PewResearchCenter

Project for Excellence in Journalism

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# The Search for a New Business Model

*An in-depth look at how newspapers are faring trying to build digital revenue*


**FOR FUTHER INFORMATION:**

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## Overview

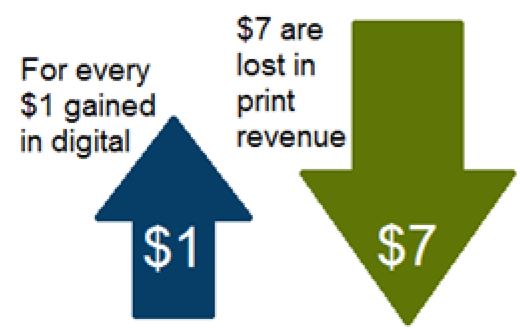
A new study, which combines detailed proprietary data from individual newspapers with in-depth interviews at more than a dozen major media companies, finds that the search for a new revenue model to revive the newspaper industry is making only halting progress but that some individual newspapers are faring much better than the industry overall and may provide signs of a path forward.

In general, the shift to replace losses in print ad revenue with new digital revenue is taking longer and proving more difficult than executives want and at the current rate most newspapers continue to contract with alarming speed, according to the study by the Pew Research Center's Project for Excellence in Journalism. Cultural inertia is a major factor. Most papers are not putting significant effort into the new digital revenue categories that, while small now, are expected to provide most the growth in the future. To different degrees, executives predict newsrooms will continue to shrink, more papers will close and many surviving papers will deliver a print edition only a few days a week.

But some papers are performing quite differently than the norm, some much better and some far worse. These variances suggest that the future of newspapers, rather than being determined entirely by sweeping trends, can be significantly affected by company culture and management—even at papers of quite different sizes.

The study involved 38 newspapers from six different companies providing highly granular data about their digital revenue and sales efforts—creating a robust series of case studies. The data sought were developed in consultation with the partnering newspaper companies after site visits and interviews with multiple executives. After collecting the data, researchers conducted follow-up interviews to confirm whether the findings reflected broader company performance. Those findings, in turn, were shared with executives from seven more companies to test how widely they could be generalized. All data was provided on the basis that it would be anonymous.

**Digital Gains Cant Make Up for Print Loses**

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This multi-faceted approach allowed researchers to draw broad conclusions and identify specific case studies, which reveal more than can be discerned from public industry data. The research approach also yielded a high level of candor in discussions with executives.

The vast majority of papers in the United States are small, something that is reflected in our sample. Of the papers that provided detailed data, 22 have circulations under 25,000, seven have circulations between 25,000 and 50,000, and nine have circulations of 50,000 or more (including three with circulations more than 100,000).

Across operations of different sizes in different types of economic settings, the newspapers studied were, on average, losing print advertising dollars at seven times the rate that they were growing digital ad revenue in the last year for which they had complete data.

Executives at the 13 companies involved in this report confirmed that closing the revenue gap remains an uphill and existential struggle. The most optimistic projections saw digital gains overcoming print losses within a few years; the most pessimistic held that it would never occur. A number of executives said they did not know when it might happen.

Of the 38 papers that provided detailed data about their operations, not all were achieving growth in digital revenue. Seven of those studied suffered declines for the last year for which they had full data. One stayed the same year to year.

Beneath these broad numbers, however, are papers that buck the trend in significant ways and offer the idea that more can be achieved. One paper studied saw digital ad revenue grow 63% and print grow 8% in the last full year for which it had data. Another paper registered a gain of 50% in digital advertising.

Some of these outliers also were having more success growing new categories of digital revenue, not just selling the traditional categories more effectively. One of the papers generating the most digital revenue, for instance, was having significant success selling targeted digital advertising customized based on customer online behavior. This is projected to be the biggest growth area in local digital advertising. Most papers studied had very little of this kind of "smart" advertising.

Another company has had dramatic success building a new multi-million dollar a year consulting business helping advertisers and other businesses learn how to market themselves in the digital landscape.

At the other end of the spectrum, some papers are falling further and further behind. One paper studied saw digital revenue fall by 37% in the last year for which there are full data. Another paper saw digital revenue fall by 25%.

The growth in digital revenue is generally slower at smaller papers than at larger ones, though so is the decline in print advertising. That suggests that while the small papers that make up the vast majority of U.S. dailies are not changing as quickly as larger ones, they may have more time to sort out their way.

Many of the executives who were interviewed are enthusiastic about the prospect for mobile revenue, but so far it amounts to very little.

At the same time, newspapers have made only marginal progress in developing new non-advertising revenue streams, such as hosting events, creating digital retail malls that provide transaction fees or, with the exception of a few papers, becoming digital marketing consultants for their advertisers.

The industry is inhibited by several obstacles that executives themselves candidly acknowledge. One involves the difficulty of changing the behavior of people trained in the ways of a mature and monopolistic industry. Still another is the unavoidable fact that the part of the newspaper industry that is growing, digital, continues to provide only a small part of the revenue, while the part that is shrinking, print, provides most of the money—a paradox that is difficult to navigate and hard to resist. One pervasive feeling is that 15 years into the digital transition, executives still feel they are in the early stages of figuring out a how to proceed.

“We have all these [new] products we are working on that we believe are going to deliver results that are part of our sustainability,” said one executive. “But we need to eat today.”

Another senior executive, capturing a sentiment articulated by many of his peers, talked about a culture of “inertia” that made change more difficult.

Another executive told us bluntly, “There’s no doubt we’re going out of business right now.”

The problem, he explained, is the dilemma that faces many trying to innovate inside older industries. If you changed your company and did not succeed, that could hasten the end of the enterprise. “There might be a 90% chance you’ll accelerate the decline if you gamble and a 10% chance you might find the new model,” he said. “No one is willing to take that chance.”

Among the key findings in this report:

- The broad numbers about the digital revenue transition are stark. The papers providing detailed data took in roughly $11 in print revenue for every $1 they attracted online in the last full year for which they had data. Thus, even though the total digital advertising revenues from those newspapers rose on average 19% in the last full year, that did not come anywhere close to making up for the dollars lost as a result of 9% declines in print advertising. The displacement ratio in the sample was a loss of dollars by about 7-to-1.

- Only 40% of the papers that provided data say targeted advertising is a major part of their sales effort. Even though many newspapers are not focusing on it, smart or targeted digital advertising—in which ads are customized based on consumer online behavior—is expected to dominate local digital revenue by 2014.

- The majority of papers studied focus most of their digital sales efforts on the two categories of digital advertising that are the largest but are not growing—conventional display (such as banner ads) and digital classified. Those categories account on average for 76% of digital revenue at the papers studied. These are the same two categories that have provided most of their revenue in print. And 92% of the papers studied said display was a major focus of their digital sales effort.

- Daily Deals accounted for 5% of overall digital revenue in 2011 at the papers studied. One of the bigger innovations in the last year, the move toward coupons or daily deals (such as Groupon), accounted in the end for only a small amount of digital revenue in 2011. A majority of all the papers studied—30 of them—have adopted such programs and most created their own programs. But there are widely varying views in the industry on the future of this category. Some executives are convinced it represents a solid revenue source going forward. Others see the deal gold rush as a bubble that has already reached its peak.

- Of the papers sharing private data, advertising on mobile devices accounted for only 1% of the digital revenue in 2011. Executives are generally excited by the prospects of mobile, but for now it accounts for a tiny amount of revenue. Executives also believe that due to its ubiquity in the market, the phone ultimately could be more important to mobile revenue than tablets, a sign perhaps of some growing uncertainty about the ability to charge for apps, though some executives are already skeptical about how much money newspapers can make with smartphones.

- Almost half (44%) of the newspapers sharing data for this study reported that they were trying to develop some form of nontraditional revenue, such as holding events or consulting or selling new business products. In most cases, the dollars involved are minimal—less than $10,000 quarterly. Some executives also expressed concern that their companies don't have the resources or competencies for such undertakings. Still, there were a few cases of remarkable success here.

- Among the papers that provided data, the number of print-focused sales representatives outnumbered digital-focused reps by about 3-1. A large majority of the newspapers sharing data with us reported that they had implemented a digital sales training program and had made it a priority to hire sales people with digital experience. But the sales force remains more focused on print, reflecting the fact that that print ad revenue, which is shrinking, still makes up the bulk of the overall revenue (on average 92% in our study's sample).

Newspaper executives described an industry still caught between the gravitational pull of the legacy tradition and the need to chart a faster digital course. A number of them worried that their companies simply had too many people—whether it be in the newsroom, the boardroom or on the sales staff—who were too attached to the old way of doing things.

The research reveals an industry that has not yet moved very far down the road toward a business model to replace the once-thriving legacy model—even though overall newspaper ad revenue has fallen by more than half in just a few years. The industry has pushed back against those losses by increasing the price of subscriptions. Even with that, overall newspaper revenue is down by more than 40% in the last decade.

