

The Survival of the Newspaper in the Digital Age of Communication

by

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ABSTRACT

The objective of this paper is to explore and discuss the future of the American newspaper. Currently, the industry is struggling to survive and many critics predict its complete demise. Through my research and analysis, I hope to help the American publisher in finding a formula for success. Having conducted in-depth interviews with industry experts and having collated information and data from research reports on the American newspaper, my hypothesis is a paperless model, recommending all-digital news as a survival strategy for the future of the industry. To test this, I will examine six key factors that have uprooted the newspaper from its traditional model and explain how they are contributing to the demise of the newspaper industry. I will then debate the case of digital news versus print, presenting an unbiased outlook on the two models. In order to make this research and analysis valuable to the industry, I will evaluate potential moneymaking models for digital news and ultimately recommend one strategy as the survival formula. Therefore, by providing a recommended solution with the strategies for a successful implementation, I hope to provide a survival formula for the American newspaper industry. Through this paper, I hope to reinforce that there is no reason to fear the death of the American newspaper industry and that newspapers must remain optimistic.

* I am extremely grateful to, Professor Jeffrey Green for his insight and guidance, to Professor Marti G. Subrahmanyam for his advice and investment into the Honors Program, and to anonymous executives who work at American newspaper publishers for their assistance. All errors herein are my own.

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1. Introduction

The U.S. newspaper industry is currently undergoing a much-needed transformation, battered and distressed by a severe recession, declining advertising revenues, major shifts in consumer behavior and emerging disruptive technologies. As a result, we have seen some major media companies declare bankruptcy with the burden of heavy debts, while the others are still experimenting with new survival formulas to restore the equation between newspaper content and earnings.

Through this paper, I hope to help these newspaper publishers in their search for a success formula. Having conducted in-depth interviews with industry experts and having collated information and data from research reports on the American newspaper, my hypothesis is a paperless model, recommending all-digital news as a survival strategy for the future of the industry. To test this, I will examine six key factors that have uprooted the newspaper from its traditional model and explain how they are contributing to the demise of the newspaper industry. I will then debate the case of digital news versus print, presenting an unbiased outlook on the two models. In order to make this research and analysis valuable to the industry, I will evaluate potential moneymaking models for digital news and ultimately I will recommend one strategy as a survival formula for the newspaper industry.

2. History of the Newspaper Industry

The newspaper industry has been around for over four centuries, and it has experienced a tumultuous run. Although the first official newspaper was published in 1605 in Strasburg, it was only during the Industrial Revolution, in the early 19th century, when the steam printing press and telegraph developed. This allowed inexpensive papers to be sold by street vendors to a larger

audience. Between 1890 and 1920, the industry grew and newspapers enjoyed the focal attention of being society's primary source of information. This was known as the 'Golden Age' for print media. However, the Great Depression disrupted this and in the 1930s newspapers were severely hurt, hundreds of companies halted or ended operations. This was escalated with the emerging broadcast radio, offering lower priced alternative news and as a result capturing a large portion of advertising revenues from newspapers.

Television was the next technology that disrupted the newspaper business. It was a more powerful medium to distribute information and it overtook the newspaper and majority of national advertising in the 1960s. In response, newspapers consolidated. Family owned papers were taken over by parent companies, for example Gannett Co. purchased over 50 newspapers between 1960 and 1980. There were also a few, like the New York Times Co. and the Washington Post Co. that went public at this time. This led to a decrease in number of competing daily papers and by 1971 only 2% of U.S. cities had more than one newspaper. While this eradicated competition and made it harder to regulate the role of the press, it also gave those existing newspapers an opportunity to enjoy a semi-monopolistic position in their city.

However, the early 1990s was the last time newspapers enjoyed profit margins of 20% to 25%. In 1995, the Internet was introduced to the public and by the millennium the Internet as a worldwide platform became evident. The Internet reached more people than any newspaper had or ever could and profits margins, if any, have dropped to an average of 5%. The mere ability to access information and receive instant updates threatened the purpose of a newspaper, and evidently the Internet has been a growing source of competition and contention for the newspaper publishers. The following section will examine the newspaper business model and how it has evolved as a result of the Internet.

3. Existing Newspaper Business Model¹

a. Revenue Structure

Newspaper publishers have always depended on advertisers and readers for their revenue. Traditionally, approximately 75% (in 2000) of this came from print advertising while the rest was from subscribers and single copy purchasers². However, with the rise of the Internet and the impact of the economic recession, the revenue equation has been disrupted.

The industry is experiencing an overall decline in advertising revenue. Advertisers have not only reduced spending; they have also diverted a portion of their budgets towards online advertising, where rates are very low. As a result, on average newspapers earn approximately 53% (in 2009) of their revenues from advertising out of which only 12% comes from online ad sales.

In an attempt to remedy the situation, publishers have increased the price of monthly and annual subscriptions. They have also increased the price of newsstand copies. They are also making attempts to implement subscriptions models online and on hand-held devices such as cellular phones, eReaders and the iPad. Wall Street Journal and The Financial Times are amongst only a few that have successfully been able to implement successful subscription models online and via other technologies. Both are financial newspapers and have unique content that consumers are willing to pay for. Therefore, while their revenues from subscriptions are significantly higher, industry average is approximately 40% of total revenues. This is still a significant increase from the industry average of a mere 25% in 2000.

Additionally, newspaper publishers are also trying to diversify their revenue sources by

¹ Figures are modeled on the News Media Group, 2009 Annual Report:
http://www.nytc.com/investors/financials/annual_reports.html

² Pena, Richard. (Feb 7, 2008). *Shrinking Ad Revenue Realigns U.S. Newspaper Industry*:
<http://www.nytimes.com/2008/02/07/business/worldbusiness/07iht-paper.1.9823636.html>

creating digital archives, news syndication, rental income and commercial printing. They have also begun to sell branded materials, such as the New York Times Store that sells reprints of photographs, books and other such branded items. Together, this accounts for approximately 7% of total revenue.

b. Cost Structure

On average newspapers spend only 35% of their costs on their news gathering processes. This cost is essential to the functioning of a newspaper, whether it is only in print, digital or both. Majority of their costs are actually spent on print. Raw materials account for 10% and the labor involved with printing and distribution accounts for approximately 40% of total costs. Together, print operations account for 50% of total costs. In contrast, the cost of putting a newspaper online and maintaining it is minimal. In addition, the cost of producing an additional digital copy is zero. Other costs include marketing and branding efforts and the research and development of news platforms. Together these other costs account for 15% of total costs.

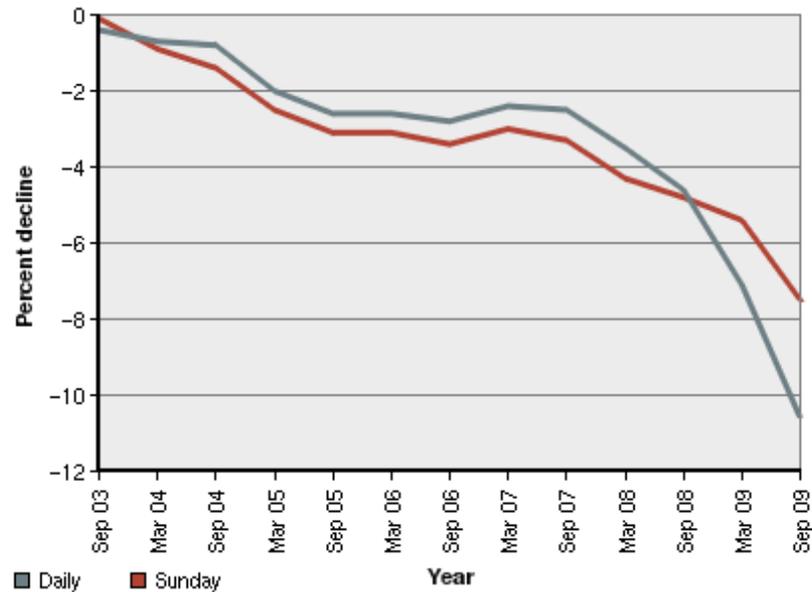
4. Current Circulation Status

For the 1,400 daily newspapers that are struggling to survive in the United States,³ circulation numbers continue to dwindle. Most of these publications currently have circulation figures below 100,000 and it is only the national newspapers such as USA Today, Wall Street Journal and the News York Times that have circulations exceeding 1million. In fact, the recent figures from the Audit Bureau of Circulation, listed New York Times daily has only 950,000 readers, an 8.5% decline since last year.

³ Audit Bureau of Circulations. (Mar 31, 2009). Circulation Averages for the Past Six Months: <http://abcas3.accessabc.com/ecirc/newstitlesearchus.asp>

This rate of decline has been accelerated since 2003 as depicted below in Figure 1 and according to data recently released from the Bureau of Circulations there has been a further decrease, Sunday sales have dropped by 6.5% and weekday sales dropped by 8.7%⁴ in the past six months ending March 31st 2010.

