Chapter 7

Dollars and Dimes: *The New Cost of Doing Business*

Journalism is expensive and good journalism especially so, but the newsroom usually is not the costliest part of running a news organization. The Commerce Department has estimated that printing and delivery account for up to 40 percent of a newspaper's costs;[1] a 2007 study found that the newsroom accounts for only about 15 percent of a newspaper's expenses.[2] (One publisher reports that "infrastructure" costs—everything other than editorial and marketing—typically make up two-thirds of a newspaper's expenses.[3]) Still, editorial production has been a major expenditure, with newsroom costs running into the tens of millions of dollars even at mid-size news organizations, and far higher at major national news outlets. In 2008 the New York Times reported that its newsroom budget was more than $200 million per year.[4]

Such robust newsroom spending has been made possible, of course, by the information and advertising dominance that news media traditionally enjoyed. Outlets with 20 percent profit margins had the luxury of not having to think about the cost of each story produced. For decades, big-city newsrooms provided a wealth of resources to support top-tier reporting: newswires, clipping services, transcription services, research and library staff, and so on. A major investigative series might take months to prepare and cost tens of thousands of dollars, or even much more. (A New York Times editor estimated that the paper's collaboration with ProPublica on euthanasia in New Orleans hospitals after Hurricane Katrina cost $400,000; he later clarified that's what it would have cost if the Times had undertaken it alone.[5]) Even in a bare-bones newsroom, serious accountability journalism is not cheap, as the new generation of foundation-supported, online-only newsrooms can attest.

Consider CT Mirror, a nonprofit, online-only newsroom founded in 2010 to cover politics and government in Connecticut. It is hard to imagine a more sober outlet: CT Mirror focuses squarely on news about such topics as education, the economy, human services and the budget, with almost no human interest stories or even crime reporting. It is also hard to imagine a lower-cost outlet for serious reporting. CT Mirror is based in a modest Hartford office, and most of the seven-person editorial staff works from home or on the road. The site has no printing or delivery costs, and it has minimal sales or marketing expenses, and a simple, straightforward website; fully 75 percent of its foundation-provided budget goes to editorial salaries. "There's no room for fat," says founder and editor Jim Cutie.

Because CT Mirror is foundation-backed, it makes no secret of its budget. In its first 15 months of operation, the newsroom ran on $1.1 million in contributions and produced about 2,400 news stories, for an average cost per story of around $450. Similarly, the Gotham Gazette, a foundation-funded, nonprofit politics-and-policy news site based in New York City, has four employees and a $350,000 annual budget. It produces between four and eight original stories per week, for a per-story cost of more than $1,000.

Of course, not every item in a general-interest newspaper requires the same level of investment. One print daily, in a mid-size market with a relatively low cost of living, recently did an analysis to determine how much various articles cost. The newspaper, which shared its numbers on the condition it not be identified, found that the salary cost of reporting and writing stories ran from $190 to $430. The most expensive stories came from the opinion section, and the cheapest came from features. (The average cost per staff-written story was $227; articles by stringers cost $85.) Those figures don't include editing, production or distribution costs, which could easily triple the cost.

Meanwhile grass-roots local news sites such as Baristanet, in suburban New Jersey, and The Batavian, in upstate New York, operate on shoestring budgets. They keep costs at just thousands of dollars per month with tiny reporting staffs and almost no infrastructure. (See Chapter 3.) To replicate their cost structure would be difficult for a hard-news site like CT Mirror and all but inconceivable for a traditional, bricks-and-mortar newsroom working online as well as in broadcast or print.

This points to a central paradox of the online news economy: In an environment of sharply constrained ad revenue, the media's traditional economies of scale break down. What look like powerful editorial and business assets for online journalism—like established brands and well-staffed newsrooms—are turning out to be liabilities, because they are accompanied by a severe reduction in pricing power for circulation and advertising. The pressure on costs is intense.

One local TV station, interviewed for this report on the condition it not be identified, illustrates this paradox well. The station is a successful local broadcaster operating in one of the top four U.S. television markets. It has a 150-person news staff and is a leading source of local news in its market. For several years it has also operated a website, run by three dedicated producers who do original reporting as well as post stories and video drawn from newscasts.

On paper, the site has the assets to be a top online outlet for news about its city. It can draw on its sizable reporting resources and the promotional power of the station's broadcast operation. And it has free access to a large supply of valuable "rich media" assets in the video and audio segments produced by its parent.