But researchers also found a strong sense of purpose among the executives leading this industry, business people who see the survival of newspapers as important to civil society, who have their eyes open about where the news industry is headed and who recognize the problems inside their own institutions.

This effort to examine the newspaper industry's search for a new business model involved several layers of reporting and several different research instruments over a period of 16 months. That began with a series of discussions with a dozen major newspaper companies that began in late 2010. Ultimately, six companies representing 121 papers agreed to share detailed information from individual newspapers. In 2011, there were site visits to conduct lengthy interviews with executives at those companies in order to get their input about how to gather that data. Based on those meetings, the Project for Excellence in Journalism, in conjunction with Princeton Survey Research Associates International, developed 60 questions or data categories for each paper to fill out relating primarily to digital advertising. Thirty-eight newspapers at those six companies, representing about one-third of their properties, provided the data with the understanding that it would be "anonymized," meaning that no papers or companies would be named in our reports. The study did not ask about digital subscriptions or paywalls, leaving that for the future, because the number of papers that have moved in that direction is still small and, in many cases, not enough time has elapsed to draw conclusions.

Once researchers analyzed the data, we conducted follow-up interviews in early 2012 with executives at the six participating companies and at seven additional companies. Those 13 companies—nine private and four public—comprise 330 daily papers, or 24% of the U.S. daily English-language papers currently in existence. We shared the findings with those executives, asked whether the data reflected what was happening throughout their companies and what the numbers said about where the industry is now and where it is heading.

One other feature of this study, given that data are broken out by individual papers, is that it allows researchers to see more than the usual anecdotal sense of what is occurring at smaller papers.

There are roughly 1,350 surviving U.S. English-language daily newspapers, down from about 1,400 five years ago. The vast majority of these papers are smaller, less than 25,000 circulation. There are 70 papers remaining in the U.S. with circulations more than 100,000.

The sample of papers that provided detailed data also was geographically spread. Eight papers are located in the West, eight in the Midwest and 16 across the South, from Florida to Texas. Six more are from the Northeast. Nineteen of the papers were published in communities with a population of less than 50,000, 12 of them came from communities with a population between 50,000 and 100,000 and seven originated in cities with populations more than 100,000.

## The Revenue Gap

The good news for the newspaper industry in this data is that the percentage of digital ad revenue is growing at a double-digit pace. Overall, for the last full year for which papers had data, digital revenue at the papers studied grew 19% on average.

The bad news is that print ad sales, which still account for 92% of the overall ad revenue of the papers that provided data, fell by an average of 9%.[1] Thus the actual dollar gains were outnumbered by losses by a factor of 7-to-1 for those papers. These tallies of overall print and digital ad revenues included the last year from which the papers had complete data (2010).

We found that the highest rate of annual digital ad revenue growth occurred at those papers with circulations of 50,000 and above. At those papers, digital revenue grew 20% on average.

The smaller papers (those with circulations of less than 25,000 and those between 25,000 and 50,000) had very similar rates of digital ad growth—14% and 13% respectively.

The good news at small papers is that they appear to be losing print revenue at a slower rate. In the data provided to PEJ, papers with circulations under 25,000 suffered declines in print

[1] Industry wide print ad revenue averages 85% of all revenue.

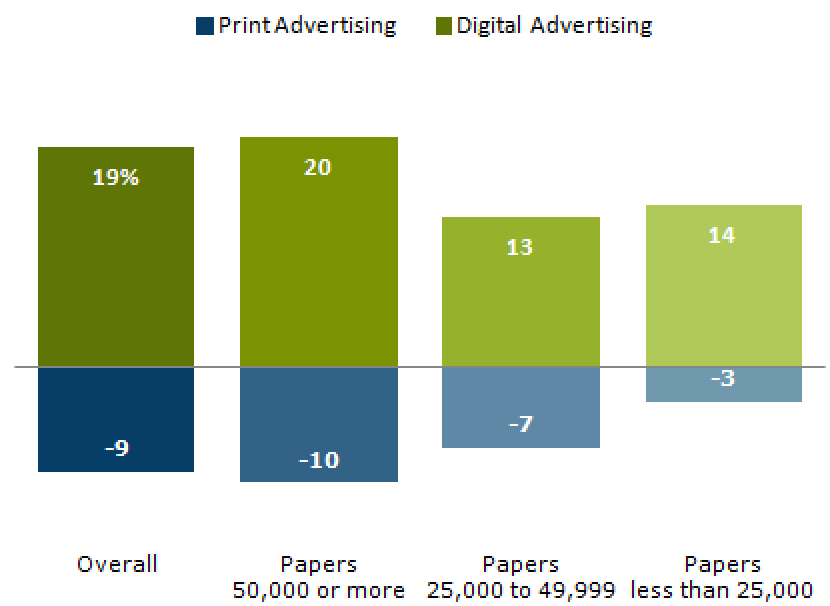
advertising of about 3%, about one-third the rate of the overall sample and for papers with circulations of 50,000 and above as well.

In the follow-up interviews with executives at 13 companies, the trends in print and digital ad dollars remained largely the same from 2010 to 2011. That was particularly true when it came to continuing losses in print. The executives pegged their current annual decline in company print revenues at between 4% and 13%. On the digital side, nine of the 13 companies indicated that the 19% gain in digital revenue accurately approximated what was happening in their companies. Two of the companies said they had achieved growth in digital revenue in 2011 of 60%. One executive said the growth in digital revenue at his company's newspapers was in low single digits.

In other words, these companies are seeing growth in digital ad revenues overall even though some of their individual papers are not.

**Digital Ad Revenue Grows as Print Ad Revenue Declines**

*Percentage of ad revenue change from 2009 to 2010, broken down by circulation*

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Industry wide, according to data from the Newspaper Association of America, digital revenue grew 11% in 2010 and 8.3% in 2011. Thus the papers studied here in aggregate fared better on the digital side than the industry overall. The declines in print advertising at the papers in our sample closely reflect industry aggregate figures.

The digital ad revenue increase of 19% and the print ad revenue decrease of 9% is calculated by adding up the total amount of ad dollars and dividing by the number of participating newspapers, which is the way most newspaper companies report their results.

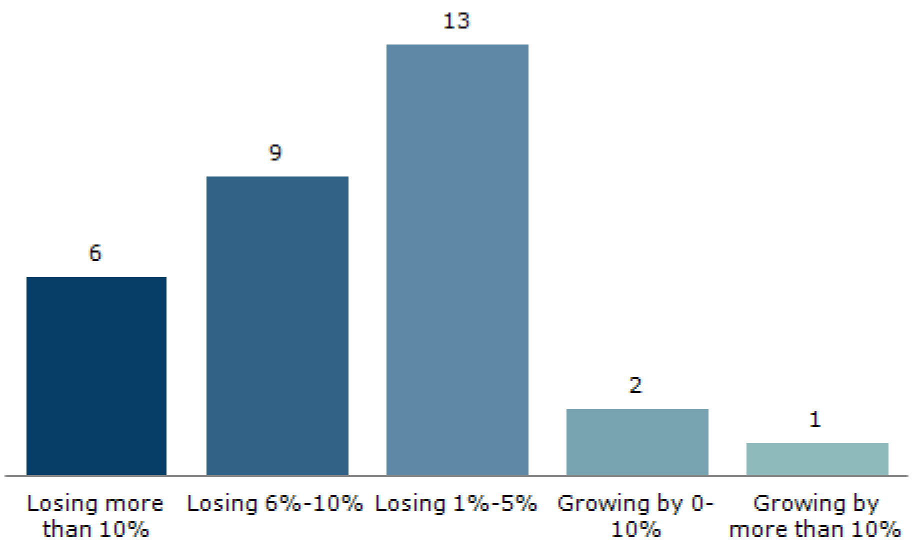
Another way to gauge newspaper economics, which may reflect more fully the most typical results, and ease the effect that large papers may have on the totals, is to calculate the average gain or loss in print and digital for each individual paper and average them together. By that method, the average digital ad revenue gain per paper was 12% in the last full year while the average print loss was 5%.

One of the advantages of this study, because it is derived in part from data provided by specific newspapers, is that we can answer one of the questions that has eluded many analysts: whether any papers or companies have found what might amount to a path forward. In other words, do these aggregate numbers reveal an industry that is moving in lockstep? Or are there variations that suggest different approaches, different cultures and different management can make a difference?

The newspaper level data suggests that there are significant variances.