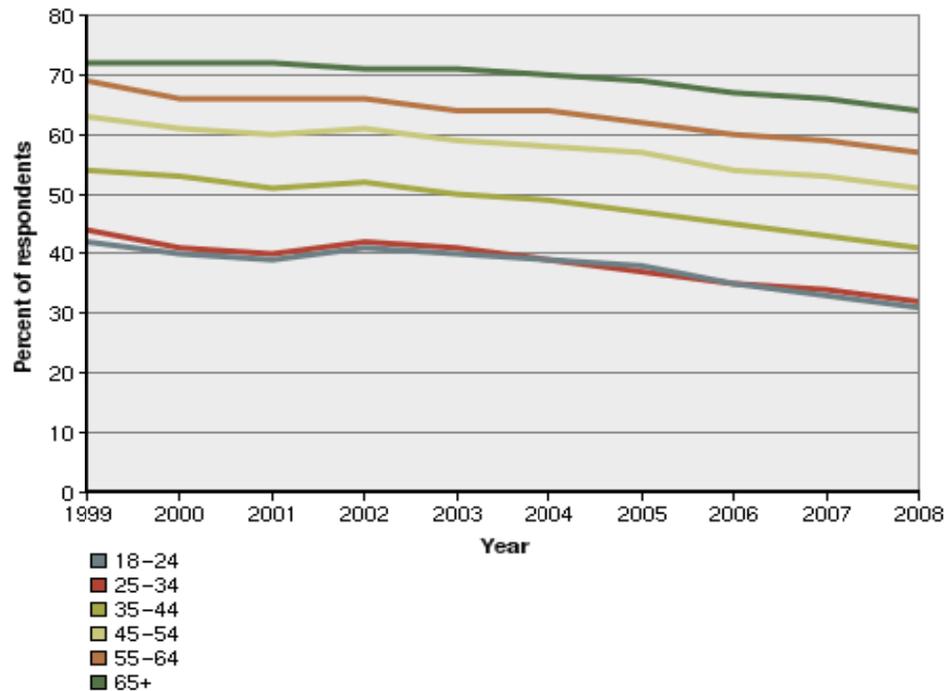
Figure1: Daily and Sunday Percentage Declines in Circulation



It is essential to note that unless there is a drastic change in the industry, the overall trend of decline that we see in this graph will continue into the future. This is substantiated by a relatively consistent rate of decrease across all age groups as see in Figure 2 below. This result is extremely important to newspapers because they currently depend on readers above 40years for majority of their circulation numbers. In fact, the average age for The New York Times reader is 47years⁵. This makes it evident that publishers can no longer depend on any age group for a constant demand.

⁴ Plambeck, Joseph. (Apr 26, 2010). Newspaper Circulation Falls Nearly 9%: <http://www.nytimes.com/2010/04/27/business/media/27audit.html>

⁵ MRI Spring 2009. New York Times Adult Demographic Profile: www.nytimes.whsites.net/.../newspaper/MRI_NYReaderprofile.pdf

Figure 2: Daily Newspaper Readership By Age

Source: Scarborough Research survey data

Figure 2 emphasizes this decrease is really reflective of a social revolution in the way news is being consumed. Therefore, it is imperative for publishers to understand what are the aggravating factors disrupting the newspaper industry. These will be discussed in the following section on current environment.

5. Current Environment

a. *Impact of the Economic Meltdown (Dec07 – Aug09)*

While the traditional newspaper has been gradually disintegrating with the rise of the Internet since the millennium, the economic crisis that began in December 2007 and ended in August 2009 expedited this process as newspapers were faced with unprecedented financial challenges that emerged.

In 2006 and 2007, the newspaper industry witnessed a rapid buying spree. To the regret of these market players, this turned out to be terrible timing because in December 2007, the American economy entered into a brutal economic crisis. As a result the newspaper bubble burst, leaving many players with sever debt to equity issues, many of whom are currently in the weakest situations. For example, the Tribune Co. (assets include The Chicago Tribune, The Los Angele Times, and 23 television stations) was privatized in a controversial deal in 2007, for a total of \$11.8 billion. This practically tripled the debt of the company and with the impact of the recession, the private entrepreneur Sam Zell was forced to file bankruptcy a year later. Evidently, if these deals had not taken place or if the players had not taken upon so much debt, the newspaper industry as a whole would have been less vulnerable to the downturn.

Additionally, the recession resulted in deep cuts from marketing budgets all over the nation. Since the newspaper business model is largely dependent on advertising as a form of revenue, this advertising recession brutally hurt publishers. The industry experienced a 23% fall in advertising revenues⁶ in 2007 and 2008. Consequentially, from making \$49.3billion in ad sales in 2006, the industry only earned \$38billion in 2008.

During the recession, most newspapers also faced further cuts in revenues from declining subscriptions and single copy purchasers. Readers were looking for more cost effective alternatives and as a result increased consumption of online news. Since most newspapers do not charge for their online content, this shift in consumption did not drive any revenue increase for the publishers.

Therefore, this overall plunge in revenue forced newspaper publishers to cut costs and scale back operations in order to survive. The New York Times and the Herald Tribune amongst others made their papers narrower to save on printing costs. Many eliminated stock listing and

⁶ Newspaper Association of America, Trends and Numbers: <http://www.naa.org/TrendsandNumbers.aspx>

TV guides from their dailies, others combined sections such as sports and business depending on the seasons. Internally, publishing houses began to lay-off staff and reduce the number of editors. According to the American Society of News Editors, approximately 15,000 full-time reporting and editing jobs were lost during the past three years that is a loss of 27%⁷. Many newspapers were also forced to reduce the periphery of their distribution to save delivery costs, forcing their own circulation figures to drop.

b. Impact of the Internet

The Internet first opened to commercial interests in 1988, but it took a few years for the network to gain public recognition and it was only in the late 1990's when the Internet began to take shape as the 'World Wide Web' we know it to be. Ever since, the impact it has had on newspapers is two fold. Directly, the Internet has increased competition for the newspaper and revised the way news is distributed. Indirectly, the Internet has influenced advertising trends, consumer behavior and the rise of disruptive technologies. As a result, newspapers have been forced to integrate with the Web and now approximately 80% of newspaper publishers have integrated web and print operations.

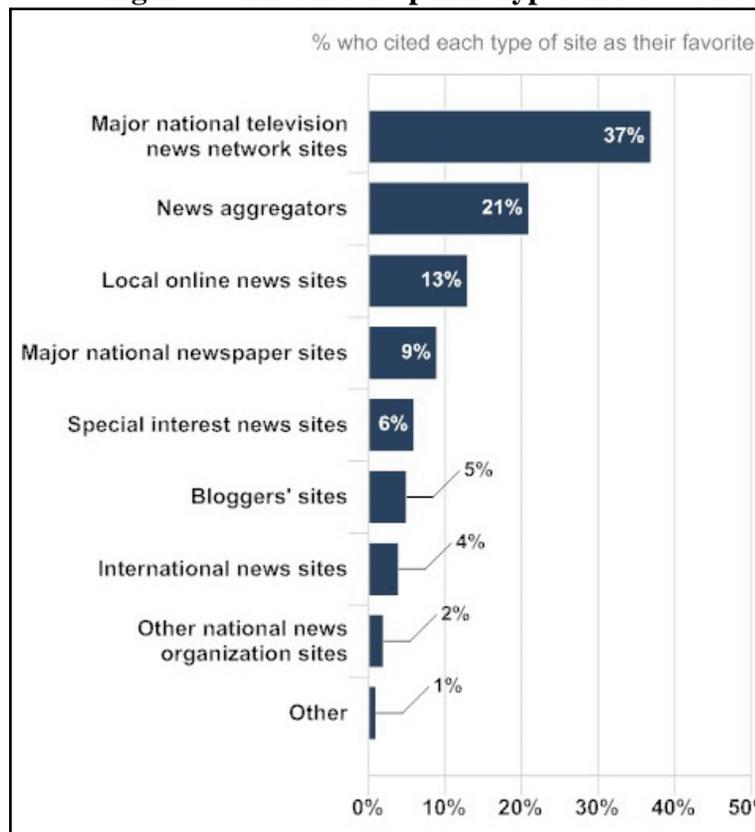
i) Increasing Competition

The Internet has removed all geographical boundaries and as a worldwide platform, it has extensive global reach. This is facilitated by the zero marginal cost associated with digital news content, unlike a broadsheet that has to account for additional printing and delivery costs when expanding reach. As a result, local newspapers are now forced to compete with national newspapers.

⁷ Project for Excellence in Journalism and Rick Edmonds of the Poynter Institute. (Apr 23, 2009) News Investment: [://www.stateofthemedial.org/2009/narrative_newspapers_newsinvestment.php?cat=4&media=4](http://www.stateofthemedial.org/2009/narrative_newspapers_newsinvestment.php?cat=4&media=4).

The Internet has also removed any barriers to entry. Initially, entry costs were very high because large investments were needed to set-up a publishing house, and so the number of players was restricted. However, the Internet gives anyone with a computer an opportunity to publish information. This has placed newspapers in an industry for news and information, and as a result they are now directly competing with all news sites online as displayed in Figure 3 below. Newspapers have to thus realize they are no longer the only credible source of news available, in fact from Figure 3 it is clear that their major competition is from national television news network sites.

