year earlier.

The Pew Research Center’s Project for Excellence in Journalism estimates that about half the recent drop in advertising is due to the poor economy, as auto dealers go out of business and other retailers cut back.³⁵ But it is not clear that most of those ad dollars will come back when business activity revives. Newspapers are also in the throes of long-term, structural changes as readers and advertisers move to the Internet. While newspapers’ online presence is surging, Internet revenues

²⁸ “U.S. newsroom employment declines,” *American Society of News Editors*, April 16, 2009. <http://www.asne.org/index.cfm?id=1138>.

²⁹ Johnston, David Cay, “Welcome to the Jungle: Journalists, meet the all-or-nothing job market,” *Columbia Journalism Review*, May 22, 2009; Smith, Erica, “Layoffs and buyouts at U.S. newspapers in 2009,” *Paper Cuts*. <http://graphicdesignr.net/papercuts>.

³⁰ Dorroh, Jennifer, “Statehouse Exodus,” *American Journalism Review*, April/May 2009. <http://www.ajr.org/Article.asp?id=4721>.

³¹ Pew Research Center’s Project for Excellence in Journalism, *The New Washington Press Corps: As Mainstream Media Decline, Niche and Foreign Outlets Grow*, February 11, 2009, p. 2. http://www.journalism.org/analysis_report/new_washington_press_corps.

³² *Ibid.*

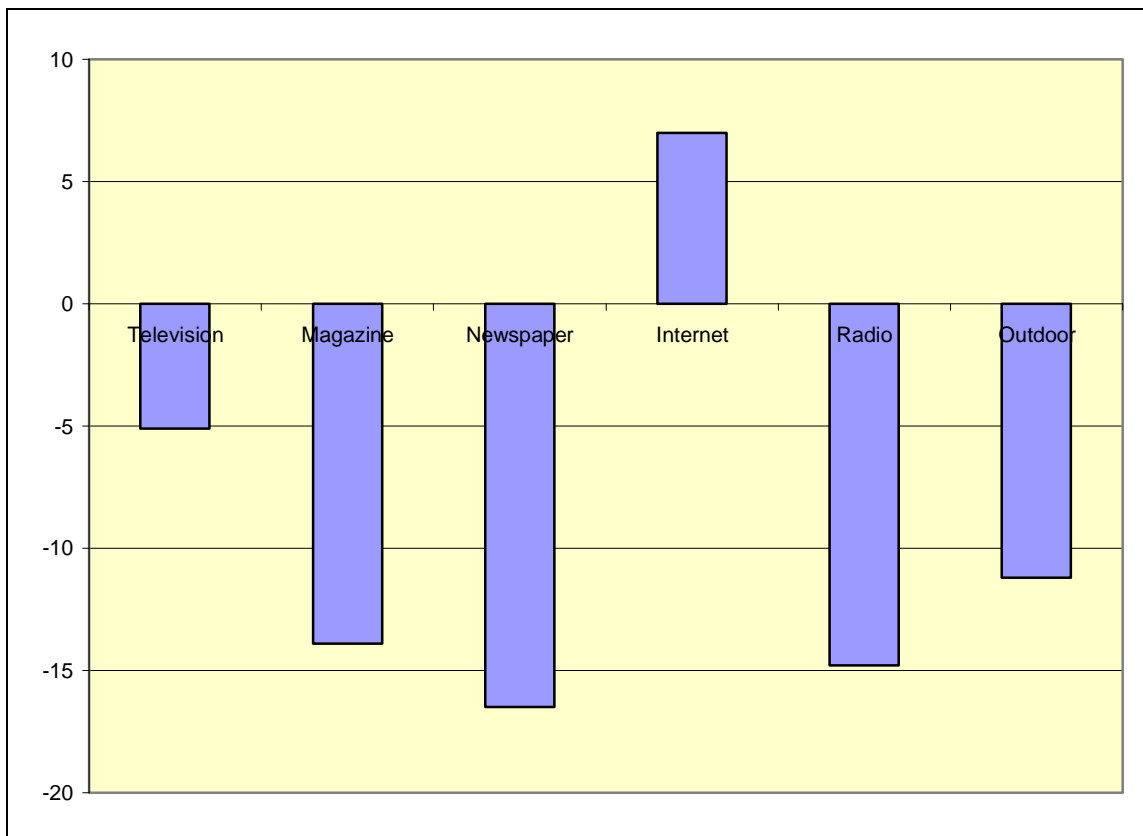
³³ Pew Research Center’s Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*. <http://www.stateofthemediamedia.org/2009/index.htm>.

³⁴ See the *Atlanta Journal Constitution* website: <http://media.ajc.com/unplugsunday/?cxnsid=ajcse51992>.

³⁵ Pew Research Center’s Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*. <http://www.stateofthemediamedia.org/2009/index.htm>.

lag far behind Internet readership. Currently, less than 10% of newspaper company ad revenues are earned online.

Figure I. Change in National Advertising Spending, 2007-2008



Source: TNS Media Intelligence.

Notes: Indicates average percentage decline/increase in Q4 2008 compared to Q4 2007.

In one example, classified advertising, which accounted for about 50% of ad revenues for many papers at its peak in 2008,³⁶ has gravitated from print to specialized websites like Craigslist and auto, real estate, and help wanted sites.³⁷ Media companies have tried various strategies to hold on to the classified market, with big chains like McClatchy, the Tribune Co., the Washington Post Co., A.H. Belo, and Gannett Co. jointly owning Classified Ventures, which runs sites like cars.com and homegain.com.³⁸ A coalition of media firms created CareerBuilder.com, a job placement site.³⁹ The sour economy has, at least temporarily, undercut those efforts, with the

³⁶ Fine, Lauren Rich, “Bad Public Relations or Is This a Real Crisis?: YES,” Duke Conference on Nonprofit Media, May 4-5, 2009, p. 11.

³⁷ Vogel, Harold L., *Entertainment Industry Economics: A Guide for Financial Analysis*, Sixth Edition, Cambridge: University Press, 2004, p. 318.

³⁸ Learmonth, Michael, “Newspapers Build Digital Portfolios,” *Advertising Age*, May 5, 2009.

³⁹ Gannett, the Tribune Co., McClatchy, and Microsoft own Careerbuilder.com. http://www.careerbuilder.com/share/aboutus/profile_main.aspx.

volume of classified ads plunging online and in print. Nationally, classified help-wanted ads fell 67.4% in the first quarter of 2009.⁴⁰

Other Factors

Another reason the newspaper industry is in trouble: red ink. Some large newspaper companies took on significant debt shortly before the economic downturn hit. Real estate developer Sam Zell, for instance, took the Tribune Co.—one of the nation’s most prominent newspaper chains—private in 2007 in a leveraged \$8.2 billion deal he later called a mistake.⁴¹ The Tribune Co., now in bankruptcy, has imposed large staff reductions, consolidated operations, and taken other steps to reorganize.