**Print Revenue is Falling at Most Papers**

*Number of papers*




31 newspapers' full print ad revenue data for both 2009 and 2010

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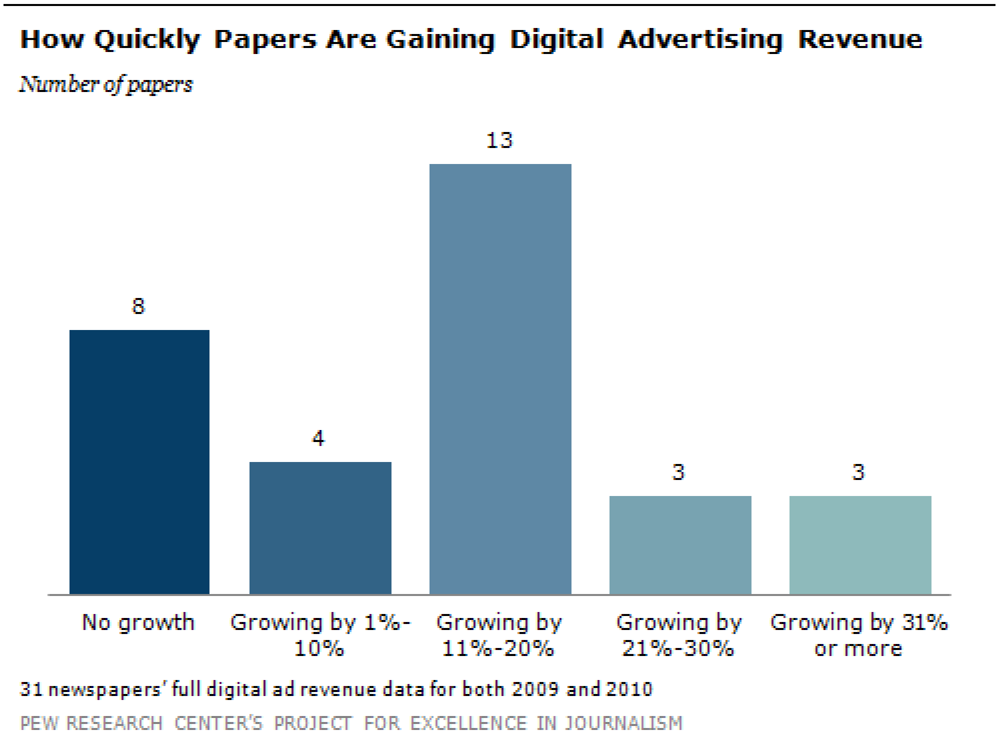
At one paper, the gains in digital revenue completely offset the losses in print ad revenue. The paper posted a 13% increase in digital revenue. But the key to its success was keeping print ad revenue losses to less than 1%.

Two other papers managed to grow both print and digital ad revenue. One of those was the paper with the highest rate of digital ad revenue growth, 63% in the last full year for which data were provided—more than three times better than the overall sample. That paper also had gains in print advertising revenue of 8%.




The outlet with the 63% digital revenue gain is a small circulation paper (about 20,000) in a small city. Its digital revenue also comes largely from very traditional digital categories, display and classified digital revenue. This paper has not yet generated substantial amounts of money from such platforms as targeted digital advertising and video. The paper also is collecting very modest revenue from mobile.

In addition, this paper does not derive a large amount of its overall revenue from digital yet. In all, digital accounted for 5% of the paper's revenue in 2010.

What its performance suggests, rather, is that a paper that has lagged in building digital can make up progress very quickly. In a follow-up interview with executives at that paper, they indicated the positive trend lines had continued, with digital ad revenue jumping by about another 33% in 2011. Some of the good news stemmed from local circumstances, such as a big boost in employment ads—both in print and digital—thanks to a hiring spike in the community's major industry.

But even though this is a small paper, the publisher said executives there have been thinking about the digital transition for some time.

"We knew that digital was something we had to tap into," he said. To do that, the paper aggressively sought to hire digital sellers onto its small sales staff. It also spent significant time training sales staffers and now, "All of our staff sell digital. Almost everything we sell has a digital component."

The publisher also indicated the paper had received strong support in its efforts from the parent company.

In addition, the publisher said in February 2010 the paper began acting as a digital consultant for small businesses and is now developing a modest but promising revenue stream there.

Another successful outlier newspaper in our study reported a 50% digital ad revenue gain. This newspaper was one of the largest studied. It has a circulation of more than 100,000 and is located in a large metropolitan area. It also is continuing to see print ad revenue decline—by 7% in 2011.

This paper also has made more progress than most shifting to digital, though it is still largely a print-based company. In all, digital ad revenues amounted to almost one-fifth (18%) of the print advertising revenues.

Those digital revenues also came from a more diversified digital ad base than was typical of the papers studied. On the digital side, display and classified accounted for less than 50% of the total. At this paper, video and "smart" or targeted advertising already account for about 20% of the digital ad revenue pie. One of the guiding principles for this news organization was a strong mindset that the Web, both editorially and in revenue, should be the first priority. It has invested heavily in creating digital agency services as a form of nontraditional revenue and also has focused heavily on retooling its sales staff.

Four other papers in the sample had grown digital revenue by more than 25%.

One small paper (circulation less than 10,000), that generated about 90% of its digital revenue from display and classified reported a 37% increase in the last full year. Three others achieved increases between 25%-30%, two with modest-sized circulations (around 25,000 and 19,000) and a larger urban outlet with a circulation of nearly 80,000.

Just as we see examples of papers that are succeeding more than others, there are conversely several newspapers in our sample that were faring worse than the average, even seeing digital ad revenues fall.

One paper suffered a decrease in digital revenue of 37%. At another, digital revenue fell 25% for the last full year for which they had data.

These two papers also had a number of things in common. They were both small, with circulations less than 15,000. They also both were deriving more of their digital revenue from the two most basic categories of advertising. The paper with the 37% loss generated nearly 100% of its digital revenue from display advertising. The other paper generated a large majority of its digital ad revenue from classified and digital combined. And neither of them had collected any revenue from nontraditional sources.

With newspapers at an early stage in the development of new digital revenue streams, there is little expectation among many of the newspaper executives interviewed that the gap between growing digital dollars and diminished print dollars can be erased in the near future.

One executive said the formula for achieving the "crossover point" at which digital gains would offset print losses—was reducing the annual print losses to somewhere between 6% and 8% and growing the digital revenue at a minimum of 30% annually.

Another said he thought the rate of digital growth would need to be close to 50%.

A number of executives agreed that any path to a successful business model must include slowing the rate of decline in print advertising. “There was not an expectation that print would fall so fast nor would print be falling significantly when the economy is not,” one executive explained.

But some executives believe there is some conflict between trying to limit print losses and grow digital. One executive emphasized that he didn’t think dramatic digital growth would occur anytime soon because newspaper companies are sacrificing some digital dollars as they try hard to bump up those print ad revenues as much as they can.

And there is a clear sense of uncertainty among executives. One, who described his company as being just 5% to 10% down the road toward a revamped business model, said, “I think as a company we are just getting to a point where we are starting to make decisions about how we are going to move in this new direction. One of the difficult things at least in my mind is sorting out how much of our current economic issues is purely the bad economy and how much is changes in the structure of our business and how our advertisers and readers interact with us.”

Yet another said flatly, “The newspaper industry cannot sustain its existing cost structure now. It’s a fact of life. It is going to have to get leaner than what it is.”

Then he described what he imagined as the news product of the future at newspapers: “You can think of it in terms of probably one-third original content, one-third blogger opinions and one-third community journalism [generated from] outside.”

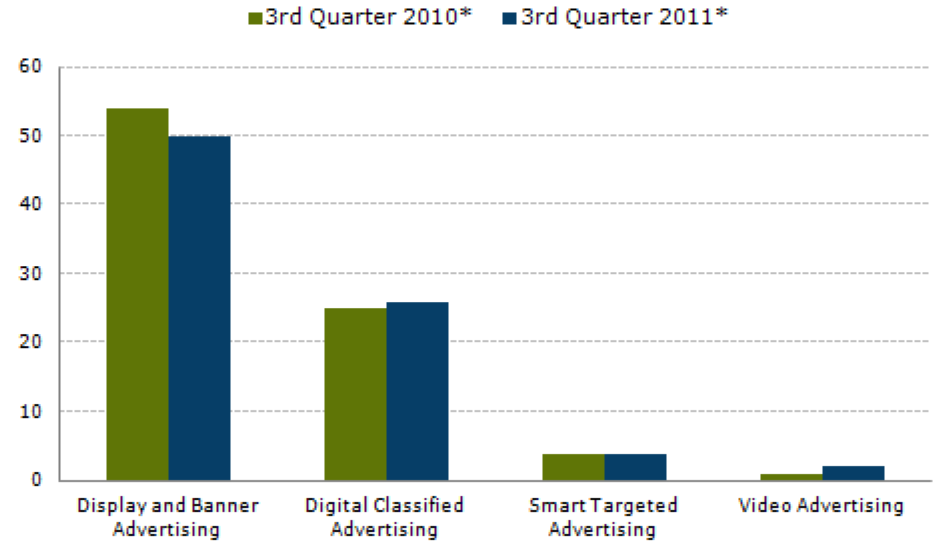
## The Digital Advertising Pie

One major issue going forward for the newspaper industry is whether it can begin to grow different kinds of digital revenue. The news industry is now more than 15 years into the transition to digital, a transition that is now also adding mobile. For much of that time, newspapers have focused on trying to sell advertising online that is similar to what they sold in print. That advertising was largely built around printed display ads and classified.