Figure 3: The Most Popular Types of News Sites



ii) Revising News Distribution

The Internet has revolutionized the way news content is distributed and consumed. It has the ability to deliver news immediately, thus the Internet allows readers to receive news in real-

time and stay constantly updated. News websites constantly update their headlines with breaking news, users can sign-up to receive news alerts via their e-mail and additionally there are websites like Twitter that are devoted to status updates from all their users.

iii) Social News Distribution

Additionally, the Internet via e-mail and social media activity has led to news being distributed socially. A recent study⁸ found that 71% of Internet users receive news through email forwards or posts on social networking sites and in fact, 48% of Internet users share the information they receive with others by forwarding links and stories. The ramifications of this on consumer behavior will be discussed in the following section.

iv) News Aggregators

The Internet has also resulted in the growth of news aggregators, websites that collect content from multiple sources⁹. Websites such as Google News use algorithms; they automatically scan the web for similar articles and group them together, providing headlines and brief excerpts. There are also websites such as the Huffington Post, where news is manually aggregated.

From figure 3 it is evident that news aggregators are fierce competition for newspapers. One of the key reasons why they are ranked the second most popular type of news site is because of the convenience they provide to users. By aggregating information from various news sources, aggregators help users find the information they are looking for. As a result, users no longer have to visit multiple websites and can rely on news aggregators for their news updates.

⁸ Pew Internet & American Life Project. (2010). Understanding the Participatory News Consumer: <http://www.pewinternet.org/Reports/2010/Online-News/Part-5/2-News-as-a-social-activity.aspx?r=1>

⁹ Heald, Emma. (Mar 11, 2009). Google News and Newspaper Publishers: Allies or Enemies: http://www.editorsweblog.org/analysis/2009/03/google_news_and_newspaper_publishers_all.php

v) Unintentional News Discovery

Internet users frequently encounter news while not looking for any, i.e. unintentional discovery. According to a study¹⁰ 59% of respondents unintentionally consume news almost everyday, where as 48% of online users said they intentionally look for daily news online. While there is only a marginal difference between the numbers, the probability of encountering news by chance increases as users spend more time online. This emphasizes the opportunity newspaper publishers have to attract first time users and retain them for future visits.

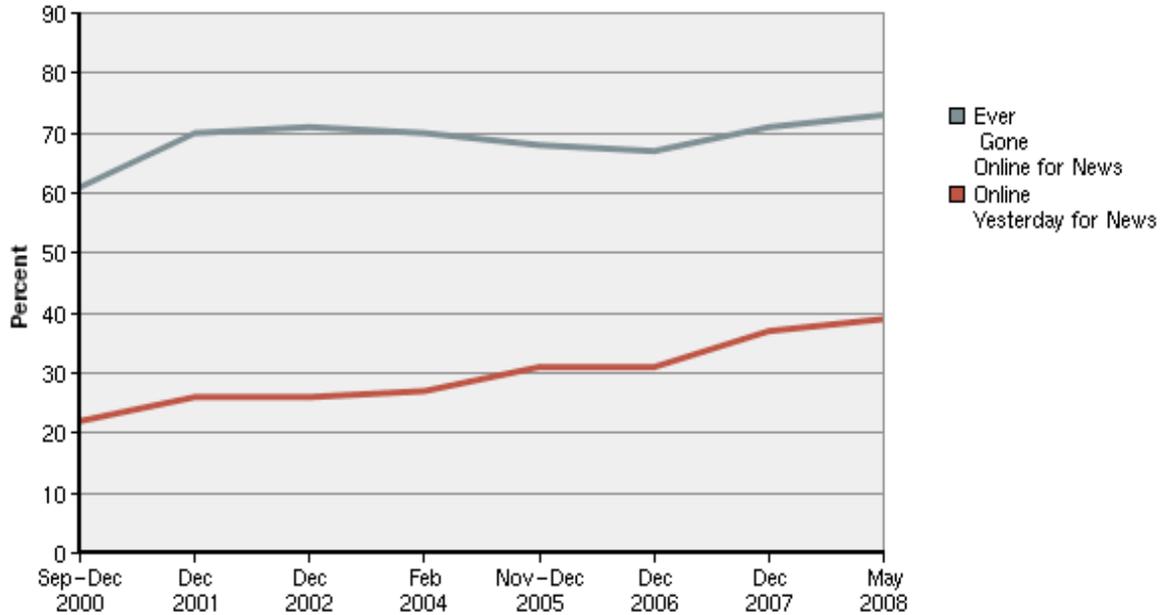
c. Impact on Consumer Behavior

The Internet has played a big role in altering news consumption behavior for the average American newsreader. According to a recent study by Pew Research,¹¹ the Internet is currently the third most popular news source and in 2008 there was a 19% increase in the number of people accessing online news regularly (thrice a week). This can be traced in Figure 4 that illustrates the increase in online news consumption since 2000, as a percentage of Internet users.

¹⁰ Poynter. (2006). Eyetracking the News: http://eyetrack.poynter.org/keys_02.html

¹¹ Pew Internet & American Life Project. (2010). Understanding the Participatory News Consumer: <http://pewinternet.org/Reports/2010/Online-News/Part-1/3-The-news-platforms-people-use.aspx?r=1>

Figure 4: Online News Consumption



In addition, news has never been in so much demand. 99% of Americans consume news from at least one source, and newspapers have more readers now than ever before. However, majority of this growth in readership is from online news consumption as determined by the size of the audience for the top newspaper websites, listed below in Figure 5.

Figure 5: The Top Newspaper Websites' Audience

	Unique Audience (000)
NYTimes.com	20,118
USATODAY.com	9,961
washingtonpost.com	9,367
Wall Street Journal Online	9,192
LA Times	8,643
Boston.com	5,742
Daily News Online Edition	5,658
Chicago Tribune	5,270
SFGate.com/San Francisco Chronicle	4,227

Source: Nielsen Online March 2009

While newspapers are definitely enjoying a portion of this growing online readership, the

real problem is that most publishers are providing content for free. Thus, readers have become accustomed to consuming information at a zero cost, and this has resulted in subscription revenues to decline. In fact, in 2008 there were more people in the U.S. consuming news online for free than the number actually paying for news content¹².

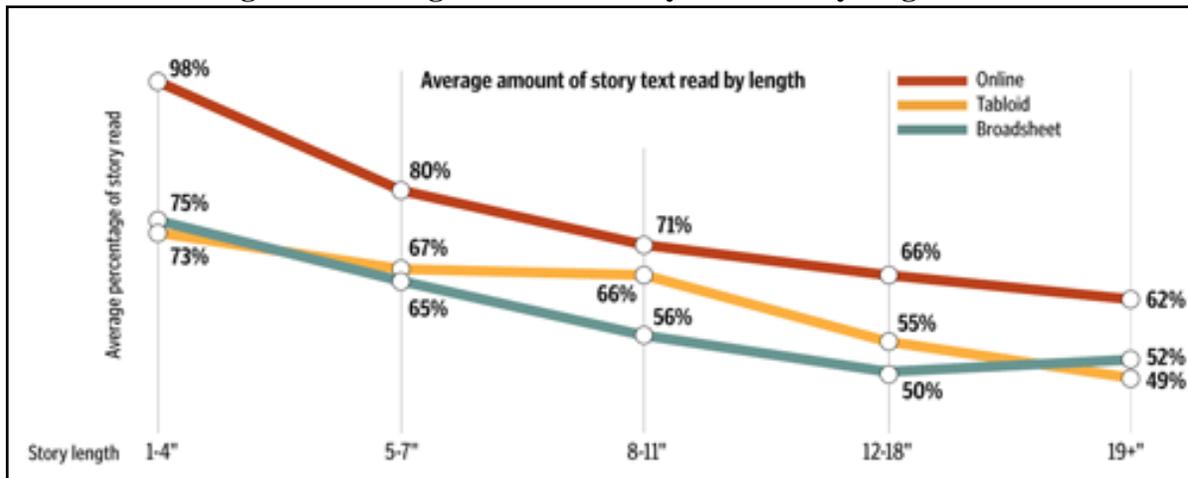
Understanding the Customer Segment

In addition to this zero cost problem, the traditional news offering style of newspapers is becoming outdated. Readers have become influenced with the stylistic way online journalists report news and this has led to a shift in news consumption patterns. Poynter recently conducted a study on *Eyetracking The News*,¹³ and below are some of their key findings discussed.

i) Reading Patterns

The study found online newsreaders on average complete 77% of an article, where as broadsheet (print) newsreaders only complete 62% of an article. This result was irrespective of the length of the article and is illustrated below in figure 6.

Figure 6: Average amount of story text read by length



¹² Pew Research Center Biennial News Consumption Survey. (Apr 17, 2008). Key News Audiences Now Blend Online And Traditional Sources: <http://people-press.org/report/444/news-media>

¹³ Poynter. (2006). Eyetracking the News: http://eyetrack.poynter.org/keys_02.html

The study also analyzed reading patterns and found that consumers either scan news or methodically read news. They found online readers display the qualities of both scanners and methodical readers, whereas print readers are more methodical in their approach.