In 2006, McClatchy Co. bought newspaper chain Knight Ridder for more than \$4 billion. In May 2009, the company offered to buy back more than \$1 billion of its debt at a discount.⁴² Lee Enterprises, a newspaper publishing company based in Davenport, Iowa, in its first quarter 2009 report, noted that to secure new lines of credit, it had agreed, among other things, to limit capital spending.⁴³

Legacy costs are a complicating factor. Many newspapers have traditional, defined-benefit pension plans, which now appear underfunded due to large losses in market investments. McClatchy, in its 2009 first quarter earnings report, noted it will have to make bigger cash contributions to its pension plans in coming years than previously expected, due to poor market returns and changes in pension law. The company cautioned investors that “the contributions will place additional strain on the company’s liquidity needs.”⁴⁴

Investors have soured on newspapers. Some large newspaper companies saw their stock prices drop by more than 80% last year—far beyond the overall decline in the publishing industry and various stock indices. Newspaper stock prices rebounded a bit in 2009, but are still near historic lows.⁴⁵ With revenues declining and their ability to raise new capital impaired, some newspaper companies are in danger of breaching financing agreements with their lenders. If that happens, lenders could terminate lines of credit and call in existing loans.

Overall, seven newspaper companies have declared bankruptcy in the past year:

- The Tribune Co., which publishes the *Chicago Tribune*, *Los Angeles Times*, *Baltimore Sun*, and five other large metro daily papers;
- Philadelphia Newspapers LLC, which publishes the *Philadelphia Inquirer* and the *Philadelphia Daily News*;

⁴⁰ Reflections of a Newsosaur, “Worst Quarter for Newspapers: Sales dive \$2.6B,” <http://newsosaur.blogspot.com/2009/06/worst-quarter-for-newspapers-sales-dive.html>.

⁴¹ Miles, Greg and Brian Louis, “Billionaire Zell Says ‘I Made a Mistake’ in Purchasing Tribune,” *Bloomberg.com*, April 15, 2009.

⁴² McClatchy Co., “McClatchy announces private debt exchange offer for \$1.150 billion of debt securities,” Press Release, May 21, 2009.

⁴³ Securities and Exchange Commission. Form 10-Q filed by Lee Enterprises for the period ended Mar 29, 2009.

⁴⁴ Securities and Exchange Commission Form 10-Q, filed by McClatchy Co. for the period ended Mar 29, 2009.

⁴⁵ Pew Research Center’s Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*. <http://www.stateofthemediamedia.org/2009/index.htm>.

- Sun-Times Media Group, which owns the *Chicago Sun Times* and suburban papers;
- Star Tribune Holdings Co., which owns the *Star Tribune* of Minneapolis;
- Journal-Register Co., which owns the *New Haven Register*, *Trentonian* and *Daily Local News* of West Chester, Pa., among other papers;
- American Community Newspapers, which publishes the *Stillwater (MN). Gazette* and the *Plano Star Courier*, in addition to non-daily papers in four states; and
- Creative Loafing, which publishes alternative newspapers including the *Chicago Reader*, *Washington City Paper*, and others.⁴⁶

The *New York Times* also threatened to close the *Boston Globe*, without major wage concessions. While the distress is acute, the problems are not uniform. Some large companies such as Gannett remain profitable.⁴⁷ Declining circulation numbers reflect, in part, a conscious effort by some papers to reduce printing and other costs by moving to online-only editions or shrinking their delivery area. The *Detroit News* and *Detroit Free Press*, which are combined in a joint operating agreement, cut daily delivery of the print newspapers to three days a week.⁴⁸ Newspapers have started their own ad campaign to promote the industry.⁴⁹

Smaller community papers generally have not experienced as severe a falloff in staff and revenues as big, metro dailies, though they are taking increasingly large hits as the downturn continues. Ad revenue at community papers was down about 18.7% in the first quarter of 2009, compared to an average decline of 28.8% at bigger papers.⁵⁰ Newspaper analyst John Morton estimates there are about 1,000 smaller daily papers, with circulations under 50,000, that remain profitable. Smaller papers are in a better financial position than large dailies for several reasons. Smaller papers are less dependent on classified ads, operate in less complex markets, and tend to be closer to their readers and advertisers than large dailies.⁵¹

The University of Missouri-Columbia, in an annual survey for community papers, found high brand loyalty, a preference for the print product, and less Internet competition than at big city papers. The most recent study looked at weekly community papers located in markets of 25,000 or less.⁵²

⁴⁶ Fitzgerald, Mark, "And Then There Were 7: American Community Newspapers Files for Bankruptcy," Editor and Publisher, April 28, 2009 http://www.editorandpublisher.com/eandp/news/article_display.jsp?vnu_content_id=1003967275.

⁴⁷ "Gannett Co., Inc. Reports First Quarter Results," News Release, April 16, 2009 <http://www.gannett.com/news/pressrelease/2009/1Q09.pdf>; Lane, Nancy, "Community Newspapers Report 4th Quarter Results; Continue to Outperform Industry," Suburban Newspapers of America, March 3, 2009. <http://www.suburban-news.org/News/SNANewsDetail.aspx?ID=100317>.

⁴⁸ Press Release From Detroit Media Partnership, Dec. 16, 2008 <http://www.freep.com/article/20081216/BUSINESS06/81216036/>.

⁴⁹ <http://news.newspaperproject.org/>.

⁵⁰ Lane, Nancy, "Community Papers Report First Quarter 2009 Results," Suburban Newspapers of America, June 2, 2009. <http://www.suburban-news.org/News/SNANewsDetail.aspx?ID=100335>.

⁵¹ Morton, John, "Not Dead Yet," *American Journalism Review*, June/July 2009 issue.

⁵² Donald W. Reynolds Journalism Institute's Center for Advanced Social Research at the Missouri School of Journalism at the University of Missouri, "2008 Community Newspaper Study," with the National Newspaper Association.

Alternative News Sources

As traditional, print newspapers take a financial beating, new media sources are rising on the Internet, helped by low entry costs. Alternative sources of news and information are becoming available to a potentially vast audience via an increasing number of wired and wireless devices (including wireless netbooks, wireless phones, and amazonkindle®-style wireless e-readers). Emerging news organizations include a growing number of foundation-funded projects focused on investigative reporting, in-depth health policy news, and local reporting. Examples include *ProPublica* (ProPublica.org), *Kaiser Health News*, and *Voice of San Diego*.⁵³ *GlobalPost* is a for-profit enterprise, focused on international reporting, that relies on advertising, syndication to newspapers, and paid membership (<http://www.globalpost.com>).

But even the most promising startups do not have anywhere near the resources of major city daily papers, leading to concerns that important news will go uncovered. The decline of print newspapers also has other, indirect impacts. Many radio and television stations piggyback on reporting done by much larger newspaper staffs, both locally and nationally, and will be hard-pressed to pick up the slack—especially as they impose their own cost-cutting in response to falling revenues. For example, the *Dallas Morning News*, which is owned by A. H. Belo, has more reporters in that city than the ABC, NBC, CBS and Fox television affiliates combined.⁵⁴

So far, no one has come up with a workable strategy for garnering sufficient advertising or subscription revenues on the Internet, or through a hybrid print/online model, that would enable many troubled newspapers to continue at current staffing levels, or keep providing the same broad array of news, from recipes to foreign affairs to sports and local politics. Papers are experimenting, from charging “micropayments” for select content on the Internet to suggesting revenue-sharing with online search engines, such as Google, to cracking down on unauthorized reproduction of their content and creating their own spin-off websites and Web portals. Broadcast outlets are starting print and Web-based products in markets where newspapers are on the decline.⁵⁵ Many newspapers are increasing subscription prices for their traditional print editions.

Typically, new business models are slowly introduced as old ones become less viable. But the current, deep recession, by cutting into newspaper earnings, has compressed the time period for developing new business plans and limited the amount of money newspapers have to devote to current operations, let alone craft sweeping initiatives.