In the digital space, those traditional categories have proven difficult to grow at rates anywhere close to what they earned in print—for a variety of reasons. There are questions about the effectiveness of some online display ads. The rates websites can charge, so-called CPMs, are low because there are so many websites, and the number is constantly growing. Classified advertising revenue in print has collapsed due, in part, to the growth of free alternatives online, such as Craigslist, and the news industry has struggled, though made some progress, trying to develop online alternatives of its own.

**Digital Advertising Revenue by Mode**

*Percentage of digital advertising revenue*




* 23 papers submitted data from the 3rd quarter 2010 and 2011, 13 papers submitted data from 4th quarter 2010 and 2011

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Overall online, the largest share of advertising dollars (46%) goes to search, of which newspapers and news companies have almost no part. Banner or display ads, which news does get, make up 29% of the total, including both targeted and non-targeted ads. Classified makes up another 10%. Video makes up 7%.

In local digital advertising, which is where the newspapers studied here compete, the pie is divided differently. Though the companies that measure local digital advertising use slightly different categories, according to the market research firm Borrell Associates, conventional (non-targeted) display advertising makes up 36% of the total digital revenue, search 34%, targeted or customized display ads 13%, and video 3%.

In the future, targeted display is expected to explode. Borrell projects that in 2013 customized or targeted display advertising will begin to overtake all other categories and in the years ahead become the dominant local advertising category online.

The data provided to PEJ reveal that the newspapers in this study are not yet well positioned to take advantage of that growth in targeted advertising. The numbers newspapers provided about digital advertising platforms included the last quarter for which they had data—which was most often the third quarter of 2011. And they indicate that, for now, papers are relying much more heavily than the digital landscape overall on conventional display and classified.

Overall, the papers studied here derived on average 76% of all their digital revenue in the latest quarter from either conventional display ads or online classified. The largest share (50% of all digital revenue) came from non-targeted display. Classified made up an average of 26%, though at some smaller papers in the study local digital classified is a very small part of the pie.

Meanwhile, other categories—those distinct to digital platforms—are generating much more modest returns. At the papers providing propriety data, an average of 4% of overall digital ad revenue came from targeted or so-called smart advertising that employs demographic or behavioral targeting. And 2% came from video advertising.

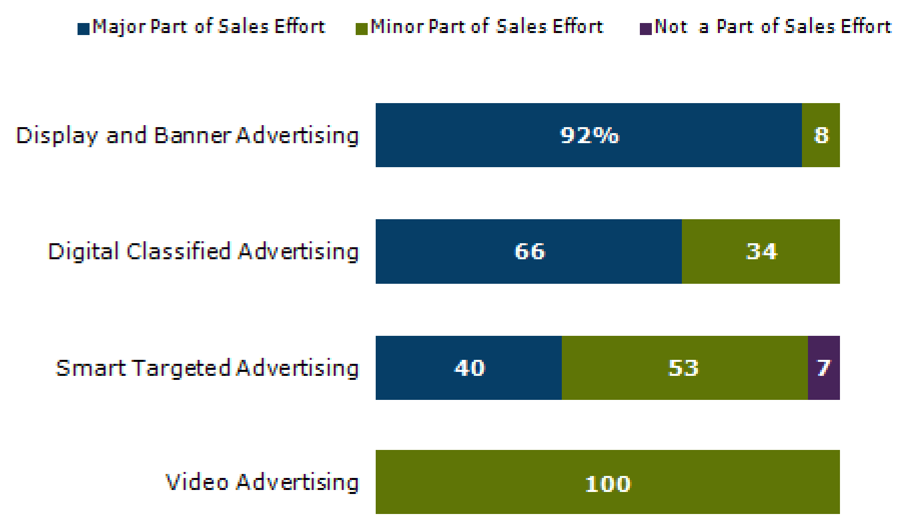
This represents part of the dilemma facing these papers—and the newspaper industry generally. Sales representatives tend to sell what is familiar and what for now yields the largest returns. Yet those categories are not growing and have already proven to be insufficient to keep up with losses in print. And in the future, they are expected to be eclipsed by new categories, particularly targeted advertising.

The data also show very little change or movement toward these newer categories. There was minimal change in the percentage of digital revenue coming from smart and video ads in 2011 compared with a year earlier, when on average, smart display once again accounted for 4% and video accounted for 1% of the overall digital revenues.

The granular nature of the data provided to PEJ, however, shows that there are papers that are bucking the paradox of leaning on revenue categories that are not growing.

**Greatest Sales Effort Directed at Display and Banner Advertising**

*Effort for advertising modes by percentage of papers*




**Note:** Respondents include only those papers selling that type of advertising

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One paper, for instance, derived less than half of its digital revenue from conventional display and classified. This is the larger paper that also showed much more dramatic growth in overall digital revenue and came close to closing the gap between its digital gains and its print losses.

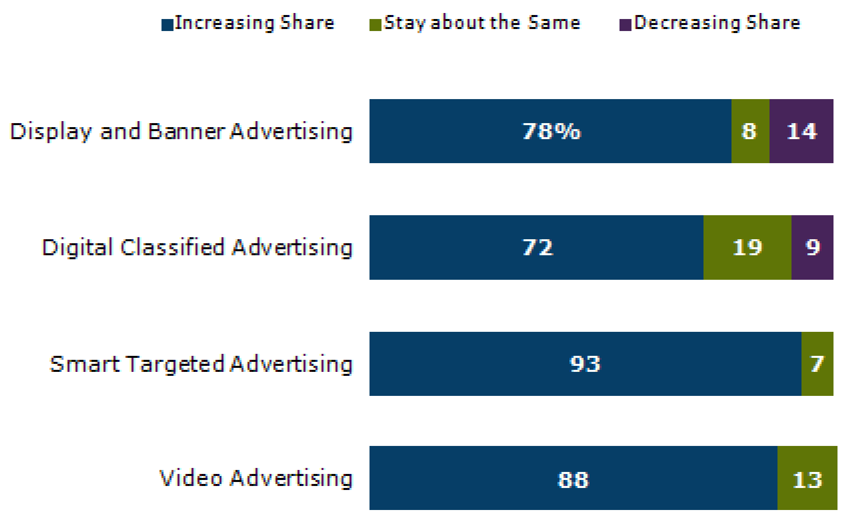
This paper also managed to generate almost as much digital revenue from smart or targeted advertising (15%) as it did from conventional display (20%) in the fourth quarter of 2011—which is also almost four times as much targeted advertising as the sample averaged. This puts the paper on a trajectory to take advantage of the growth in targeted display that is projected online.

The next closest paper was generating 10% of its digital revenue from targeted ads, more than double the average overall. This was a large paper (circulation of nearly a quarter million) in a major metropolitan area. The paper also depended less than average on digital classified and conventional display advertising (65% combined). And it was among the minority of papers that reported making a major effort to sell smart advertising. In other words, its success in selling targeted ads was not an accident.

On the other side of the equation, there were five papers at which classified and conventional display combined to account for at least 95% of the overall digital revenue in 2011. There were some differences in that distribution, however. Two of the papers derived 5% or less from classified and more than 90% from display. Four out of the five also indicated that they expected conventional display to become an increasing share of their digital ad revenue this year. In other words, going forward, they expected to lean even more heavily on these older categories.

**Most Growth Expected in Targeted Advertising**

*Expectations for change in the next 12 months by percentage of papers*




**Note:** Respondents include only those papers selling that type of advertising

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One thing that those five papers had in common was their relatively small audience. All of them had circulations less than 20,000.

Video was also an area that showed some variation. While the papers that provided data averaged just 2% of their revenue from video ads, one paper derived 10% of its digital revenue from video, five times the average. Four more papers reported video revenue in the mid single digits, at 5% or 6%.

Right now, video seems to be more of a goal than a reality. Less than half (44%) of the papers said they were currently selling video advertising. Those tended to be the larger papers (circulation of 50,000 and over). Three-quarters of the papers in this group reported trying to sell video ads.

Tellingly, among the papers involved in video, not one of them indicated that it was a major sales priority, but most of the papers do believe revenue for video will grow. All but two of the papers now selling video ads predicted it would account for a larger share of their digital ad revenue in the coming year.