1. **Scanners:** The study found such readers' value headlines and page display elements, for example online readers use story lists and links to follow through with articles. They do not frequently return back to an article and are not likely to complete reading the entire story. 77% of online readers and only 57% of print readers are scanners.
2. **Methodical Readers:** The study found such newsreaders enjoy reading news top to bottom, and in print they enjoy reading a full two-page view. They often re-read some information and do not scan. Online, such readers enjoy using the navigation bar to find articles. 78% of online readers and 65% of print readers are methodical in their approach.

ii) The Kinds of News Consumers Demand

These findings are evidence to the adjustments consumers are making in the kind of news they consume. In fact, there is a clear distinction between news that is currently in demand.

1. **News Alerts:** This is news that is concise, with only the necessary information. This kind of demand needs a different journalistic style, only providing a synopsis of the news with little or no analysis and most importantly with immediate updates.
2. **Analyzed News:** This is news that contains detailed analysis, with information providing a holistic view in order to help explain the situation and possible consequences.

Essentially, this kind of demand reflects consumers asking for help to decipher the truth from all the information that is available. This kind of demand needs a journalistic style that is similar to what newspapers are accustomed to.

iii) Personal and Interactive News

In addition to users' reading patterns, users have also developed a preference for a more personalized news experience. A study conducted by Pew Internet found that 67%¹⁴ of Internet users only follow news for particular areas of interest, and there are online tools that allow for customization. For example, GoogleNews is one of the largest news aggregators that allow users to customize their home page with news of their choice and to request for selective email alerts. Typically, users who use such filtration tools are those ravenous newsreaders that read news from a wide range of sources and such users prefer news websites that allow for customization. According to the study, this is approximately 30% of all Internet users.

Additionally, the study also found that users have a preference for interactive tools and 36% of all Internet users take into consideration the interactive materials available on a website before selecting it as a news source. Examples of interactive content are charts that users can manipulate, quizzes to test user knowledge, video news reports, and other such.

iv) News Transforming into a Social Experience

The Pew Internet & American Life Project did an in depth survey on understanding the American news consumer¹⁵ and their findings distinctly illustrate how news is transforming into a social experience. These very findings will be discussed below.

1. 69% of newsreaders consider following the news a "social or civic obligation."
2. 72% of newsreaders follow the news because they enjoy discussing and sharing it with family, friends, and colleagues.
3. 50% of Americans claim that every now and then they depend on other people to keep them updated on news and information they need to know.

¹⁴ Pew Internet & American Life Project. (2010). Understanding the Participatory News Consumer: <http://www.pewinternet.org/Reports/2010/Online-News/Part-5/2-News-as-a-social-activity.aspx?r=1>

¹⁵ Pew Internet & American Life Project. (2010). Understanding the Participatory News Consumer: <http://www.pewinternet.org/Reports/2010/Online-News/Part-5/2-News-as-a-social-activity.aspx?r=1>

Online, sharing news is most easily facilitated via email and social media activity. The study found that 71% of Internet users receive news through email forwards or posts on social networking sites and in fact, 48% of Internet users share the information they receive with others by forwarding links and stories. Most publications have adapted to this trend and have added features with every article. For example, NYTimes.com has a “SHARE” feature that provides users the option to share through Facebook, LinkedIn, Digg, Mixx, Yahoo Buzz, MySpace and Permalink. In addition, there is also an option to tweet the link or email the article. The study found that 44% of online news consumers in fact evaluate the availability of such features that aid sharing news with others, before selecting their online news source.

While news websites have been the primary source for news and information, users have begun to follow friends, publishers, organizations, renowned journalists, and industry experts via social networks. The study found that 30% of all Internet users get news from people they follow through social media sites such as Facebook on a typical day. Websites with status update functions have also become popular news sharing portals, especially Twitter. The study found 28% of Twitter users receive news updates from friends they follow and 18% receive news updates from organization or journalists they follow. Together, 6% of all Internet users currently get news updates through Twitter feeds. These numbers are significant projections of how online news consumption will progress, and it is therefore integral for newspaper publishers to make themselves visible to their newsreaders via social media portals as well. In fact, the study found that 25% of online news consumers consider whether an organization can be followed via social media before selecting it as their online news source.

In addition to sharing, the ability to discuss news has become an integral aspect of online news consumption.

The study found the following results:

1. 25% of Internet users have commented on a news article or blog topic about news
2. 17% of Internet users have posted thoughts or links on news via a social networking site
3. 9% of Internet users have contributed their own article, picture, or video to a news site
4. 3% of Internet users have used Twitter to post or re-Tweet a link to a news story or blog

These findings indicate a growing trend of consumer participation in the process of online news creation and distribution. Certain publishers have already begun to adapt to this trend. For example, the New York Times recently launched a joint relationship with LinkedIn, where LinkedIn users will be able to subscribe for news alerts on a specific industry and they will also be able to share and discuss the news with users and experts via an industry specific blog¹⁶.

v) Modest Number of Sources Used

Newspapers have the potential to establish a loyal consumer base online. A key finding in the Pew study shows that consumers display modest behavior online. From all the online news consumers, 57% claim to use only two to five news sources online. With the abundant news sources available online, this is a relatively surprising number. While it does prove that consumers no longer have one primary source, it also does emphasize that readers continue to have a preference for certain sources and are more likely to use only those sources versus browsing the web in search of additional news sources.

d. Impact of Advertising Trends

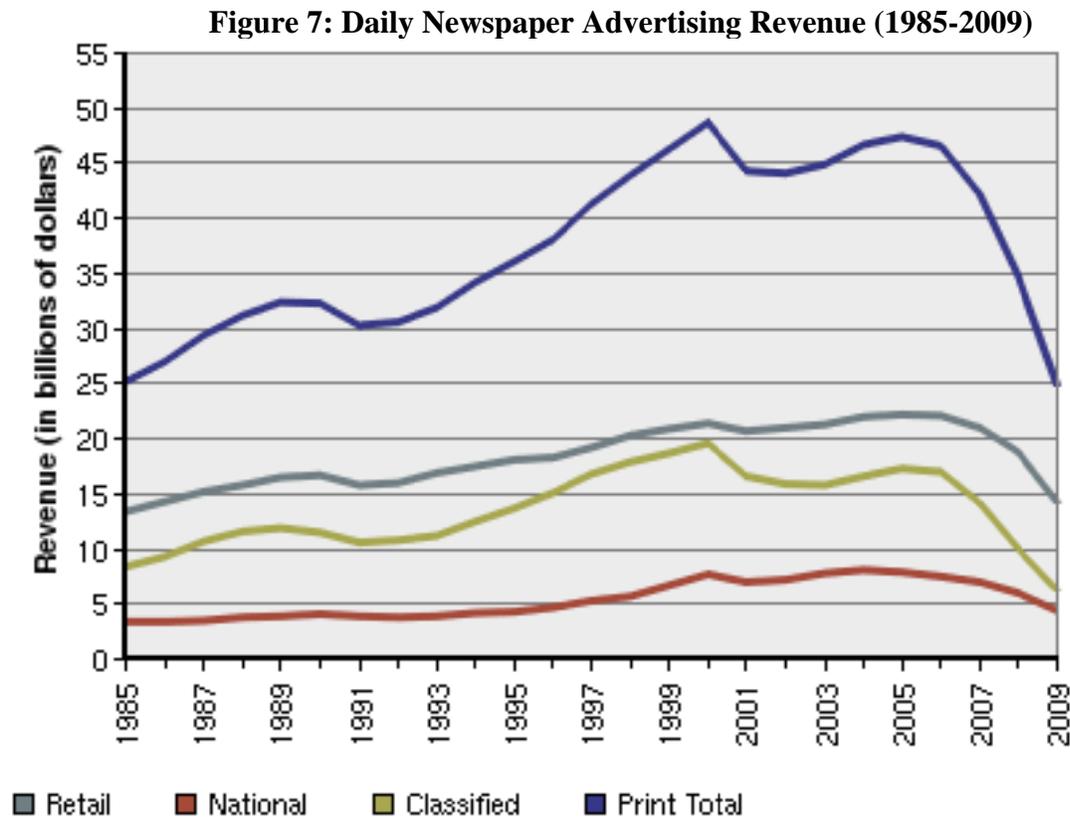
While the Internet has severely threatened the traditional ways of news consumption, it has improved the business for an advertiser. With the Internet, advertisers are able to reach their target audience more effectively and efficiently. Marketers can accurately measure results and monitor their ad spends very closely. They can also engage with the consumer and interact with

¹⁶ Roberts, Scott. (Jul 21, 2008). The New York Times gets LinkedIn. <http://blog.linkedin.com/2008/07/21/the-new-york-ti/>

them to ensure the effectiveness of their campaigns.

However, with the economic meltdown the world of advertising also entered into a steep recession. As a consequence, newspapers saw a deep decline in overall advertising revenues.

Figure 7¹⁷ presents this, illustrating the intensity of decline across each category of retail, national, and classified revenues.