Rise of the Web

For now, the key challenge for newspapers is to hold on to lucrative print readers, while finding ways to make more money from a growing online audience that generally reads the paper for

⁵³ <http://www.propublica.org/>; <http://www.kaiserhealthnews.org/>; <http://www.voiceofsandiego.org/>.

⁵⁴ Testimony of James M. Moroney III, Committee on Commerce, Science and Transportation, Subcommittee on Communications, Technology and the Internet. Hearing on The Future of Journalism: Communications, Technology, and the Internet. May 6, 2009. http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61&Witness_ID=8406bab3-0f6f-422c-a805-c02103bb8ba5.

⁵⁵ Malone, Michael, “Stations Search for Gold in a Post-Newspaper Landscape,” *Broadcasting & Cable*, May 2, 2009. http://www.broadcastingcable.com/article/231044Cover_Story_Stations_Search_for_Gold_In_a_Post_Newspaper_Landscape.php.

free. Print circulation for daily papers fell by 13.5% from 2001 to 2008, and 17.3% for Sunday editions.⁵⁶ Losses are mounting. Average daily newspaper print circulation fell 7% alone during the six-month period ending March 31, 2009, compared to the same period in 2008 (see **Table 2**).⁵⁷

Table 2. Top 20 U.S. Newspapers: Print Circulation
(Six-Month Period Ending in March 2009)

Newspaper	Daily Print Circulation	Six Months Ending March 2009
USA TODAY	2,113,725	-7.46%
The Wall Street Journal	2,082,189	0.61%
The New York Times	1,039,031	-3.55%
Los Angeles Times	723,181	-6.55%
The Washington Post	665,383	-1.16%
New York Daily News	602,857	-14.26%
New York Post	558,140	-20.55%
Chicago Tribune	501,202	-7.47%
Houston Chronicle	425,138	-13.96%
The Arizona Republic	389,701	-5.72%
The Denver Post	371,728	NA
Newsday	368,194	-3.01%
The Dallas Morning News	331,907	-9.88%
Minneapolis Star-Tribune	320,076	-0.71%
Chicago Sun-Times	312,141	-0.04%
San Francisco Chronicle	312,118	-15.72%
The Boston Globe	302,638	-13.68%
Cleveland Plain Dealer	291,630	-11.70%
Detroit Free Press	290,730	-5.90%
The Philadelphia Inquirer	288,298	-13.72%

Source: Nielsen Online and Editor & Publisher.

Notes: Figures are for six months ending in March 2009 compared to same period in March 2008. Averages are for Monday-Friday readership.

As print circulation declines, online readership is soaring. U.S. newspaper websites averaged more than 73 million individual visitors a month in the first quarter of 2009, up 10.5% from the

⁵⁶ Pew Research Center's Project for Excellence in Journalism, *The State of the News Media 2009: An Annual Report on American Journalism*, <http://www.stateofthemediamedia.org/2009/index.htm>.

⁵⁷ Audit Bureau of Circulations, April 27, 2009. <http://abcas3.accessabc.com/ecirc/newstitlesearchus.asp>; Saba, Jennifer, "New FAS-FAX Shows (More) Steep Circulation Losses," Editor and Publisher, April 27, 2009.

same period in 2008 (see **Table 3**).⁵⁸ Newspapers are attracting online readers from well beyond their local communities, including other cities and countries.

Newspaper executives point to surging online readership as an endorsement of their product, saying public interest in news has increased, not diminished. But readership trends are complex, as habits and preferences evolve in response to the enormous array of information available on the Internet, television, and through devices such as hand-held readers and cell phones. Though readers want news, they do not necessarily want it from a traditional paper, and are using multiple sources. For example, there is just one newspaper in the top five news websites, as measured by Nielsen Online. The biggest news websites, in descending order are: MSNBC Digital Network, CNN Digital Network, Yahoo! News, AOL News, and NYTimes.com. MSNBC had nearly twice the online audience of the *New York Times*.⁵⁹

Consumer demand and technology are changing the way news is read and offered. Most newspapers offer a general package of sports, entertainment, business, and national stories, with editors signaling the importance of the news by its placement in the physical paper. Today, websites like Google or Yahoo are mimicking the job of editors, by using sophisticated computer programs to automatically compile links to content from newspapers, wire services, blogs, and other sources from around the world. Other so-called aggregators run websites that mix links to newspapers' stories with some original content, and bloggers frequently mingle newspaper and other reporting with their own commentary and insights. Increasingly individual stories are displayed on the Web as discrete products, separate from a broader newspaper.

About 22% of readers who visited newspaper websites in March arrived indirectly, by first clicking onto online search engines like Google, with another big share arriving through the front page of Web portals like Yahoo or MSN, according to one analysis. A separate 22% came from traffic moving between media and news websites, containing links to specific stories.⁶⁰ Once readers arrive at newspaper websites, they spend less time there, on average, than print readers spend reading a traditional newspaper, though some studies show that time online has been increasing. Web readers spend an average of 53 minutes a week with newspapers—or just under eight minutes a day, according to a study by the Annenberg School of Communication at the University of Southern California. The study also found, however, that 22% of readers had recently dropped a paid print newspaper or magazine subscription because they could get the paper free online.⁶¹

⁵⁸ Newspaper Association of America, "Newspaper Web Site Audience Increases More Than Ten Percent In First Quarter To 73.3 Million Visitors," April 23, 2009. <http://www.naa.org/PressCenter/SearchPressReleases/2009/Newspaper-Web-Site-Audience-Increases-More-Than-Ten-Percent.aspx>.

⁵⁹ Nielsen Wire, "MSNBC, CNN Top Global News Sites in March, NY Times Top Paper," April 21, 2009. http://blog.nielsen.com/nielsenwire/online_mobile/msnbc-and-cnn-top-global-news-sites-in-march/; Langeveld, Martin, "Online newspaper audience growth: Good news? Not really," Nieman Journalism Lab, Harvard University, April 26, 2009. <http://www.niemanlab.org/2009/04/online-newspaper-audience-growth-good-news-not-really/#more-4442>.

⁶⁰ Dougherty, Heather, "Online news aggregators—friend or foe?," *Hitwise*, April 8, 2009. http://weblogs.hitwise.com/heather-dougherty/2009/04/online_news_aggregators_friend.html.

⁶¹ University of Southern California, Annenberg School for Communication, *Annual Internet Survey by the Center for the Digital Future finds large increases in use of online newspapers*, April 29, 2009. http://www.digitalcenter.org/pdf/2009_Digital_Future_Project_Release_Highlights.pdf. Other studies peg online readership at much lower levels. Data by Nielsen Online for the National Newspaper Assn. show the more than 70 million unique online readers in April visited websites an average of eight times and spent 43 minutes online per month. <http://www.naa.org/TrendsandNumbers/Newspaper-Websites.aspx>.

Table 3. Newspaper Website Readership

Newspaper website readership showed generally strong gains during the past year.