The station has built a large online audience over the last several years, growing from a monthly average of 550,000 unique visitors in 2008 to about 2.5 million at the end of 2010. Still, the station's general manager has struggled to make the site break even. He shaved expenses substantially by outsourcing software and site maintenance and by cutting back on reporting from the field; not counting salaries, the site now costs roughly $500,000 per year to run. He has also tried a number of different sales strategies, including revenue-sharing partnerships and small, dedicated sites—"microsites"—custom-built for particular advertisers. Still, the site accounts for just 1 percent of the station's overall revenue. "Forget local being the holy grail," he says. "National sites are making money, but we don't have the scale locally to do so."

The cost pressure can be even more severe for local newspapers following their audiences to the Internet. A newspaper has enviable assets for putting news on the Internet—because it produces so much news text every day—and in theory it can also achieve enormous savings as it makes the switch to digital distribution, which does not require ink, paper and delivery trucks.

John Paton, chief executive officer of the Journal-Register Company, based in Yardley, Pa., has made reducing legacy costs the centerpiece of what he calls a "Digital First" strategy. The company, which came out of bankruptcy in 2009, owns 18 local dailies and scores of other "multi-platform products" across the Northeast and upper Midwest. Since becoming CEO in 2010, Paton has reduced expenses by consolidating printing facilities and outsourcing a wide range of noneditorial functions, from delivery to advertising design. He promises to have reduced infrastructure costs by 50 percent in three years.

Another prong of "Digital First" is to wean the publisher from its dependence on print advertising revenue, which Paton calls the "crack cocaine" of the business. He predicts that by the end of 2011, more than 15 percent of ad revenue will come from the digital side and that most of that will be purely online revenue—not ads sold in print-online package deals.

Paton has been a popular figure on the future-of-journalism circuit, appearing frequently at industry conferences to extol his company's digital gains. He frequently cites growth percentages for the Journal-Register site—for instance, he says the company's "digital audience" grew 75 percent in 2010, reaching 8.8 million unique visitors in March 2011. He also recently announced bonuses for employees and declared the company had made a $41 million annual profit.[6] It isn't clear, however, how that profit figure is calculated, because the company does not provide data on revenue, costs or other metrics as a publicly traded firm would. Paton says his investors don't want to disclose too much.

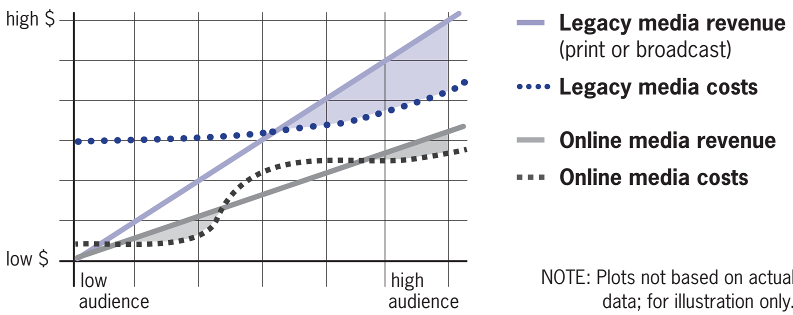
But Paton does acknowledge that moving revenue online amounts to "trading dollars for dimes"—or perhaps, if he's successful, quarters. The gamble is that the Journal-Register Co. will be able to cut costs and increase its online audience quickly enough to compensate for the lower revenue that online advertising brings.

The notion of "trading dollars for dimes" captures the impact of digital distribution on the economics of the business. Newspapers, magazines and broadcasting are all characterized by high fixed and low variable costs; it's quite expensive to produce the first copy of a newspaper, but it's far cheaper to produce the second copy—or the millionth. A local broadcaster faces much the same set of costs whether it reaches 100 viewers or 100,000. Hence the traditional media's profound economies of scale. News outlets that could not build a large enough base of readers or viewers to cover their steep fixed costs have tended to collapse in a few years, mired in debt. But those that surpassed that break-even point and went on to establish a mass audience could become immensely profitable—and those steep fixed costs created a natural barrier to competition.

Online, the equation changes dramatically. Observers sometimes underestimate the expense involved in running a high-quality, high-traffic online publication. But the barriers to entry are radically lower than in print or in broadcast. While a number of aspects of the online ad market have favored advertisers over publishers, simple audience fragmentation goes a long way toward explaining why news outlets have seen their revenue squeezed so tightly. Today, someone wanting political news or movie reviews has dozens of alternatives to choose from or stumble across.