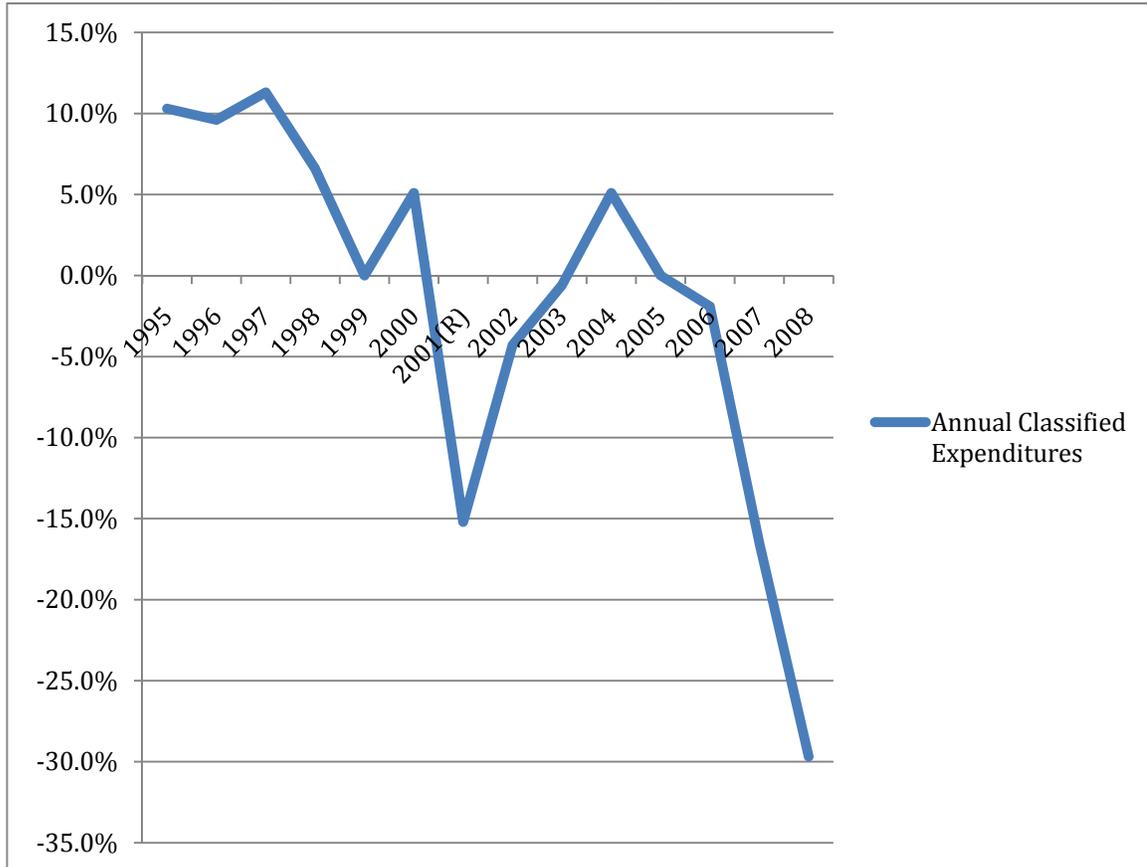


Additionally, from the above figure it is evident that with time the proportion of revenues from these categories has changed. The most drastic of these is the complete decline of classified advertising revenues. From 1950 to 2000, newspapers had become overly dependent on classified advertising deriving approximately 40% of their revenues from classifieds. However, in 2000 classifieds began to shift their business online. With websites such as Craigslist.com and Monster.com, the real estate and job market moved their entire ad sales to the web. As a result

¹⁷ Newspaper Association of America, Trends and Numbers: <http://www.naa.org/TrendsandNumbers.aspx>

other such websites developed and in 2006 all newspapers experienced a major crash from classified revenues. The graph below in Figure 8 illustrates this very fall of classified advertising in newspapers.

Figure 8: Annual Classified Expenditures¹⁸



Simultaneously, newspapers have experienced a gradual decline in national and retail advertising spends. While most of these have shifted online, the rates of online advertising are significantly lower than print and therefore print advertising revenue continues to be the majority of newspaper’s ad revenues. This is illustrated below in the New York Times online media kit.¹⁹

New York Times Readership Numbers:

Online unique visitors	13,372,000 (12 month average)
------------------------	-------------------------------

¹⁸ Newspaper Association of America, Trends and Numbers: <http://www.naa.org/TrendsandNumbers.aspx>

¹⁹ The New York Times Online Media Kit: <http://nytimes.whsites.net/mediakit/>

Weekday print circulation	1,120,420
Sunday print circulation	1,627,062

News Media Group Advertising Revenue:

Total advertising revenue	\$483,594,000
Online advertising revenue	\$51,000,000

From the figures above, it is evident that print circulation is approximately 10% of The New York Time's total audience reach. As for its advertising revenues, they can be likened to those of News Media Group and therefore online ad revenue is approximately 10% of their total ad revenues. Given the readership figures, this estimation of online ad revenue is unexpectedly small and it therefore exposes online websites as a weak source of revenue for publishers.

Additionally, according to a survey conducted by PricewaterhouseCoopers, digital advertising revenues were only \$6billion dollars in 2008 (from a \$182 billion press advertising industry) and by 2013 forecasted figures show that digital revenues would only increase to \$8.4 billion dollars. So while online advertising revenue is increasing, the rate of growth is declining²⁰. Therefore, it is evident that newspapers cannot depend on that as a revenue source in order to survive.

One of the key reasons why online ad revenue is only 10%²¹ is that the rate of online ads is drastically lower than the print rates. The online advertising model, unlike the newspapers flat rate, is based on the number of impressions (CPM: Cost per 1000) and clicks (CPC: Cost per click). Since this billing model was first introduced with very low rates, the increasing competition has prohibited online rates to raise any further. For example, NYTimes.com has an

²⁰ World Association of Newspapers and News Publishers. (Dec 1, 2009). World Newspaper Congress: Digital ad revenues to remain miniscule. IFRA: <http://www.ifra.net/blogs/posts/2009/12/01/world-newspaper-congress-digital-ad-revenues-to-remain-miniscule>

²¹ Karp, Scott. (Jun 17, 2007). Newspaper Online vs. Print Ad Revenue: The 10% Problem. <http://publishing2.com/2007/07/17/newspaper-online-vs-print-ad-revenue-the-10-problem/#ixzz0ju7UXiEl>

offer called 'Employer of the Day.' This is a package for employers looking to advertise a job listing on the NYTimes.com homepage, which receives over 1million unique views per day. This is designed to give employers a position twice a week, for a total of one month, all for the cost of \$10,000. However, for the same cost, if an employer decides to advertise in the daily print edition they would also reach approximately 1million readers but only for one day, with a 10" column advertisement or 1/12 of a page. Given this payment model, online advertising is more cost effective for advertisers but for newspapers, online websites only bring marginal revenues.

In addition, there is also evidence that news aggregators benefit disproportionately from the content they aggregate, link, index and present. This is because revenues from ad-space sold alongside re-distributed content are only paid to the news aggregators and not the news generators. As a result, newspapers have been losing a large portion of their online revenues.

e. The Impact of Disruptive Technologies

With the rise of the Internet, digital platforms have been developed to keep up with transforming consumer demands. With respect to newspaper publishers, these technologies disrupt the newspaper business because they make online news more accessible for readers. These devices include the computer, mobile, e-reader and tablet.

The Different Devices Available

i) The Computer

With the invention of the computer, newspaper publishers began to create digital libraries of their content. Once the Internet was launched, these digital libraries were published online and gradually newspapers used computers to create an online version of their daily print versions.

Advancements in technology have made computers more advanced, affordable and portable with the invention of the laptop. As a result more people own computers and according to a recent study by the Nielson Company, in 2009 more than 80% of Americans own a computer in their homes, and 92% of these have access to the Internet. This means approximately 74% of Americans use their computers to go online.

In order to understand how much of a threat the computer is to the print model, it is necessary to evaluate the device with respect to reading digital news.

Advantages of a computer:

(i) It has multiple functions and is necessary for many uses in today's world; (ii) It facilitates the process of saving and sharing information; (iii) It has a large screen which allows three-fourths of a news page to be visible; (iv) It supports rich media content, creating an enriching experience for newsreaders.

Disadvantages of a computer:

(i) Most laptops still cannot be folded or rolled to fit into a handbag; (ii) It lacks the aesthetic feel of reading and flipping the pages of a newspaper; (iii) It is restricted to the work-desk or home, that is wherever Internet access is available; (iv) It is a strain on the eyes and mind, because screens do not facilitate prolonged readings.

ii) The Cellular Phone

Originally built as a portable telephone, the cellular phone has transformed to a smart phone that is a hand-held device that allows users to receive emails, play games, download applications and access the Internet. According to a recent study conducted by the Pew Research Group, 80% of American adults own cellular phones and 37% of them have access to the

Internet. More importantly, 33%²² of this group gets some news from their cellular device that is approximately 99 million people. In addition, projections show that WiFi enabled cellular phones will increase in the U.S. by 25% annually, therefore by 2015 there will be a total of 149million²³.

This has transformed the way newsreaders receive their news and consume it.

Additionally, consumers use their cellular phones for more specialized news and Figure 9 determines what kind of news consumers' use their cellular phone to access.

Figure 9: News Most Popular on a Cellular Device

	% of mobile users who get this kind of news on a mobile device
Weather	26
News and current events	25
An application for news content	18
Sports scores and stories	16
Traffic info	13
Financial info	12
News via emails and texts	11

Source: PRC-Internet & American Life Project and PRC-Project for Excellence in Journalism Online News Survey - December 28, 2009-January 19, 2010. N=1891. Margin of error is +/- 2.5 percentage points.