Newspaper Website	Unique Views in April 2009	Change from April 2008
New York Times	16,546,000	-8%
Wall Street Journal Online	12,398,000	160%
USA TODAY.com	11,987,000	12%
Washingtonpost.com	10,232,000	8%
LA Times	8,418,000	18%
Boston.com	5,888,000	33%
Daily News Online Edition	5,033,000	73%
New York Post	4,403,000	27%
Chicago Tribune	4,342,000	30%
SFGate.com – San Francisco Chronicle	3,489,000	-9%
Newsday	3,380,000	32%
Politico	3,208,000	83%
The Washington Times	2,772,000	70%
Atlanta Journal Constitution	2,677,000	-3%
The Houston Chronicle	2,659,000	9%
NJ.com	2,658,000	106%
Chicago Sun-Times	2,495,000	-7%
The Seattle Times	2,318,000	39%
MiamiHerald.com	2,192,000	104%
Dallasnews.com – Dallas Morning News	2,166,000	-12%
Baltimore Sun	2,030,000	23%
Star Tribune	1,991,000	40%
Azcentral.com	1,779,000	9%

Source: Nielsen Online. Online traffic can fluctuate widely from month to month.

By contrast, Northwestern University researchers found that consumers who read print newspapers in 2008 averaged 27 minutes with the paper on weekdays and 57 minutes on Sundays. Readers peruse their print newspaper about five days a week, completing 60% of the newspaper on a typical weekday and 62% on Sunday.⁶²

Younger consumers have traditionally had lower readership rates than older consumers, a trend that is continuing and possibly accelerating, even though young Americans are spending more time online. Just 5% of teens and 9% of young adults called themselves heavy users of newspapers in a 2007 survey. At the same time, only 8% of teens and 13% of young adults

⁶² Peer, Limor, Mary Nesbitt and Bob LeBailly, "Reader Behavior Scores, local daily newspapers, 2008," Northwestern University, July 2008. <http://www.readership.org/consumers/rbs/data/rbs2008.pdf>.

reported themselves as heavy consumers of Internet-based news—while the majority of both age groups termed themselves non-users of news.⁶³ But older Americans may be less loyal readers than in the past. The Pew Research Center, in a survey of 2008 reading patterns, found 53% of those in the Silent/Greatest Generation age bracket (born before 1946) reported reading a newspaper the previous day. A decade earlier, the share was 65%.⁶⁴

Interdependence

While future growth is clearly online, there is still a huge interdependence between traditional print, with its tens of millions of readers, and emerging Internet products. Many so-called new media ventures rely partly on print advertising for their revenues. The political news publication *Politico* makes about 50% of its money from ads in its free print newspaper (published several times a week), even though it has more than 3 million online readers.⁶⁵ Web aggregators such as the *Huffington Post* or *Drudge Report* rely on links to information and content from traditional print newspapers. The combination of a print and Web presence can give a paper a potent reach. In 81 local markets studied by Scarborough Research, 75% of adults read the paper weekly in print or online.⁶⁶

For a time it appeared the traditional advertising model might work for online news, as Internet ad revenues started to take off earlier this decade. Those trends have begun to reverse (see **Figure 2**). Combined newspaper print and online ad revenue was \$37.8 billion in 2008, down 23.5% from the 2003 high of \$49.4 billion.⁶⁷ The 2008 figure includes \$34.7 billion from print and \$3 billion from online advertising. Though the online figure was an increase from \$1.2 billion in 2004, both print and online ad revenues fell last year.

There are a host of reasons why newspapers' Internet ad revenues have not been more robust, including the fact that the industry arguably was somewhat slow to embrace the technology. In 1995, a group of nine large media companies formed the New Century Network, with the idea of pooling resources and competing with online companies. The effort foundered as the companies disagreed on strategy, and was shut down in 1998.⁶⁸ Individual companies formed partnerships with online companies like Amazon.com. The *New York Times* in 2005 announced TimesSelect, charging readers for access to prominent editorialists and other content. It ended the venture in 2007. With \$10 million in revenues, the *Times* believed that TimesSelect was a success, but

⁶³ Harvard University, Kennedy School of Government, *Young People and News*, Joan Shorenstein Center on the Press, Politics and Public Policy, July 2007, p 11.

⁶⁴ Pew Research Center for the People & the Press, "Newspapers Face a Challenging Calculus," February 26, 2009.

⁶⁵ Information comes from *Politico* Editor-in-Chief John Harris in a June 27 speech to the Individuated News Conference, held at the *Washington Times*, Washington DC.

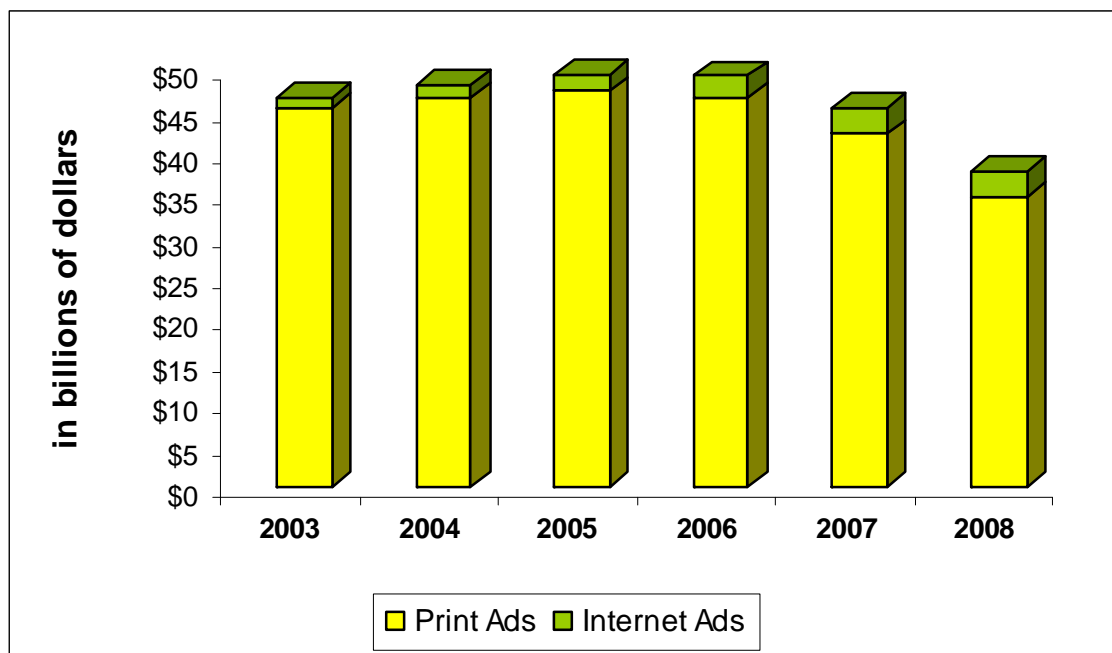
⁶⁶ Scarborough Research, "Rochester, Cleveland and Buffalo are Tops for Print/Online Newspaper Readers," March 25, 2009. http://www.scarborough.com/press_releases/INA%20FINAL%203.25.pdf.

⁶⁷ Business Analysis and Research, Newspaper Association of America. <http://www.naa.org/TrendsandNumbers/Advertising-Expenditures.aspx> (viewed May 25, 2009).

⁶⁸ Dugan, Ianthe Jeanne, "New-Media Meltdown at New Century," *Business Week*, March 23, 1998. <http://74.125.47.132/search?q=cache:9y1hivSDmeQJ:www.businessweek.com/archives/1998/b3570103.arc.htm+new+media+melt+down+at+new+century+business+week&cd=2&hl=en&ct=clnk&gl=us>.

decided that “by opening millions of pages to search engines, that traffic growth will continue and with it, ad revenue growth.”⁶⁹

Figure 2. Newspaper Advertising Revenues from 2003- 2008



Source: Newspaper Association of America.