The digital ad revenue streams also dovetail with newspaper sales priorities. Almost all the papers studied (33) said digital display advertising was a major part of their sales effort. Classified was less important. In all, 66% of the papers that sold digital classified described it as an important part of their sales effort. The third-highest priority, though many fewer papers highlighted it, was digital targeted ads; 40% of the newspapers currently selling them said that they now represent a major sales priority.

Despite the low levels of revenue currently generated, there is some hope for growth potential in those areas. Around 90% of the papers that sold video and smart ads said they expected both those categories to become an increasing share of their digital revenue in the coming year.

And in comments that were included with the data they provided, a number of papers stressed the need to branch out more aggressively in digital sales.

“We must continue to diversify our business plans to add more digital strategies that do not entirely depend on our core business,” one paper reported.

“We keep hearing that we have to move to a digital mentality,” another paper reported. “Yet we spend time trying to milk the print we have left.”

## Groupon

One digital revenue source that many newspapers have become involved with during the past year is the daily coupon offering, whether it is Groupon or a homegrown version of it. The data reveal that on average, it is still a small part of the overall digital revenue, at 5%. But that is up from 1% a year earlier. The program is indeed popular. In all, 30 papers that provided detailed proprietary data reported that they are currently offering a daily deal program.

In a few cases, the results were startling.

One paper, with a circulation under 15,000, reported that in the third quarter of 2011 revenue from daily coupon deals, which didn’t exist one year earlier, accounted for 55% of its digital revenue. This is a paper where classified accounted for only 1% of the overall digital ad revenue. The success of the daily deal was not an accident. The paper had placed a major emphasis on selling daily deals.

That was not generally the case. Of the 38 papers in the sample, only about one-third reported that the coupon programs were a major part of their sales efforts.

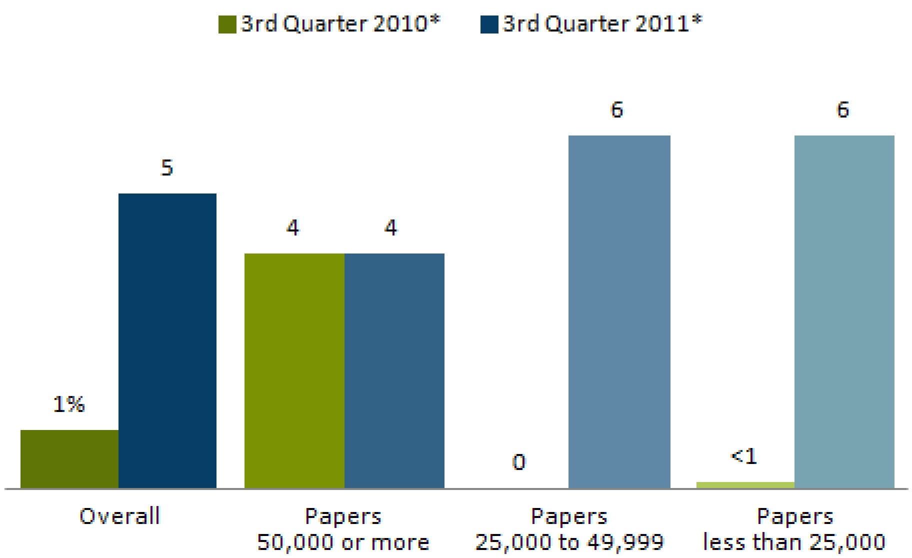
There were other papers where daily deal coupons had made a major impact, again many of them very small papers. While the largest was 55%, another reported 27% of its digital ad revenue from the deals in the third quarter of 2011. And that too had grown from zero dollars a year earlier.

In addition to identifying the daily deal program a major part of their sales efforts, the two papers had something else in common. They both derived a very small portion of their digital revenue, less than 5%, from classified advertising.

About two-thirds of the papers that are offering a daily deal said they expected daily deals to generate an increasing share of digital revenue in the next year.

**Daily Deals and Discount Coupon Programs Grows**

*Percentage of digital advertising revenue, broken down by circulation*




* 23 papers submitted data from the 3rd quarter 2010 and 2011, 13 papers submitted data from 4th quarter 2010 and 2011

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But among the larger papers in our sample (circulation 50,000 and over) there was considerably less expectation that coupon deals would continue to be an increasing share of revenue. The interviews with newspaper executives reveal some significant differences of opinion about the future viability of the daily deal.

An executive at a newspaper company where he says the daily deal is a significant component of their business expressed confidence that it would continue to grow at a healthy pace.

Another indicated that his company had enjoyed an initial surge in revenue, but then experienced a quick leveling off, describing the daily deal as a “solid, but not hypergrowth business.”

Yet another—at a company generating less than the average 5% of digital ad revenue from the daily deal—largely dismissed it as a “fad.” This company executive suggested that advertisers were growing dissatisfied with a kind of offer that was bringing in one-time customers looking for a deal rather than loyal repeat customers.

"The Daily Deal is a kind of bubble," said another voicing the same sentiment. "I don't think it's a sustainable venture."

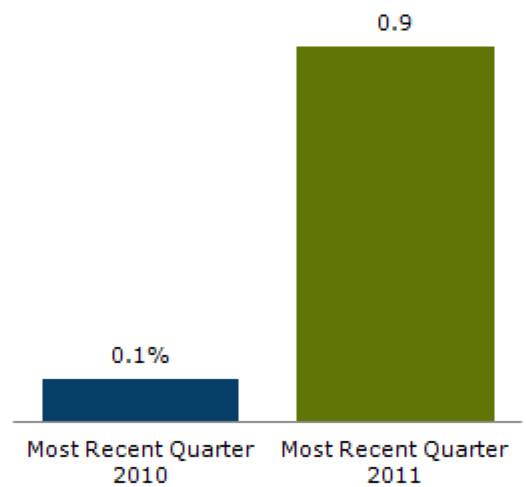
Another executive said his company had tried Groupon for a year, but found that there were a number of other sales priorities that were more important. He described the daily deal market as "way oversaturated, a pile on," while acknowledging that perhaps the industry would find a better way to execute the program in the future.

## Mobile Revenue

Mobile at this point is a small part of the revenue of the newspapers in this study. In late 2011, on average, mobile accounted for only .9% of the digital revenue stream of the papers that provided us with data—less than even video and targeted advertising. This is still a nine-fold increase from a negligible .1% a year earlier at these papers.

**Mobile Revenue Small But Growing**

*Percentage of digital advertising revenue*




* Respondents gave the most recent data from 2011 and the corresponding quarter from 2010

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The highest percentage of mobile revenue of any paper was 7%. That was a mid-sized paper with a circulation just under 40,000, which reported bringing in no mobile revenue in the same quarter in 2010. At the same time, display advertising as a percentage of overall digital ad revenue fell at that paper from 63% to 53% from the third quarter in 2010 to the third quarter in 2011.

Yet 22 papers, more than half of the sample, reported that they generated no advertising dollars at all from mobile platforms.

That, however, still represented some movement. In the same quarters in 2010, a full 91% of the papers said they had generated no digital ad revenue from mobile devices.

Newspaper executives expressed a good deal of optimism about the potential for mobile, however. And some said their companies were doing somewhat better than the 1% average for the papers that provided detailed data. No other subject during the interviews seemed to generate as much enthusiasm as the prospects for mobile.

It's going to be "huge," one executive said. That sentiment echoed the optimism of most of the executives interviewed.

One reason for the optimism is the growth of traffic on mobile platforms. Executives from about half of the 13 companies that participated in this study specifically mentioned the rapid growth of their company's mobile traffic.

At the high end, one company executive said mobile now accounted for about one-fifth of his company's overall digital traffic. Another reported roughly a four-fold increase in the percentage of mobile traffic in the past 18 months.

Several executives said their own families helped them understand the potential of the phone as an information platform. "I've got a nineteen-year-old and a 14-year-old at home and … nine out of 10 things they are doing is on their phone. My son will come to me and say, 'Hey did you hear about that volcano in Switzerland.' He didn't get it from sitting in front of a computer and he didn't get it from picking up a newspaper; he got it on his phone."

It is also clear from these interviews that newspaper companies consider the phone and tablet to represent very different consumer experiences, which in turn offer different advertising opportunities. The consensus was that while display advertising may be better suited for the tablet—which more closely resembles a legacy media reading experience—the phone will be more conducive to more quick-hit e-commerce opportunities.

One executive, acknowledging that mobile is in its infancy at his company, predicted the phone could become the vehicle for what he called "transactional experiences" that would transform it into a kind of digital credit card. The tablet, he suggested, would be more closely attuned to the print experience and offered a chance for attracting more traditional advertising.