In order to understand how much of a threat the cellular phone is to the print model, it is necessary to evaluate the device with respect to reading digital news.

Advantages of a cellular phone:

- (i) It is a portable device with constant service;
- (ii) Users can receive constant updates either via their email, if they have online subscriptions or via accessing the web;
- (iii) Smart phones are

²² Pew Internet & American Life Project. Understanding the Participatory News Consumer:
<http://www.pewinternet.org/Reports/2010/Online-News/Summary-of-Findings.aspx?r=1>

²³ Kiesow, Damon. (Feb 12, 2010). Mobile Media: <http://www.poynter.org/column.asp?id=134&aid=177776>

introducing applications respective to the newspaper, other cellular phones also have text viewers which allow display of some rich content.

Disadvantages of a cellular phone:

(i) It has a small screen, which disfigures images and text when users access the web; (ii) It lacks the aesthetic feel of reading a newspaper; (iii) Users need to pay extra for Internet access on their phone service; (iv) The Internet access speed is relatively slow in comparison to accessing the Internet on a computer.

The high rate of news consumption on a smart phone fueled developers to introduce more enhanced hand-held devices such as the eReader and tablet. Together, these devices aim to capture a larger readership for longer hours during the day. This is because now consumers are no longer limited to their work and have portable access to the news.

iii) *The eReader*

The eReader is a digital device specifically designed to read electronic books, magazines and newspapers. Sony introduced the first reader in 2006, but it was only during 2009 when the industry saw an increase of such devices. According to estimates from DigiTimes, 3.82 million eReaders were sold in 2009, out of which 70-80%²⁴ of these sales were in the U.S.

Designed to replace the printed hard-copy versions, these devices are built with an interface that uses electronic ink technology to display content, mimicking the appearance of ordinary ink on paper. However, the revenue split is often unfair, for example Amazon keeps up to 70%²⁵ of subscription revenues. Additionally, the current interface for most eReaders is in

²⁴ iReader Review. (Jan 24, 2010). eReader Sales Estimates Exclusive via Digitimes: <http://ireaderreview.com/2010/01/24/ereader-sales-estimates-exclusive-via-digitimes>

²⁵ Adams, Russel. The Wall Street Journal. (Dec 17, 2009). Sony E-Reader to Offer Journal Subscriptions: <http://online.wsj.com/article/SB10001424052748704238104574601792677910548.html>

black and white and does not support the advertising model.

In order to understand how much of a threat the eReader is to the print model, it is necessary to evaluate the device with respect to reading digital news.

Advantages of an eReader:

(i) It is a portable device; (ii) It has a relatively large screen when compared to cellular phones; (iii) The e-ink display can be read in direct sunlight without the image appearing to fade, and it facilitates reading text for longer periods; (iv) More advanced devices are compact and flexible, to recreate the aesthetic feel of carrying a newspaper; (v) eReaders are built to have a long battery life; (vi) Consumers can read multiple books and publications at a time.

Disadvantages of an eReader:

(i) It does not substitute an existing product, so users have to make an additional expenditure and the e-reader becomes an additional device to carry around; (ii) Most devices still need access to WiFi or must be connected to the computer to receive the newest edition of the paper; (iii) It does not support rich media content, so the experience is not comparable to what the computer offers.

Many in the newspaper industry had predicted e-readers would be their answer to the current turmoil, however expectations have not been met. Most e-readers are highly price and they are more suited to the needs of book readers. Therefore; the eReader market has attracted a much older and more sophisticated audience.

iv) The Tablet

The tablet is a combination of an e-reader and a laptop. It allows users to browse the Internet, download applications and subscribe to e-books and e-newspapers. Apple's iPad, which was launched to the public on April 3rd, 2010, is not the first of such devices but the first to become a mainstream success, selling over 500,000²⁶ in one week. While some critics claim that it is more of an entertainment device, the industry believes the iPad is in fact the foundation for the future of the industry.

Advantages of a tablet:

(i) It is a portable device; (ii) The interface supports rich media content, creating an interactive opportunity for reads to experience news; (iii) The screen is large and supports touch-screen features; (iv) It uses the e-ink display technology with color; (5) It has multiple features including an e-book reader, music player, internet browser, newspaper applications, and so on.

Disadvantages of a tablet:

(i) It is expensive and requires an additional subscription to AT&T for Internet access; (ii) It does not replace the laptop or cellular phone, becoming an additional luxury; (iii) It is relatively large in size and heavy in weight when compared to an eReader and cellular phone.

Several publications have begun working with Apple to create applications that facilitate the subscription process for their newspaper. For example, the Wall Street Journal has been experimenting by charging \$4 a week for subscription via its iPad application. While this is more expensive than any of its other packages (\$2.69 for print and online, \$2.29 for print, \$2 for online access, and \$1.50 for a cellular device), within two weeks it has been able to acquire 3,200 new

²⁶ Yarow, Jay. (Apr 14, 2010). Apple Sold So Many iPads. <http://www.businessinsider.com/apple-pushes-back-the-international-launch-of-the-ipad-by-a-month-2010-4>

subscribers²⁷. While these numbers are exactly what the industry is hoping for, a closer look at iPad's current consumer base shows that they include eager information seekers who can afford to indulge in luxurious technologies.

v) Device and Platform Preference

From observing consumption behaviors in the previous section, it is evident that consumers will prefer using specific technologies for receiving specific kinds of news.

1. News Alerts: Consumers most frequently use their cellular phones to receive news alerts, however since the platform used to receive such information is typically via the Internet, users also use computers and tablets to receive news alerts.
 - a. Email Alerts: Users sign-up to receive news alerts via email, either through a newspaper subscription or through Google. Google Alert allows user to customize the kind of news they want to receive via email, where as for most publications users receive alerts about overall breaking news.
 - b. Social Media News Feeds: Twitter for example allows users to follow news publications and therefore users receive update via tweets.
2. Analyzed news: The paper format is still popular, especially amongst the baby boomers and those 65 years and over. However with the development of new technologies, there has been an evident shift from the paper model to the eReader specifically amongst the boomers and as a result the average age of a Kindle user is 50 years. In addition, the generations X, Y and Z most frequently use the computer to read analyzed news. In fact, approximately 68% of online users are below 50 years, including 29% of users under 30

²⁷ Indiviglio, Daniel. (Apr 22, 2010). Is the Wall Street Journal's iPad Strategy Working: <http://www.theatlantic.com/business/archive/2010/04/is-the-wall-street-journals-ipad-strategy-working/39378/>

years. While one reason is because majority of them spend long hours on their work computers, another is simply a change in consumption patterns. The tablet, especially the iPad, is designed to target these generations. The device is specifically designed to makes 'analyzed news' portable just as the original paper model does.

6. The Multi-Platform Conundrum

The sudden surge of these disruptive technologies is purely a result of market demand, consumers are eager for news and publishers are hopeful to solve their print problem through high-tech devices. While these devices are gradually increasing subscription and have the potential to strengthen the brand of a newspaper, they are simultaneously increasing the number of devices that users can select from. This is detracting from customer loyalty for any one device, platform or format.

A recent study conducted by the Pew Research Group found that while 99% of Americans get news from at least one source everyday, 92% of them typically get their news from an array of platforms such as national TV, local TV, Internet, local newspapers, radio and national newspapers, only a mere 7% claim to use one source of news. From these single platform users 36% get their news from the Internet and 29% get their news from local television.

This data emphasizes that newspapers are now competing in an open market for news and information sharing. In addition, figure 10 gives the percentage breakdown of consumption behavior and makes it evident that the print version of newspapers has become the least popular news source amongst Americans.

Figure 10: News Consumption on a Typical Day

- **78% of Americans get news from a local TV station**
- **73% get news from a national television network or a cable TV station**
- **61% get news online**
- **54% listen to a radio news program at home or in the car**
- **50% read news in the print version of a local newspaper**
- **17% read news in the print version national newspaper**

* Study also reported that 88% of Americans who own cellular phones with Internet, read news on their cellular devices

While this data points to the demise of the print newspaper, this information clearly determines the emerging potential of the Internet as a credible news source. This insight is essential to the newspaper industry because most publishers have already engaged in providing news online through their respective websites, and therefore they are already competing in the market for online news.

The data also accentuates that newspapers have a pressing need to accept the multi-platform consumption pattern that has emerged. They must also cater their news products to this behavior. Since the industry is still trying to decipher what device works best, newspaper publishers must adapt their product to the technologies that consumers demand to ensure their presence on every available platform. In order to do so, it is most crucial for newspapers to understand their customer segment, the news they demand and the device they prefer.