While newspapers were slow to seize the online market, Internet companies like Google, Yahoo and others have successfully captured tens of billions of advertising dollars. Some media executives argue that Internet companies that offer advertising on their portals next to news from other publications, or via search engines that provide readers with headlines and a few lines of copy from newspaper stories, are unfairly making billions of dollars in advertising revenues at the expense of newspapers. Internet firms counter that their models fall within standard copyright law, and provide an essential service to newspapers since the links on their websites direct millions of readers to newspaper home pages. They also note that newspapers can easily block content from other sources that aggregate news through simple computer code.⁷⁰ Many newspapers themselves aggregate copy from multiple sources, with specialized online newspaper content by bloggers and columnists that frequently provide links to other media and non-media products.⁷¹

A number of websites go beyond providing a snippet of news articles to running entire stories from newspapers, without compensation. Media experts suggest this could be a fertile area for

⁶⁹ Kramer, Staci D., “New York Times to Close TimesSelect Effective Midnight Tuesday; Will Open Last 20 Years of Archives,” *paid.Content.org: The Economics of Content*. September 17, 2007. <http://www.paidcontent.org/entry/419-new-york-times-to-close-timesselect-effective-wednesday/>.

⁷⁰ Testimony of Marissa Mayer, Google Vice President, Search Products and User Experience, Senate Commerce, Science and Transportation Subcommittee on Communications, Technology and the Internet, May 6, 2009.

⁷¹ *Ibid.*

newspapers to garner more revenues. Services such as *Attributor.com* have created computer programs to help publishers track how their content is being used.⁷²

Some media experts say newspapers have not done enough to engage with readers, who want more control over the news they read. Major newspapers have had online websites for more than a decade, but initially created online versions of their print product that in retrospect were too static for the interactive Web. Most have elected not to charge readers for their online product, on the premise that doing so tends to reduce audience size and discourage advertisers. There are some notable exceptions to the model: *The Wall Street Journal* provides general access to only part of its website, and has more than a million paying online subscribers and provides its newspaper subscribers with access to its online subscription site. The Associated Press, a nonprofit cooperative of more than 1,400 newspapers, has contracted to sell full stories to Internet firms, including America Online, Google, and Yahoo.

The number of newspaper websites allowing consumer comment, streaming video, and other interactive features has been rising. At the same time, the number of newspapers requiring readers simply to register to enter their websites—submitting basic age and geographic data—has declined as the industry has moved toward an increasingly open platform.⁷³

Even if open access does lure more readers to websites, higher readership alone may not solve the problem. Online advertisements often sell for just a fraction of the price of print ads. A quarter-page ad in a print newspaper generally costs about \$10 per 1,000 consumers. On the Internet, a “skyscraper ad” up the side of the screen, or a large banner ad across the top of a screen, can run \$5 to \$8 per 1,000 viewers, and some national display ads cost less than \$1 per 1,000.⁷⁴ Ad rates are also declining as the number of websites competing for consumers’ attention proliferates, the economy worsens, and companies become more sophisticated about tracking consumers who view or click on an ad. *PubMatic*, a private firm that works with 5,500 online publishers, estimates display ad prices dropped nearly 50% from the end of 2007 to the end of 2008.⁷⁵

Some publishers have had success getting higher prices for online ad rates, including a group of about 800 newspapers that have joined in an alliance with Yahoo, which allows cross-selling of ads on their websites and on Yahoo and more ability to target ads based on consumer data gleaned through Web visits.⁷⁶

In another challenge to the traditional ad-based model, U.S. businesses are altering advertising strategy by developing their own specialized websites as marketing tools to drive traffic to their stores or products. Consumers now have access to online circulars, such as *Coupons.com*, *RetailMeNot.com* and *Coupon Cabin (couponcabin.com)*.⁷⁷ Regal Entertainment Group, the top U.S. movie chain, told investors it has cut its advertising from \$13,000 per screen in 1999 to

⁷² http://www.attributor.com/about_us.php.

⁷³ The Bivings Group, “The Use of the Internet by America’s Newspapers,” December 18, 2008. <http://www.bivingsreport.com/2008/the-use-of-the-internet-by-americas-largest-newspapers-2008-edition/>.

⁷⁴ Borrell, Gordon, CEO of Borrell Associates, a Williamsburg, Va.-based advertising consulting firm.

⁷⁵ *PubMatic*, “The Q4 2008 AdPrice Index,” January 2009. http://www.pubmatic.com/adpriceindex/AdPriceIndex_Quarterly_Q4_08.pdf.

⁷⁶ Helft, Miguel, Yahoo Teams with Newspapers to Sell Ads, *New York Times*, Feb. 27, 2009. <http://www.nytimes.com/2009/02/28/technology/internet/28yahoo.html>.

⁷⁷ The Nielsen Co., “The Global Online Media Landscape, Identifying Opportunities in a Challenging Market,” p. 17. http://nielsen-online.com/emc/0904_report/nielsen-online-global-lanscapefinal1.pdf.

\$3,000 a screen today. Movie customers are getting more movie and show-time information online, with newspapers now a second or third choice.⁷⁸

IBM Global Business Services projects traditional media such as newspapers, radio, and television will have 32% of the advertising market in 2012, down from 47% in 2002.⁷⁹ Advertisers are turning to strategies like product placement in films and television, and are trying to tap into social networks such as Facebook. Companies are using online data to closely track specific shoppers and tailor products to their needs, raising potential privacy issues.⁸⁰

Searching for New Business Models

The Harvard Business School has developed a case study, entitled *The Newspaper Industry in Crisis*, as a teaching tool “to help students to understand the dynamics of radical industry change and foster a discussion around potentially viable business models on the internet.” The premise of the study is that the newspaper’s 19th century business model has been turned upside down by the near instantaneous dissemination of news through multiple channels. The rapidity of industry change has forced newspaper executives to make major business decisions with only limited data and real-world experience.⁸¹

Newspapers are increasingly talking about setting up so-called pay walls around parts of their product. Some experts predict media companies could end up in a net loss position, however, even if they set low online subscription or individual payment fees.⁸² James Moroney, publisher and CEO of the *Dallas Morning News*, speaking on behalf of newspaper publishers, asked a Senate Commerce subcommittee in May to give newspapers a limited antitrust exemption so they could “jointly experiment with innovative content distribution and cost-saving arrangements.”⁸³ Moroney argued that newspapers must act as a group to impose new payments for online content if their efforts are to be successful. Without joint action, readers will simply turn to other online information.

But publishers are starting to rework their online strategy even without congressional action. MediaNews Group, which operates 54 daily papers in 11 states, announced in a May 8, 2009, memorandum that it will also stop providing unfettered access to its websites, saying the policy

⁷⁸ Regal Entertainment Investor Day, May 12, 2009. See *Reuters Mediafile*, “Regal: Movie goers use Web for info, not Newspapers,” May 13, 2009. <http://blogs.reuters.com/mediafile/2009/05/13/regal-movie-goers-use-web-for-info-not-newspapers/>.

⁷⁹ Berman, Saul, Bill Battino and Karen Feldman, “Beyond Advertising: Choosing a strategic path to the digital consumer,” IBM Global Business Services, p. 6.

⁸⁰ CRS Report RL34693, *Privacy Law and Online Advertising: Legal Analysis of Data Gathering By Online Advertisers Such As Double Click and NebuAd*, by Kathleen Ann Ruane.

⁸¹ Collis, David J., Peter Olson, Mary Furey, *The Newspaper Industry in Crisis*, Harvard Business School, Case Study # N2-709-463, March 11, 2009.