Another executive said that mobile generated plenty of traffic, but "very little money for the moment." But he was optimistic that would grow, and not through the same kind of advertising that papers try to sell on their websites, which is both the opportunity and the challenge. He said he saw mobile technology generating revenue through transactions, such as shopping related activities**,** rather than through display advertising. He said, "the tablet will provide more of a display advertising opportunity, noting people use tablets like newspapers, with the heaviest traffic coming in the morning or late afternoon.

At the same time, a few executives who spoke to PEJ tempered their enthusiasm for mobile by noting that there are challenges to overcome in order to successfully tap into that revenue stream—including figuring out which advertising opportunities will work most effectively on which platforms.

"The big issue…is who gets the right to deliver the time and location sensitive message. It won't be everybody that gets the right to come into my pocket and beep me because I just walked into the mall…So how do we, as the newspaper in town, do what we need to do now to make sure a year or two years down the road, we are the ones with permission and a trusted relationship with the consumer."

One concern about mobile is that the dollars found there could be small. One phrase that has become popular among news executives is that print dollars had turned into digital dimes. On mobile platforms, at least one executive told us he worried those digital dimes might be shrunk further, to just two cents. Stating that he isn't certain what kind of ad execution will work on mobile, he said that that the audience is moving to distribution models that are "less relevant to us."

Some of the executives, even those who were generally optimistic, warned that the industry still has to, in the words of one, "figure mobile out." That attitude seemed to capture a dual sense of both determination and uncertainty, the notion that these companies envision major potential for mobile revenue, but have not yet figured out how to mine it.

Even if mobile isn't figured out yet—or a significant revenue stream at this point—the executives made it clear they considered it an area that required a major effort.

"You place your bet on every screen right now," said one.

## Nontraditional Revenue Streams

Many newspaper analysts and insiders have suggested that the industry must find additional revenue streams—beyond advertising and subscription—to ultimately arrive at a mix of revenue streams that constitutes a successful digital business model.

This study probed the degree to which newspapers were trying nontraditional revenue experiments. What we found was that while almost half the newspapers that provided data were developing them, they have thus far generally yielded only modest dollars.

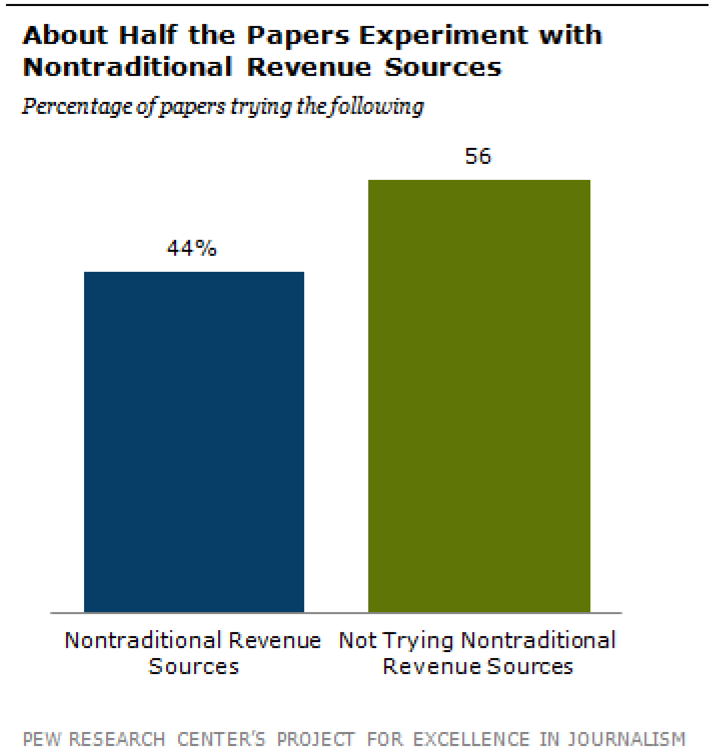
The follow-up interviews with executives, moreover, revealed mixed feelings about the viability of these experiments with nontraditional revenue streams. Some executives voiced concern about the industry's ability to effectively implement them at a time when sales staffs are already dealing with an array of new advertising products. Other companies were achieving significant success.

The data and interviews suggest companies are almost evenly divided between optimists and pessimists—evidence of a lack of consensus on how to proceed in developing the new business model.

In total, about half of the papers that provided proprietary data said they were trying some form of nontraditional revenue generation. The most common experiment involved the "digital agency" concept, in which newspaper companies act as online marketers and consultants for local businesses—helping them with everything from search engine optimization to building websites to utilizing social media platforms.

Only a few of the papers had tried another concept that has been long discussed, the idea in which the newspaper helps build a digital "retail mall," connecting the newspaper's users with local merchants and advertisers and allowing them to engage in digital transactions, providing a fee to the newspaper. This concept would involve the paper helping smaller merchants create an online environment and combining the convenience of online shopping with the potential for service and support of local merchants. While the idea is more than a decade old, few papers have moved on it. Now some banks and phone companies have moved toward this business.

In all, only three papers were attempting any kind of mall concept.




A more granular breakdown of the data also shows that the larger circulation papers in our sample, with circulations of 50,000 and above, were the most likely to have embarked on some form of nontraditional revenue experiment. About three-quarters of the larger papers were involved in such efforts.

Probably the greatest success had come with developing digital agencies that provided consulting advice to advertisers and local businesses.

"We have been positioning ourselves as marketing consultants and approach advertisers from needs and solutions perspective, including social media," one newspaper reported.

"We provide advertisers website construction under the help of local search and maintain some social feedback for a fee," said another.

Another paper touted its business in "Web services—website building, SEO [Search Engine Optimization], SEM [Search Engine Maintenance], social media campaigns."

In some cases the efforts were bringing in only small amounts of money. Of those papers that had developed nontraditional sources, almost two-thirds reported earning less than $10,000 in the most recent quarter. And the median income generated was about $6,500.

There were a few papers, however, that did considerably better, including one that generated nearly $200,000 in the third quarter of 2011 from nontraditional sources. Annualized that would make it nearly a million dollar business. Another paper collected $100,000 from nontraditional sources in the third quarter of 2011.

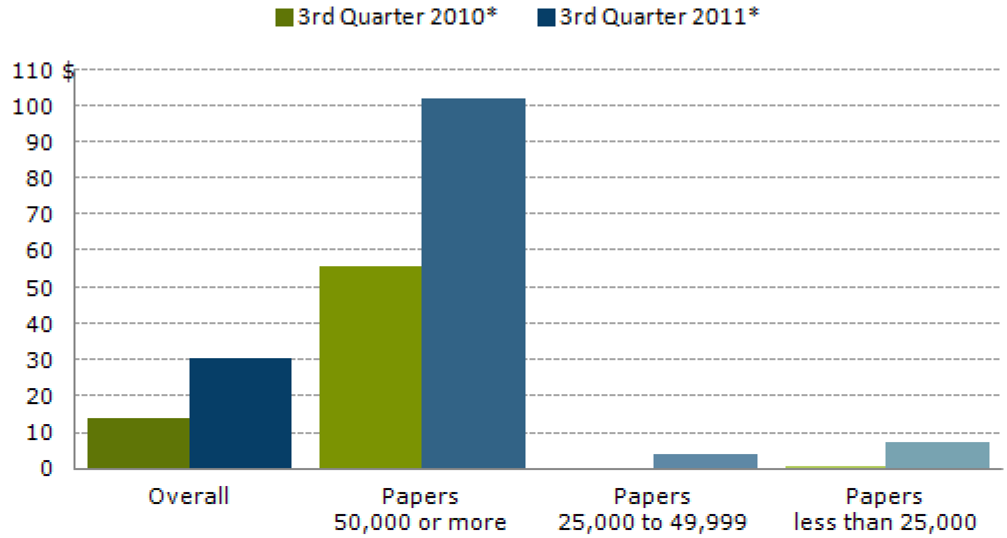
Both of these relative successes involved providing "digital agency" services to their clients.

The two papers collecting the most nontraditional revenue were relatively large, with circulations of 50,000 and 60,000.

Despite the relatively low overall numbers across the papers studied, at least some executives said their companies were committed to developing nontraditional revenue streams. One executive, whose company is working with small to medium-sized local business on search engine optimization, reputation management and website development, has hired sales specialists to specifically sell this suite of services. He added that the company is far more excited by the potential for this revenue stream than the daily deal option.

**Revenue From Nontraditional Sources Growing**

*Broken down by circulation, in thousands of dollars*




* Most papers provided data from the 3rd quarter 2010 and 2011

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Another executive at a large newspaper company said the organization had already developed its digital agency into a multi-million dollar business and was looking for triple-digit annual growth.

Yet the idea of new or nontraditional revenue streams was one of the areas where we found real division in the thinking at different companies.

One executive explained that while a lot of newspaper companies were trying the digital agency approach, it could only work if you took the time and effort to create a detailed strategy to make the concept work. “You can’t be a little bit pregnant,” he said, cautioning that some newspapers were trying to implement these ideas without the proper preparation and commitment.