7. The Big Decision: Print versus Digital

From the above findings and analysis it is evident that the existing newspaper business model necessitates change. Whether this means (i) merely altering their existing model to include print and digital or (ii) a complete transformation of going purely digital is debatable.

a. The value of the print model

Advantages

1. For consumers, the aesthetic and tangible value of reading news from a broadsheet is an experience that technology has not yet been able to replicate.
2. There is currently a relatively large readership base that is loyal to the print model. For them, reading the newspaper has become a habitual behavior that is inherent to how they consume news. Majority of these are newsreaders above the age of 45years.
3. Unlike other technologies, the newspaper does not require access to the Internet and does not need to be charged. It is portable, lightweight and can easily be rolled and folded to fit into any carry on bag.
4. For advertisers, the newspaper continues to be one of the few mass mediums that are not fragmented. So advertisers are likely to continue spending on the print model especially the national newspapers that have a mass target audience.
5. For publishers, print drives majority of the advertising revenue. This is largely because of the high advertising rates newspapers have been able to sustain, despite the declining circulation numbers.

Disadvantages

1. While publishers have tried to cut down costs by reducing their work force, the wastage of raw materials and their circulation, printing and distribution still accounts for approximately 50% of total costs.
2. Newspapers are unable to provide updates in real time. They are daily, weekend, or morning papers that are only circulated at their designated time of day.
3. Circulation has faced a drastic decline, relatively consistent across all age groups. This is reflective of the declining demand for newspapers and is indicative of future trends.
4. As a portal for news sharing, newspapers are standardized. Consumers are neither able to personalize the news they receive, nor select what is on the front page.
5. Newspapers are also not interactive. They are one-way communication vehicles that do not allow any discussion or creation of news from the consumer.
6. On an environmental note, a 'generic' cord of wood typically produces only 250 copies of the Sunday New York Times²⁸ and approximately 10-15 cords of wood can be yielded from one acre of forested land. This is reflective of the number of trees being cut for the daily printing of newspapers.

b. The value of a digital model*Advantages*

1. Digital news is in demand. The Internet has become the third most popular source of news with 61% of newsreaders going online, versus 50% who read local newspapers and only 17% who read national newspapers.

²⁸ Wisconsin Paper Council. <http://www.wipapercouncil.org/fun3.htm>

2. One of the key features of digital news is its ability to provide news in real-time. Online news is constantly being updated, alerting users with any breaking news. Additionally, hand-held devices allow users to receive these updates instantly. As a result, transit commuters and business travelers are constantly in touch with the news.
3. For consumers, accessing news digitally gives them access to an abundance of news to select from, majority of which is currently available for free. This allows users to crosscheck any information if need be.
4. For consumers, digital news is customizable. Users can select the news they want on their home page and they can subscribe to email alerts, which helps filter through the clutter.
5. For consumers, digital news also provides an interactive experience. There are video reports, quizzes and data for users to manipulate. In addition, consumers can comment and join in discussions.
6. For the publisher, digital news removes geographical boundaries and thus opens up all news websites to a global population, increasing web traffic.
7. For publishers, gathering news is only 35% of their costs and providing digital news is at a zero marginal cost.
8. For publishers, digital news allows them to expand reach to all platforms that are available. This adds revenue streams and also increases the probability that a consumer will chose one brand across all platforms.
9. For advertisers, online advertising rates are very low in comparison to print. Additionally, they are able to use rich-media content to communicate with newsreaders.
10. Digital news is eco-friendly and green, since it does not require printing.

Disadvantages:

1. Since online newsreaders are accustomed to free news, publishers need to find a way to charge them. This is proving to be a struggle.
2. Many consumers are uncomfortable in making online payments due to security reasons.
3. Publishers aim to optimize the traffic to their respective websites, in order to increase ad revenues. This has compromised the quality of content.
4. For consumers, digital news lacks the aesthetic and tangible feel of a traditional broadsheet and no technology has been able to replicate it thus far.
5. Real-time updates are constant, but they can also result in important news feeds to go unnoticed as they are forced out of the limelight with the latest update.
6. With the abundance of information available, especially through user-generated blogs, the difference between real news and a rumor is often camouflaged. This has also impacted the credibility of online media amongst newsreaders.
7. Technologies have a learning curve, and this makes a significant difference for the loyal print consumers who are of an older age group. Additionally, devices like an eReader and iPad are relatively expensive and they also depend on Internet access to receive news updates, which further pushes up the cost to have wireless in-built.

c. Discussion

Having evaluated both the print and digital models of news, it is evident that technology is the key driving force for the altering patterns of news consumption. While the print model continues to have certain advantages, its disadvantages in fact cannot be rectified. In contrast, digital news is highly valued by newsreaders because it meets their ever-changing demand for

news. In addition, digital news is still in its preliminary stages and therefore many of its disadvantages are only reflective of the technologies being in beta stage. In fact, the industry is already witnessing the creation of more updated devices and it is merely a matter of time for a new device to be introduced which not only meets consumer preferences but also includes the advantages of the print model.

Nevertheless, publishers cannot ignore the challenge of revenue creation through digital news content. It is integral for them to develop a subscription model that can be adopted by all players in the industry before they can make a fully informed decision of transforming their business into a purely digital model or not. This will be addressed in the next section.

8. Potential Moneymaking Models for Digital News

Currently, most online newspapers provide all content for free. This is a trade-off between a large target audience and subscription revenues. While the current model is more appealing for advertisers because no pay-wall attracts a larger readership, data has proven that digital advertising is insufficient to support the production of a newspaper. Therefore, the debate between print news versus digital is futile if there is no revenue model that can work for digital news. This section will discuss potential subscription revenue models for an all-digital newspaper industry.

a. Online Paid Content Models

Will help newspapers establish the true value for online content.

1. Micropayments:

This is a system of charging readers for each piece of information consumed. A successful example of this is iTunes, where users pay \$1.29 for each song and \$9.99 for the entire album.

Publishers will be able to charge whatever price it deems significant for an article, a daily edition, and video reports. Given many consumers are concerned about the security of online payments, publishers can use a system similar to the EZPass, a one-click system where the interface stores payment details, facilitating a seamless transaction. Such a model is ideal for impulse purchasers, who only consume a handful of articles and are thus not willing to pay the full monthly subscription.

For example, in March 2010 the Financial Times announced a partnership with PayPal, a trusted online payment interface, to introduce a system of micropayments. Currently, their plan includes a 'daily' and 'weekly' pass for online news content.

2. Traditional Subscriptions:

This is a system of charging readers for all or a portion of content through a monthly or annual payment. This is very similar to the traditional paid content model with the only difference being multiple platforms that now carry content, which have currently resulted in bundles such as 'print + online' subscriptions. So the success of subscriptions really depends on a publisher's ability to create value for its online content, that is finding a balance between how much content to put behind the wall and what additional features it must offer in order to be differentiated, relevant and valuable. However, the problem of breaking up content into free and paid gives readers the illusion that some of the information is more valuable than the other, which can lead to readers devaluing news content.

This strategy has worked for small local newspapers such as the Herald-Tribune in Bloomington and the Albuquerque Journal, by meeting the needs for high-quality local news. In addition, the Wall Street Journal's subscription model is one of the industry's success stories. From the very beginning of the digital era, the Journal leveraged their unique content value to set

a price level and has successfully done so via every new technology that has emerged.

However, this strategy failed to work for the New York Times. The national giant introduced a pay-wall in 2007 but found more value in selling a larger audience to advertisers and so pulled down online subscriptions. This failure was largely because the NYTimes was not optimizing on its unique content and brand value, which in reality holds a lot of respect amongst newsreaders.

Another reason why subscription models fail is because they demand consumers make long-term commitments, and for a newspaper like the NYTimes which has a large number of irregular readers, such a system is too expensive and results in a loss of such occasional newsreaders.

3. Metered Pay Wall:

As a solution to the problems of a subscription model, the metered pay wall has been developed. This is a system of charging only those readers that are regular newsreaders, without alienating the occasional website visitors. Since this system largely depends on the 'cookies' that track a users activity, it will be difficult to implement such a model on a hand-held device unless technologies progress to include a similar tracking system. This tracking system is also beneficial for advertisers who can closely monitor the behavior of newsreaders by analyzing the data that publishers collect. Additionally, by not restricting content behind a wall, publications allow their information to be made available via social media sites, search engines and news portals.

Publications are realizing the benefits of having such a model, and therefore the industry is seeing a rise with this online pay model. The Financial Times is a current example that allows all users to access up to 10 free articles a month, after which it charges approximately \$25 a month for its regular viewers. In addition, The New York Times has also announced its introduction of a similar metered pay wall in January 2011.

4. Hybrid Model:

This is a strategy combining a variety of products under one monthly price. Similar to cable operators that allow users to sign up for services of their choice such as phone, cable and internet, newspapers publishers can also allow users to subscribe to customized bundles, which can include access to the website, digital archives, eReader edition, iPad and iPhone application and a special niche production.

In addition, to initiate the mass adoption of devices such as the eReader and iPad, publications are entering into deals to provide these devices for free or at discount rates. For example, Amazon has entered into a deal with The New York Times, The Boston Globe and The Washington Post, allowing them to give out lower-cost versions of Amazon's Kindle DX to consumers who sign-up for long-term subscriptions.

5. Vertical News Offerings:

Research shows that online consumers are more interested in sections such as weather, sports and current news, instead of content on travel, home, garden and automotive. These were verticals that brought in majority of the advertising revenue in the print model. However, online readers prefer to visit specialized websites who are experts in the respective industry. For example, wired.com is a website dedicated to the current and future trends that in technology. There are also a number of user blogs that provide industry specific news, for example gizmodo.com is a blog about consumer electronics. These websites have attracted readers away from newspapers, like the New York Times, that also have entire sections of news dedicated to technology.