⁸² Langeveld, Martin, “Paying for online news, Sorry but the math just doesn’t work,” Nieman Journalism Lab, Harvard University, April 3, 2009; Media Café, Mignon Media, “Charging for Online Content? New Updated Figures for newspapers with a circulation of 50K.” <http://mediacafe.blogspot.com/>.

⁸³ Testimony of James M. Moroney III, Senate Committee on Commerce, Science and Transportation, Subcommittee on Communications, Technology and the Internet. Hearing on The Future of Journalism: Communications, Technology, and the Internet. May 6, 2009. http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61&Witness_ID=8406bab3-0f6f-422c-a805-c02103bb8ba5.

was “an injustice” to print subscribers and created the impression that the content had no value. The company plans to begin charging for select content, create more separation between its online and print sites, and create a new “local utility site” focused on younger readers with entertainment, shopping, and other services, according to the memo.⁸⁴

Publisher Steven Brill and other media investors have announced a venture called Journalism Online, to create a password-protected website where consumers can buy annual or monthly subscriptions, day passes, or single articles from major publishers. The company would also negotiate licensing and royalty fees with search engines and other providers.⁸⁵ A consortium of newspapers working with Yahoo to improve ad targeting is seeing some early success.⁸⁶

Amazon.com has introduced Kindle DX, a larger (9.7-inch screen) version of its popular Kindle reader. Consumers who buy Kindle readers can purchase monthly subscriptions to the *New York Times*, *Washington Post*, *Wall Street Journal*, and numerous other major newspapers at rates ranging from \$9.99 to \$14.99, which can be hundreds of dollars below the cost of a print subscription.⁸⁷

In a small number of cases, papers are turning to Web-only production. Researchers at the City University of London analyzed a 2007 decision by the Finnish financial daily *Taloussanomati* to become the first all-digital newspaper in Europe. The paper ended subscriptions and offered readers access through the Web, mobile phones, and e-mail. The newspaper reduced costs more than 50% by eliminating print and delivery cost, and saved additional money by reducing staff. Revenues plunged by 75%, however, from the loss of print ads and circulation dollars. Online advertising did not increase as expected. “Although *Taloussanomati*’s visitor numbers have risen following their decision to go online-only, the rise has been faltering and markedly less than at some other online newspapers that retained a print edition.”⁸⁸

The authors say *Taloussanomati*’s strategy could work for some troubled papers, but operating losses need to be high to justify such a dramatic change. In the United States, there are indications that Web readership has fallen off since the *Seattle Post Intelligencer* moved to a Web-only publication.

The *Christian Science Monitor* was the first national newspaper to move to a Web-only daily edition. The paper also offers readers the chance to subscribe to a weekly print and daily e-mail edition. In a recent memo to staff, *Christian Science Monitor* Editor John Yemma said there were preliminary signs that the experiment was working. Web readership of national news rose to 1.1 million page views in June from 570,000 the previous month, and overall Web traffic was up 25% on a year-over-year basis. Circulation of the weekly is now about 50,000. But Yemma said the paper still needs to find ways to increase reader engagement on the Internet. “We are acquiring

⁸⁴ MediaNews memo, May 8, 2009. <http://www.poynter.org/column.asp?id=45&aid=163508>.

⁸⁵ “Media Leaders Form Journalism Online, LLC,” press release April 14, 2009. <http://www.journalismonline.com/>.

⁸⁶ Ives, Nat, “Some Newspapers Booking Local Ads, Thanks to Yahoo,” *Advertising Age*, May 21, 2009.

⁸⁷ See http://www.amazon.com/Kindle-Newspapers/b/ref=sa_menu_knews3?ie=UTF8&node=1263068011&pf_rd_p=328655101&pf_rd_s=left-nav-1&pf_rd_t=101&pf_rd_i=507846&pf_rd_m=ATVPDKIKX0DER&pf_rd_r=1JJBXJHBAD4E07CYSZDS.

⁸⁸ Thurman, Neal and Merja Myllylahti, “Taking the Paper out of News: A case study of *Taloussanomati*, Europe’s first online-only newspaper,” Graduate School of Journalism, City University, London, 2009.

readers, but we must convert them from one-and-done visits via aggregators like Google,” he wrote.

Newspaper editors met in Illinois in late May under the auspices of the Newspaper Association of America to discuss general strategy, including options for garnering more revenues from the Web. Among those presenting at the conference were Brill’s Journalism Online, Attributor, and Alan Mutter, a Silicon Valley executive who presented a plan for something he calls View Pass, a one-time registration system for the Web that would track consumers as they move among newspaper websites. Publishers could collect information on viewers’ habits and preferences, helping them target ads and charge higher rates.⁸⁹ The system would be designed to protect consumer privacy. Mutter said newspapers with accurate data on consumer behavior should be able to generate ad rates 17 times higher than they can charge for untargeted Internet advertisements.

Some newspaper publishers are trying to diversify their operations to generate additional revenue streams. Often, however, the companies have branched into other media and Internet ventures that are also taking a financial hit during the downturn. Gannett, in addition to being the nation’s largest newspaper chain, owns television stations and is investing in digital products, such as PointRoll, an Internet ad services business. Still, about 84% of Gannett’s revenues came from newspaper publishing; digital products accounted for 4% of revenues in 2008.⁹⁰

The Washington Post Co., which owns the *Washington Post* and *Newsweek*, derives more than two-thirds of its revenues from its Kaplan Inc. educational division and its Cable One cable division.⁹¹ The New York Times Co. in 2008 earned about 87% of its revenues from newspapers, including the *Boston Globe*. About.com, a Times-owned website where consumers can seek advice from experts in areas as diverse as alternative medicine, gardening, and home repair, contributed about \$115 million in non-newspaper revenue.⁹²

Nonprofits

One idea garnering significant attention is organizing or reorganizing newspapers as nonprofit entities, thus shielding them from taxes on certain income and allowing businesses and individuals to deduct the cost of subscriptions or to make tax-deductible contributions. Senator Cardin’s proposal, S. 673, would clarify questions about tax deductibility, allowable advertising, and other issues, while making it clear that newspapers organized as nonprofits would not be allowed to make political endorsements.

Newspaper publishers and union representatives have been discussing similar proposals that would let newspapers organize as low-profit limited liability corporations, known as L3Cs, that combine aspects of a nonprofit and for-profit business, including a cap on profits. The L3Cs are allowed in some states.⁹³

⁸⁹ Mutter, Alan D., “What I recommended to publishers in Chicago,” Reflections of a Newsosaur, June 4, 2009. <http://newsosaur.blogspot.com/2009/06/what-i-recommended-to-publishers-in.html>.

⁹⁰ Standard & Poor’s Stock Report, Gannett Co. Inc., May 23, 2009.

⁹¹ Standard & Poor’s Stock Report, Washington Post Co., May 23, 2009.

⁹² Abernathy, Penelope Muse, “A Nonprofit Model for the New York Times?” Duke Conference on Nonprofit Media, May 4-5, 2009.

⁹³ Pickard, Victor, Josh Stearns & Craig Aaron, *Saving the News: Toward a National Journalism Strategy*. Free Press, (continued...)