Another skeptic said he was worried that “we overestimate our digital competencies.” While he agreed that the industry had to consider non-traditional revenue streams, he thought newspapers are not in a good position to compete with local ad agencies.

That sentiment was echoed by others, including one executive who said that newspapers might not have the requisite staff to implement such a strategy on sufficient scale.

## Retooling the Sales Staff

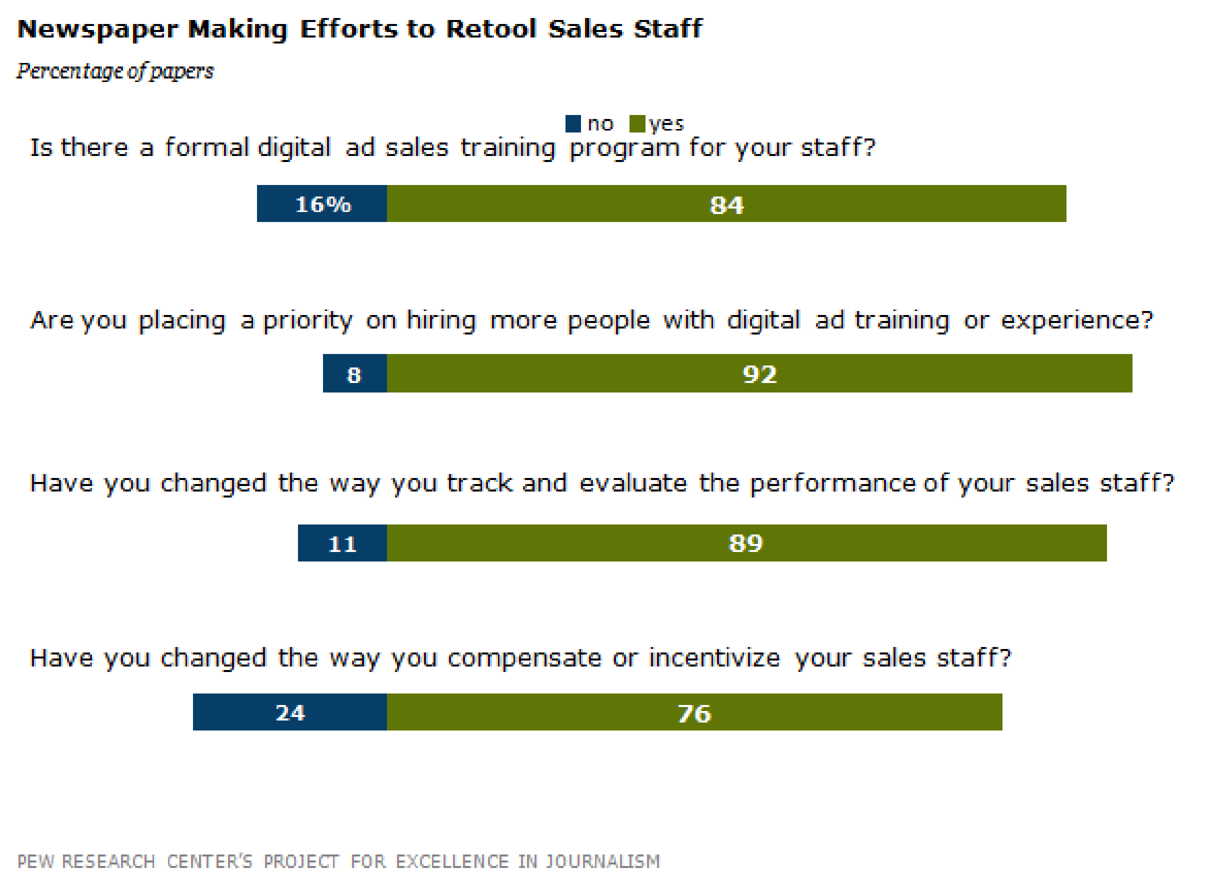
To accelerate the transition to digital revenue, executives at nearly all of these newspaper companies agreed on one thing: Their advertising sales staffs needed to change.

One of the broadest findings in this research, indeed, is the degree to which all of the executives talked about the need to re-train and re-tool sales staffs that had been trained to sell print advertising.

In the data and interviews, PEJ heard how this effort to change the culture of the business side of the newspaper industry involves everything from hiring digitally skilled sales people, to re-training the staff, to changing the way the people who generate revenue are incentivized and compensated.

The significance of these efforts cannot be overstated, according to the executives interviewed.

And for the most part, the industry wants to handle this transition internally rather than turning to outside companies to help sell its digital space. At the papers that provided data, on average, 88% of their digital ad revenue came from their own staff as opposed to outside sales networks.




This desire to transform their sales staffs, rather than turn to outsiders to sell also presents a challenge. One executive said the biggest difficulty facing his company is "execution," particularly by the sales staff. "This is where the game will be won," he explained, "in the streets with small and mid-sized businesses." Another executive said his sales people frankly did not know how to sell all the products they were offering.

Executives also described numerous obstacles they face in trying to effect cultural change in their sales teams. At nine of the 13 companies participating in this study, executives indicated they had experienced difficulty recruiting digitally fluent ad sales people. One reason, they admitted, is the perception of newspapers as a deeply troubled business. A number of other executives told us they were still trying to figure out how to best integrate digital-only sales people with their traditional sales personnel.

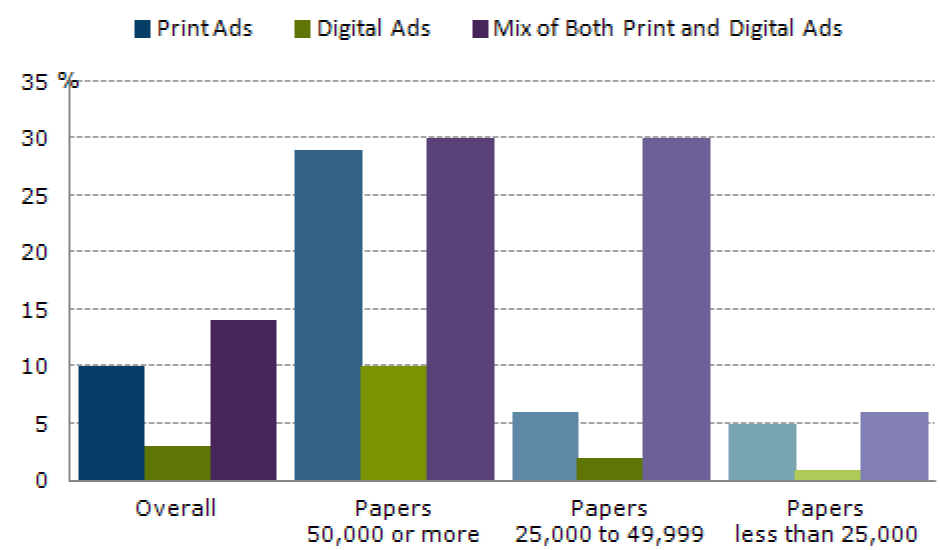
In small markets, digital sales staffs may have an even greater challenge because they need to explain to potential advertisers what these new digital advertising approaches are and why they are worth trying. Sales people, in other words, are tasked with selling both the concept and the product—at least until businesses become better acquainted with the new world.

But whatever the difficulties, changing the culture of sales is clearly a major priority for these companies. Of the papers that provided data, 33 reported that they were putting a priority on hiring digital salespeople. This was even true at almost 90% of the smallest papers (circulation under 25,000). In addition, 84% of all the papers responding said they had instituted a formal digital sales training program at their papers.

In the same vein, 89% of the papers that provided data have changed the way they track and evaluate the performances of their staffs, and three-quarters (76%) said they had changed how they incentivize and compensate their sales staffs. The executives interviewed by PEJ confirmed that their companies were heavily engaged in those areas.

**Advertising Sales Staffers Focus on a Mix of Both Print and Digital Ads**

*Advertising sales staffers primarily sell which types of ads, broken down by circulation*

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For all this, most of these papers are still largely print first operations, or print and digital together, when it comes to the composition of their sales staffs. Sales people concentrating largely on digital are a distinct minority.

On average, papers deployed the largest percentage of their sales staffers, about half of them, to primarily sell both traditional and digital advertising. About a third of the sales staff primarily sold print ads. The fewest number of reps, about one-tenth of the sales staff, were primarily selling digital. On average, of the papers studied, papers had one digital ad rep for every three print ad representatives.

Just four of the papers reported they had at least as many reps primarily selling digital as were selling primarily print.

To make this kind of dual structure work, in which most sales people are expected to sell both print and digital ads, a number of papers are trying change the tracking and compensation of their sales staffs with the clear goal of encouraging more digital selling.