One method to compete with such specific news sources would be to unbundle newspapers according to their sections, and market them as high-value industry specific content. They can

either charge a subscription price or require micropayments for the news provided.

b. Other Revenue Streams

Revenue from Copyright and Fair Compensation

As per the traditional model, newspapers never had any issues of copyright or piracy of content. However, the Internet has become an open forum for news distribution, and while this is enriching for society, there is no system currently in place that recognizes original news contributors and compensates them for their content. According to the media experts, two of the key issues are (i) the re-interpretation of the copyright doctrine for “fair-use” to fit digital platforms and (ii) the compensation split between news generators and aggregators.

As previously discussed, news aggregators make large revenues off content generated by another source. However, publishers deserve a share of this revenue as the original news creators. In fact, there is The Fair Syndication Consortium, a group of publishers including Reuters and Politico, who aim to bring about a change in this revenue split. To facilitate such a revenue-sharing model, there is already a technology in place (owned by Contributor Corp.) that identifies articles and tracks its copies across the Web that the Consortium plans to partner with.

Another pressing issue of fair compensation is on a rise in the eReader market, where manufacturers such as Amazon are taking majority of subscription revenues. Before this technology grows any further, publishers need to exercise their negotiation power and take some control over dealing with the customer database.

9. Recommended Solution

From conducting this research and analysis, it is evident that newspaper publishers should accept my hypothesis. The newspaper industry needs a complete transformation. Given their current situation, this changes needs to be cost efficient and in keeping with consumer preferences. This is essential to ensure that newspapers can continue to compete in the news industry and gradually increase their percentage of market share. Therefore, I propose a paperless model as a survival strategy for newspapers. This means publishers will have to discontinue print circulation entirely and provide their news content only via digital platforms.

The Seattle Post Intelligencer was an early adopter of this strategy adopting an all-digital model in 2009. Additionally, smaller newspapers such as The Capital Times in Madison and The Cincinnati Kentucky Post also chose to go digital earlier in 2009. A majority of these publications were coerced into making this transformation because the only other option was filing for bankruptcy. The good news is that they have been able to consolidate operations, increase efficiency, reduce costs by large margins, and are now operating profitably. However, it is essential to note that these examples are more localized news sources that have a powerful loyal consumer base in their hometowns and it is therefore sufficient for them to exist through a website and not on other digital platforms.

In contrast, when discussing the transformation of national giants such as The New York Times, Wall Street Journal or USA Today, there is an evident demand for more advanced technologies. Excluding majority of the smart phones that already have newspaper subscription applications, the other existing technologies are merely precursors to what the future devices will be; currently the iPad is closest to industry expectations. However, the success of these gadgets largely depends on how fast consumers adapt and manufacturers respond with updated versions.

Therefore, one of the key industry dilemmas right now is to understand when the consumer demand for all-digital news will align with the supply of sufficiently advanced multi-media platforms. As a result, a complete transformation of going paperless warrants sufficiently advanced technology.

In order to further substantiate my hypothesis, it is essential to analyze the consequences of the newspaper industry going digital.

The Pros of a Digital Model

1. Publishers will immediately be able to reduce their operating expenditures by approximately 50%. This is because printing and distribution accounts for 50% of a publisher's total cost.
2. Digital news is in keeping with consumer demand. 61% of consumers go online to access news on a typical day. In addition, only through digital news can publishers keep up with the demand for real-time news, customizable features and interactive tools.
3. A digital application can be downloaded by anyone, irrespective of location. Additionally, the Internet has no geographical boundaries. As a result, digital news has an expansive reach with a global viewership. This not only increases U.S. readership figures but it creates international opportunities for the publishers.
4. Having a presence on all the digital platforms diversifies the revenue streams. Given the current financial situation, any increase in revenue is integral for publishers.
5. By focusing their resources on digital news, publishers will be able to further invest in developing a valuable news experience across all digital platforms.

The Cons of a Digital Model

1. Publishers will lose all revenues currently being driven by print advertising. This is

approximately 40% of total revenues.

2. Given that majority of newspaper readership is above the age of 40 years, publishers can expect to experience resistance for the transformation and as a result a loss in loyal consumers. This will lead to some loss of circulation revenues.
3. Currently, most of the labors involved with printing and distribution are organized in unions. If publishers cut these operations, they can expect to face labor union issues.

From the above evaluation it is evident that pros outweigh the cons. While the 40% decline in total revenues will have a huge impact on the business, it is essential to take note that newspapers will also be cutting costs by 50%. Additionally, this transformation also necessitates newspapers begin charging for their digital content. This will create multiple revenue streams that will contribute to an increase of total revenue.

So while all the elements for a digital news business model currently exist, the challenge now is how to put all these elements in one equation for the model to be a success.

Keys to Successful Digitization

- i) Optimize on unique content: This is the most crucial step to the transformation. Currently, consumers control what news source they use. In addition, with the abundance of free information available, there is no real switching cost imposed on online newsreaders. By creating value around content, publishers will be able to convince users to pay a price. This will also introduce a switching cost, and in turn will help build a loyal readership. For example, the New York Times should capitalize on the credibility of their content. They have top quality journalists around the world, and their content is premium.
- ii) Charge for content: From reviewing the potential moneymaking models, the 'Metered Pay

Wall' is my recommended solution for publishers. As discussed, this only charges regular newsreaders. It does not alienate irregular readers and in fact this creates an opportunity for the publisher to provide the irregular users with an experience that will help increase the likelihood of converting them to paid users. This will in turn encourage publishers to refine the quality of news provided and the overall experience created through their websites and applications. The optimal situation is if all publishers' shift behind such a metered pay wall. This will definitely help the entire industry increase revenue and in turn intensify competition with other online news sources.

The hybrid model also has potential as a revenue source. Once the advancement in technology is relatively stable, publishers should introduce bundles that include subscriptions across platforms. This will help encourage newsreaders to depend on one source across all mediums and in turn will increase brand loyalty.

iii) Collaborate with technology: Clearly there is still need for further technological development and going paperless necessitates sufficiently advanced technology. Until then, publishers must exist across all platforms including print. Additionally, publishers must negotiate better deals with these technology providers. For example, Amazon currently takes 70% of subscription revenues. This is evidently an unfair split and newspapers have to exercise their power as the news generators.

iv) Collect revenue from copyright materials: From observing the behavior of news aggregators it is clear their model depends on the content generated by publishers. There has been a lot of debate regarding because it questions the 'fair-use' doctrine. Since they so drive traffic to the newspaper websites, it is essential for publishers to develop a relationship with them, instead of banning content. This way they can develop a revenue sharing model.

10. Reasons for the Newspaper Industry to be Optimistic

To conclude my honors thesis paper, I would like to encourage newspapers to remain optimistic. Indeed, the industry is struggling to survive but as discussed, there is a clear solution to all the problems being faced. Therefore, there is no reason to fear the complete demise of the newspaper. The newspaper will survive as a paperless model, embracing the necessary alterations demanded in a digital age of communication. The following are four key reasons why newspapers should remain optimistic and embrace the paperless model for survival.

1. The newspaper industry has transformed into a news and information business. Information has never been more important to man. There is currently an abundance of it available and as a result, consumers are beginning to develop specific needs from the information they consumer. Newspapers are in a fortunate position because they have the expertise and credibility to cater to these needs and provide the kind of news being demanded.
2. Newspapers have a long history of adaptation. While they are not known to be very flexible and accepting of change, they have faced the surge of the radio and television, both mediums of mass distribution, and have continued to survive as one of the most credible sources of information. In fact, with the surge of the Internet we have seen the industry take on an approach of trial and error in order to find a survival formula.
3. The introduction of devices has made experiencing news more exciting in a number of ways. It is essential to note that consumers are no longer just reading news but in fact are experiencing it. While the computer is not too exciting, it allows consumers to download informational pod casts and videos. In contrast, e-readers provide consumers with a more interactive experience; they recreate the experience of reading a newspaper by allowing consumers to turn the page with their fingers and place it in their bag. Essentially, these are devices that include all the

advantages of a traditional newspaper without the disadvantages.

4. Individual-decision making is key in today's society, and newspapers are essential in this process. They help keep individuals informed and updated with what is going on, with respect to the community and world, and provide credible information that consumers can depend on. This demand for good and trust-worthy information is not going anywhere, and therefore there will always be a demand for what newspapers do.

11. Limitations

While the Internet has converted the business for news and information into a global industry, my honors thesis paper only focuses on the American newspaper. This was an intentional choice because the American market is currently the most advanced with respect to the Internet and the technologies, and therefore it can be considered an exemplary case for other international economies that are still to feel the affects. However, every economy is unique with respect to consumption behavior and the development of technologies.

In addition, majority of the research I have conducted is secondary in nature with an exception of few in-depth interviews. With additional time and resources, I would have conducted more extensive primary data collection such as a quantitative survey on a wider sample of newspapers.

Lastly, in keeping with the constantly changing nature of the industry, the data and figures cited throughout the paper must be taken as approximate values that indicate the current position of the American newspaper industry.

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