There are already a number of high profile, nonprofit news organizations operating in the United States, including the *Christian Science Monitor*.⁹⁴ Times Publishing Co., which is owned by the nonprofit Poynter Institute for Media Studies, an educational institution, publishes the *St. Petersburg Times*; *Congressional Quarterly*; *Governing*; *Tampa Bay Times*, a free daily; *Florida Trend*, a business magazine; and some community weeklies. After-tax earnings are put back into the business and into the Poynter Institute, a nonprofit educational institution.⁹⁵

Publisher Nelson Poynter created the nonprofit structure in the 1970s in part to shield the *St. Petersburg Times* from outside corporate raiders and ensure its editorial independence. That mission appears to have succeeded, but the model is not a guarantee of financial security in a changing market environment. Just as other educational institutions have seen their endowments decline, the Poynter Institute is facing financial pressures. The severe housing slump in Florida has hurt newspaper earnings. The Poynter Institute, which has imposed budget cuts, is in the process of selling *Congressional Quarterly*.

The nonprofit model is gaining ground in some areas such as investigative journalism. Organizations including the Center for Investigative Reporting, the Center for Public Integrity, and Investigative Reporters and Editors have worked for years to expand and strengthen investigative reporting through their own projects and by training journalists. *ProPublica*, which started operations in 2008, has a staff of more than 30 reporters pursuing investigative stories, sometimes in conjunction with other media organizations. The field is rapidly expanding, often in affiliation with colleges and universities, many with their own schools of journalism. There are investigative reporting centers at Columbia University, Brandeis University, American University, and Boston University. Another center is supported by the University of Wisconsin. Efforts are under way to create centers at the University of Washington and at the University of Colorado.⁹⁶ The *Huffington Post*, in partnership with Atlantic Philanthropies, created an investigative reporting project, with an initial \$1.75 million budget.

Additional nonprofit models include the Pulitzer Center On Crisis Reporting (<http://www.pulitzercenter.org>), which focuses on training and reporting of international news. *MinnPost* (<http://www.minnpost.com>) is a nonprofit news website, as is *Chi-Town Daily News* (<http://www.chitowndailynews.org>).

The Associated Press in June announced it would start delivering stories by the Center for Public Integrity, the Investigative Reporting Workshop at American University, the Center for Investigative Reporting, and *ProPublica* to the more than 1,400 newspapers that are AP members.⁹⁷ A few conservative commentators criticized the move, saying the nonprofit

(...continued)

2009. http://www.freepress.net/files/saving_the_news.pdf.

⁹⁴ The *St. Petersburg Times* won two Pulitzer Prizes in 2009, one for national reporting and the other for feature writing. *Columbia University News*, Columbia University Announces 93rd Annual Pulitzer Prizes In Journalism, Letters, Drama and Music, April 20, 2009.

⁹⁵ http://www.hoovers.com/the-poynter-institute/--ID__107699--/free-co-factsheet.xhtml; "The Poynter Institute, What We Do," http://www.poynter.org/content/content_view.asp?id=8090.

⁹⁶ Houston, Brant, Knight Chair in Investigative and Enterprise Reporting, University of Illinois, "The First Draft: Emerging Models for Regional and State Non-Profit Investigative Journalism Centers," Duke Conference on Nonprofit Media, May 4-5, 2009.

⁹⁷ Associated Press news release "AP to distribute content from nonprofit journalism organizations," June 13, 2009 06/13/2009 http://www.ap.org/pages/about/pressreleases/pr_061309a.html.

organizations were funded by politically liberal donors and their work amounted to advocacy rather than journalism.⁹⁸

Public Policy Issues

Some observers suggest that escalating problems in the newspaper industry could have broad social and civic implications, as fewer reporters monitor increasingly complex decisions by government and business. A Princeton University analysis published by the National Bureau of Economic Research found, for example, that the year after the *Cincinnati Post* closed in 2007, fewer candidates in the suburbs that had previously been covered by the paper ran for municipal office, incumbents became more likely to win, and voter turnout fell.⁹⁹

Alberto Ibarguen, president of the John S. and James L. Knight Foundation, worries that many Americans will have less access to news, including those in areas not served by high-speed broadband, the poor, and older readers who are less Web-savvy. News could become more bifurcated, with significantly less access for many citizens. The Web offers abundant information on national and international issues. It is also a place where Americans are splintering into self-defined communities—connected through social networks or shared interests like travel or sports—whereas mainstream newspapers serve civic societies defined by geographic and political boundaries.¹⁰⁰ “We already live in an era where it is more likely that a high school student can more easily access information about swine flu or the crisis in Darfur than corruption in city government or decisions about education in his town,” Ibarguen told a Senate committee in May.

Other observers see the decline of newspapers as part of a natural, even necessary, transition for an industry that is variously described as having become too liberal, too corporate, too smug, or too ineffectual and generally in need of a good shaking up. In a market-based economy, some argue, the best approach is to let new models arise without government direction or interference. In a recent survey, only 43% of respondents said losing their local newspaper would hurt civic life in their community “a lot.”¹⁰¹

Mark Potts, a former *Washington Post* journalist who is now a media consultant and analyst, in a recent speech and subsequent Web posting, questioned the suggestion that communities will be bereft of options if major newspapers such as the *Baltimore Sun* cease operation. At a symposium in Baltimore he laid out a list of alternative weekly papers, business publications, websites and blogs that have already arisen to serve local readers.¹⁰²

⁹⁸ Sheppard, Noel, “AP to Publish Work of Four Liberal Nonprofits,” NewsBusters, June 13, 2009. <http://newsbusters.org/blogs/noel-sheppard/2009/06/13/ap-publish-work-four-liberal-nonprofits>.

⁹⁹ Schulhofer-Wohl, Sam and Miguel Garrido, “Do Newspapers Matter? Evidence from the Closure of the Cincinnati Post,” National Bureau of Economic Research, Working Paper 14817, March 2009. <http://www.nber.org/papers/w14817.pdf>.

¹⁰⁰ Testimony of Alberto Ibarguen, President, John S. and James L. Knight Foundation, Senate Commerce, Science and Transportation Subcommittee on Communications, Technology, and the Internet, May 6, 2009.

¹⁰¹ “Stop the Presses? Many Americans Wouldn’t Care a Lot if Local Papers Folded,” The Pew Research Center for the People & the Press, March 12, 2009.

¹⁰² Potts, Mark, “Choices in Charm City,” Recovering Journalist, June 3, 2009. http://recoveringjournalist.typepad.com/recovering_journalist/2009/06/choices-in-charm-city-1.html.

Congressional Action

Congress has begun discussing broader issues arising from the transformation of the newspaper industry, but the debate has not gone beyond the hearing stage. The House Judiciary Subcommittee on Courts and Competition Policy in April held a hearing on the possibility of changing antitrust law to allow more collaboration and mergers in the newspaper industry. The Senate Commerce Subcommittee on Communications, Technology, and the Internet held a general hearing on the issue in May 2008.

Just as there is no one business model that will return newspapers to the recent era of double-digit profitability, there does not appear to be any one legislative proposal that will stabilize the newspaper industry. The issue is further complicated by the fact that government involvement in the press raises potential conflicts of interest. Reporters and editorialists cover, and often write stories about, the legislators who are now being asked for help. Elected officials depend on newspapers for political endorsements and to communicate with their constituents.