There are "minimum requirements in digital sales built into the commission plan," one paper reported.

"Legacy reps have specific digital targets and can't earn full bonus without it. Digital-first reps are hired into a separate group," explained another paper.

"The reps are paid 20% commission on all digital sales, whereas they are paid around 8% for print sales," was another response.

"We pay them 10% of the net that our publication keeps on all digital revenue streams," reported another daily.

One of the tasks for newspaper companies, according to the executives, is figuring out how to integrate their sales staffs with the goal of pushing forward on digital.

A January 2012 report by Borrell Associates called "Assessing Local Digital Sales Forces" found that newspapers, along with yellow page companies, have been the "most aggressive in retooling for digital sales." But it also said that the debate over how to compose the modern media sales staff is still ongoing.

The Borrell report concluded that as more organizations decide that "a single sales force can do it all," the percentage of online-only ad reps has actually dropped at legacy media companies—which include newspapers, television and radio—by 23% in the past two years.

PEJ also found signs of uncertainty. One executive said his company had gone back and forth on the issue of how much to integrate the print and digital sales teams and how much to create separate units.

At another company, an official said the interaction between legacy account executives and digital salespeople is still a work in progress, and can differ from newspaper to newspaper within the company.

Another explained that his company is now training digital salespeople to teach their print reps to begin conversations about transitioning their clients to digital. At that point, the digital salespeople are brought into the discussion. A number of companies talked about using that kind of "digital closer" to consummate deals with advertisers.

At the same time, some executives spoke about the difficulties and frustrations in trying to hire digital ad staff for an industry that has fallen on hard times and that, in some cases, doesn't offer the kind of compensation needed to attract top talent.

The Borrell study found that starting salaries were on average, about $9,000 higher for digital-only account executives than for those selling both legacy and online, because the "bounty is higher…for good internet sales reps. It's getting harder to hire reps who are well-schooled in things like SEO, SEM, mobile advertising and social media."

Retaining those sales people can prove difficult as well. One executive complained that his organization spends time and energy training digital sales people only to see them depart, in effect, turning his company into a temporary training ground.

## Obstacles to Change: The Culture Wars

In our interviews, we asked executives to identify the biggest internal and institutional obstacle at their companies to forging a successful business model.
The response was nearly unanimous. Officials at 10 of the 13 companies said their biggest challenge was the continuing tension between people in their organizations who are advocating a more aggressive digital approach and those more aligned with the legacy tradition. In essence, they described a conflict between going faster and going slower. (One other executive didn't cite this as a problem at his particular company, but said it was the crucial issue for the industry at large.)

In other words, there remains a continuing disagreement over how to proceed.

"Probably the most difficult thing is to change a corporate culture because you don't really have the power to do it," noted one executive. "You can change CEOs, executive VPs, digital VPs. You can wave this magic wand all you want. But at the end of the day, the troops in the field hunker down. From our company, and I would venture for other organizations as well, the most difficult thing to do is change it. "

One cultural change that several newspaper executives spoke about was the need to centralize the decision-making in the digital age—shifting some of that power from the individual newspapers to corporate headquarters. This trend marks a significant change. Some of those newspaper companies had prided themselves on the autonomy given to local papers over news and sales.

"Years ago we were founded on the concept of decentralization," said one executive. "Now I would not say that….We are probably far more centralized than we were in the past."

Another executive who also said his company is growing more centralized explained that "newspaper publishers obviously still have autonomy in terms of the stories they cover. Sales is also mostly autonomous. From an operational standpoint, circulation, backend, systems, HR, and finance, all that stuff is being centralized."

The core cultural issue, executives told us, is the tension between the old ways and the new ways—and some of that stems from newspaper leadership that came of age in the days of monopoly newspapers and 20% profit margins.

"We haven't needed innovative people," explained one executive. "So you get what you need. The kind of people that came into this industry were more operationally focused, executors instead of innovator risk takers."

Some of these cultural tensions may also have produced casualties. Several of the digital executives that we talked to in 2011 were no longer at their companies by the end of the year.

In interview after interview, the newspaper officials talked about this cultural clash, even if they sometimes used different ways to describe it. One executive, who stressed the importance of having digital talent working in every aspect of the organization said, "There's a big difference between understanding the new media environment and comprehending what it takes to adapt."

Another said that there is some culturally engrained "inertia" at his company, people still clinging to the "this is the way we do business" ideology of the old days. In this executive's mind, that attitude leads to denial of the seriousness of the circumstances facing the newspaper industry.

That sentiment about inertia was echoed by executives at other companies as well. One said the challenge at his company was "just convincing people that we can start making these changes without abandoning what it is that they know."

Another executive described much the same problem this way: His company had too many publishers with "ink in their blood" and too many sales directors steeped in the old days. He added that the newspaper business had changed substantially and that companies had to adjust their traditional ways of thinking. "You've got monopolies that are no longer monopolies."

Culture change is a huge issue for the industry, warned another official who added that it's happening at a slower pace than people think.

At one company, an official colorfully described the challenge of implementing culture change across the organization as "a contact sport, one collision at a time."

One major reason why these collisions may still be occurring is that, despite all the travails, the print newspaper still provides the overwhelming majority of the revenue at every paper examined. Thus some of the resistance to change, executives acknowledged, was based on practicality. "We spend 90% of our time talking about 10% of our revenue," one said. At his company, he explained, they focused much of their energy on a digital model that still wasn't paying the bills.

John R. Kimberly, a professor of management at the University of Pennsylvania's Wharton business school who was interviewed as part of the research, says these internal cultural tensions are "not at all atypical of industries that are undergoing disruptive change…The unhappy saga at Kodak, that's a great example."

"The problem is not hard to understand at one level," Kimberly said. "You have developed a set of skills that have been valued and all of a sudden, this isn't so valued anymore." The pace of change at each news organization, he said, will largely depend on "who are going to be the leaders and who are going to be the followers."

## The Industry Looking Ahead

Given the uncertainties of the moment, we asked the newspaper officials to project what their industry might look like five years down the road. There were a variety of answers.

The most common scenario was that the newspaper would be printed and delivered to people's homes less frequently, perhaps as little as two to three days a week—or even just on Sunday. This has already occurred in some markets, such as Detroit.

Newspapers do not make money evenly through the week. The largest share of revenue comes on Sundays—as much as half of all ad revenue  at some papers. The next largest day of the week is usually the day the food section appears. Printing only Sunday or a few days a week would be a way for newspapers to capture some of the cost savings of going digital while retaining the bulk of their print advertising revenue.

What holds papers back from this mixed approach is the fear that if the print paper largely disappears most weekdays consumers might turn away from the lucrative Sunday print paper as well, which would hasten the end of the enterprise before digital revenue grows sufficiently.

Some executives also predicted that the editorial product would be further diluted. In our annual accounting of the state of the news industry, PEJ has tracked that the newspaper newsrooms have shrunk just under 30% since 2000. Several executives predicted that shrinking will only intensify. One foresaw a looming era of significantly downsized newsrooms. Another suggested the papers would inevitably get "thinner and weaker."

A few executives also envisioned grimmer scenarios. One thought it would be possible for papers to "limp along," but that another recession could be catastrophic to the industry.

Another flatly predicted that all of these scenarios could occur in parallel, that some papers would go out of business in the near future, that surviving dailies would go to three-day-a-week distribution and that most of newsrooms would shrink even further than they have already.

While there wasn't much talk of a scenario that seemed popular a few years ago—that print newspapers would, in the words of one executive, "be an elite [more magazine-like] product for the elderly and people with a lot of time on their hands"—at least one executive said the print product would become more expensive.

That push has already occurred, with newspapers trying to derive more revenue from print subscriptions to compensate for losses in advertising.

PEJ asked executives how far they thought that trend would go and what the revenue split might look like in a future business model for news. There was a rough general consensus that subscription would carry a higher burden in the future.

"On the pricing side, I think traditionally circulation pricing has been 20% forever," said one executive. "I think circulation pricing is going to be 50%."

Several others indicated that the magic number for subscription revenue was around 30%.

Still others said that at this point, they just didn't know what the revenue structure would look like going forward.

The differences over pricing reinforce probably the strongest underlying finding of this study. The people who run the newspaper industry are unsure of where it is heading or what it will look like.

These executives stand on the front lines of a business that is also a civic institution, that has a larger purpose than making money, and that prospered for so long that its success was an impediment to innovation.

All that has been radically transformed in less in than a decade. The high water mark for newspaper employment and profitability came in 2000, a mere 12 years ago. The change since then is breathtaking by any measure, and it was hastened by the worst recession in 80 years, a recession that for newspapers has not eased.

The leadership that remains in these companies is trying to innovate while also protecting the old business that pays most of the bills, and each year newer technologies pose yet more challenges. It should be no surprise, then, that the dominant perception about the future is uncertainty.