Industry Proposals

Newspaper publishers in May, among other things, asked the Senate to temporarily relax antitrust law to allow them to work together to set a new pricing policy for the Internet and to change tax law to allow media companies to write off past losses.¹⁰³

Relaxing federal antitrust law to allow more newspaper mergers or to let newspaper publishers collaborate on Internet pricing policy could help bring new investment into the industry and create economies of scale. But the Newspaper Guild, one of the main unions in the newspaper industry, argues that newspaper chains have used mergers to undermine existing contracts.¹⁰⁴ The policy could put startups at a disadvantage. The Justice Department at a House Judiciary subcommittee hearing was cool to expanded antitrust exemptions, saying current antitrust law is flexible enough to meet the needs of the changing media marketplace.¹⁰⁵ Media companies are already announcing plans to move ahead with efforts to impose subscription or other pay rules for online content, in the absence of congressional action.¹⁰⁶

Another potential avenue involves the fair use doctrine of copyright law. Some publishers say Internet aggregators or search engines are profiting unfairly selling advertising via Internet search functions that display several lines or headlines of original newspaper stories.¹⁰⁷ Internet firms say their policies provide a major benefit to newspapers by directing millions of readers to their

¹⁰³ Testimony of James M. Moroney III, Committee on Commerce, Science and Transportation, Subcommittee on Communications, Technology and the Internet. Hearing on The Future of Journalism: Communications, Technology, and the Internet. May 6, 2009. http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61&Witness_ID=8406bab3-0f6f-422c-a805-c02103bb8ba5.

¹⁰⁴ Testimony by Newspaper Guild President Bernie Lunzer to the House Judiciary Committee, April 17, 2009.

¹⁰⁵ Statement of Carl Shapiro, Deputy Assistant Attorney General for Economics, Antitrust Division, Department of Justice, House Justice Subcommittee on Courts and Competition Policy, April 21, 2009.

¹⁰⁶ Testimony of Marissa Mayer, Google Vice President, Search Products and User Experience, Senate Commerce, Science, and Transportation Subcommittee on Communications, Technology, and the Internet, May 6, 2009.

¹⁰⁷ Testimony of James M. Moroney III, Committee on Commerce, Science, and Transportation, Subcommittee on Communications, Technology, and the Internet. Hearing on The Future of Journalism: Communications, Technology, and the Internet. May 6, 2009.

websites when they click on the displayed links. Newspapers have the ability to block so-called aggregators from posting links to their copy, and can require readers to register or subscribe to access their websites. A number of newspapers are themselves aggregators, with in-house bloggers or reporters who post links to other newspaper stories.

Even if newspapers do find a way to generate significantly higher online advertising returns, there are questions about whether Web-based revenues will be sufficient to support newspapers of the current size and scope.¹⁰⁸

Supporting the General Practice of Journalism

Some media experts have suggested that the best approach is arms-length federal involvement, where Congress provides federal funding to support the general practice of news gathering, rather than supporting specific newspapers. Such proposals include helping newspapers convert to employee-owned or nonprofit entities, increasing public funding for existing institutions like the Corporation for Public Broadcasting, creating a public trust to support reporting, and bolstering journalism programs affiliated with educational institutions.¹⁰⁹

Former *Washington Post* managing editor Steve Coll, now president of the New America Foundation, is among those suggesting that Congress support journalism by increasing funding for the Corporation for Public Broadcasting or the National Endowment for the Humanities.¹¹⁰ Free Press, a nonprofit organization aimed at promoting citizen participation in journalism, has suggested a research and development fund for innovation in journalism.¹¹¹ Other proposals include creating a jobs-for-journalists program, instituting a prepackaged bankruptcy structure making it easier for papers to reorganize,¹¹² and ending efforts to overturn a 2003 Federal Communications Commission (FCC) decision allowing cross-ownership of broadcast and print outlets in the same market.¹¹³ Another option could be to expand broadband access and increase training and technology literacy programs to ensure that all consumers have access to Internet news.¹¹⁴

U.S. public financing has been controversial in the past, however. Republican lawmakers in the mid-1990s, for example, tried to eliminate funding for the Corporation for Public Broadcasting, citing its perceived liberal bias. The issue flared up again in the 2005 appropriations process.¹¹⁵

¹⁰⁸ Collis, David J., Peter Olson, Mary Furey, *The Newspaper Industry in Crisis*, Harvard Business School, Case Study # N2-709-463, March 11, 2009.

¹⁰⁹ Remarks of Acting FCC Chairman Michael J. Copps, Free Press Summit: Changing Media, Washington, DC May 14, 2009. <http://www.fcc.gov>.

¹¹⁰ Testimony of Steve Coll, Committee on Commerce, Science, and Transportation, May 6, 2009.

¹¹¹ Pickard, Victor, Josh Stearns and Craig Aaron, *Saving The News: Toward a National Journalism Strategy*, Free Press, May 2009. http://www.freepress.net/files/saving_the_news.pdf.

¹¹² *Ibid.*

¹¹³ Testimony of Alberto Iburguen, President John S. and James L. Knight Foundation, Senate Commerce, Science, and Transportation Subcommittee on Communications, Technology, and the Internet, May 6, 2009.

¹¹⁴ *Ibid.*

¹¹⁵ Farhi, Paul, "Public Broadcasting Targeted by House," *Washington Post*, June 10, 2005, P. A1. <http://www.washingtonpost.com/wp-dyn/content/article/2005/06/09/AR2005060902283.html>.

At the state level, the Washington legislature approved a temporary, 40% state tax break for the news industry.¹¹⁶ New York Mayor Michael Bloomberg in July announced initiatives to encourage new media companies to locate in the city.¹¹⁷ Internationally, France has announced it will provide free, one-year newspaper subscriptions to teenagers on their 18th birthday, increase French government print advertising, and boost financial support for newspaper deliveries.¹¹⁸ More narrowly, the Senate Press Gallery is reviewing its definition of what constitutes a reporter or news agency, in response to complaints from foundation-supported and online organizations that they have been not been granted full press credentials, needed to cover much of official Washington.¹¹⁹

“While we may have once hoped that we could merely shift our operations online and continue operating as usual, the comparably much smaller revenue generated from Internet advertising has shown that we must continue to look for another answer. We can’t wait to see if advertising revenue comes back after the recession is over, as much of it won’t,” Philadelphia Newspapers CEO Brian Tierney told a House subcommittee in April.¹²⁰

Congressional committees are considering holding additional hearings on the state of the newspaper industry, but as yet there is no major push for legislative action. Advertising revenues do not appear to have revived during the first half of 2009, opening the possibility of further deep staff layoffs and pay cuts, curtailed circulation, and other measures including retrenchment at papers across the country. It is unclear whether newspapers will quickly be able to develop a new business model that will allow for the continuation of most existing general-interest publications, or whether the industry will reorganize as smaller, more targeted products—with readers pulling from a variety of specialized sources for their news.

Author Contact Information

Suzanne M. Kirchhoff
Analyst in Industrial Organization and Business
skirchhoff@crs.loc.gov, 7-0658

¹¹⁶ “Gov. Gregoire approves tax cut for Washington state newspapers,” *Seattle Times*, May 12, 2009. http://seattletimes.nwsourc.com/html/localnews/2009212482_apwanewspapertaxcuts.html.

¹¹⁷ McGeehan, Patrick, “City Starts Program to Foster Entrepreneurial New Media,” *New York Times*, July 8, 2009.

¹¹⁸ Pfanner, Eric, “France Expands Its Financial Support for Newspapers,” *New York Times*, Jan 23, 2009, p. B2.

¹¹⁹ Senate Press Gallery Staff.

¹²⁰ Written statement of Brian Tierney, CEO of Philadelphia Newspapers, LLC, House Judiciary Subcommittee on Courts and Competition Policy, April 21, 2009.