A new curve for media costs online

On the Internet, the steep initial investment to launch a media business can be much smaller — but so are the profits (shaded areas) that come with increasing scale. An opportunity exists for small news sites with minimal costs; large newsrooms need to assemble far wider audiences than they did offline, or find ways to boost the revenue from each user.



NOTE: Plots not based on actual data; for illustration only.

Thus both revenue and costs are lower online. To be more precise, the cost curve has been stretched out. The steep initial investment required to launch a media business is gone, and that has opened up opportunities for low-cost local or topical sites that aim to build an audience in the thousands or tens of thousands. This is the niche occupied by many moderately successful blogs as well as community sites like Baristanet, with modest ad income and even more modest expenses.

At the other extreme one finds large-scale media properties that have substantial technology or editorial costs but that amass enough sheer traffic to turn a profit. The dominant example here is Google, whose 175 million monthly users in the U.S.—generating billions of page views per month—allow it to capture more than 40 percent of the entire U.S. online advertising market.[7] Even considering only "display advertising" (that is, excluding search ads), Google accounts for 13 percent of ad spending. Yahoo and Facebook, the display ad leaders, each claim an additional fifth of the market.

However, most legacy news producers operate in the large and difficult middle of the cost curve, with traffic too low to compensate for the fixed expenses of news production, despite the savings that come from publishing online. In 2010, total operating expenses at the New York Times Co. ran to $2.1 billion, about two-thirds of the $2.9 billion total for Yahoo Inc.[8] Of course, somewhere between a third and a half of the newspaper's expenses would disappear if it no longer printed a paper edition. But Yahoo has many times more monthly visitors (roughly five times as many, if one counts traffic only to nytimes.com.). And while monthly visitors to all Times properties generate fewer than 2 billion page views, Yahoo serves out a staggering 100 billion pages each month.[9]

Justin Smith, president of Atlantic Media Co., argues that these dynamics explain both the opportunities the Internet affords and the stark challenge it has posed to established news providers. "There is a whole wave of new journalism models that have been developed at a fraction of the cost of traditional media," he says. "Traditional media players are way too set in their ways for reducing cost. They can't sustain the revenue to support their costs."

That is not to say, however, that any online venture that falls between a small community blog and Google is doomed to fail. In addition to running the Atlantic, Smith is a founder of Breaking Media, a collection of sites aimed at specific—and affluent—professional communities. Its properties cover law (Above the Law), Wall Street (Dealbreaker), fashion (Fashionista), green transportation (AltTransport) and accounting (Going Concern). Above the Law is the most successful of these sites, with a monthly audience of more than 700,000 unique visitors. Smith won't say when the company might turn a profit, but his formula depends on pulling together sizable audiences at minimal cost—each site has just two journalists, with ad sales and administration centralized.

Henry Blodget's Business Insider site is pursuing a similar strategy, on a much larger scale. Blodget has disclosed financial details about his media company, reproduced below, in what was an unusual move for a private firm.[10] "We're a private company, and we've never disclosed any of that stuff, either. But I'm honestly not sure why," he explained on March 7, 2011. "So we're going to try an experiment. We're going to disclose that stuff. Then we're going to see if something horrible happens to us."

Business Insider's intimate financials

	Feb 2011	Dec 2010	Dec 2009	Dec 2008
Site traffic (in 1000s)				
Estimated monthly uniques	7,800	6,000	2,600	2,000
Financials ($, 1000s)				
Gross revenue		4,800	2,000	700
Expenses		4,798	2,375	1,300
Operating income (loss)		2	(375)	(600)

SOURCE: Business Insider, March 7, 2011, and Henry Blodget

The statistics tell an interesting story. With 45 full-time employees, including 25 in the editorial department, Business Insider is hardly a grass-roots effort. In 2010 it cost almost $5 million to run. But unlike many sites of similar size, Business Insider managed to turn a tiny profit in 2010—about $2,127, or as Blodget put it, about enough to buy a MacBook Pro.

One factor accounting for Business Insider's survival is that the site targets investors and financial professionals rather than a general-interest audience. But that also means it must fight for readers and advertisers with the rest of the financial press, including giants like Bloomberg and Reuters and lower-cost sites like paidcontent.org and Breaking Media's.

The biggest difference between Business Insider and a similar site that doesn't break even is traffic: Blodget's venture managed to pull in 6 million unique visitors a month by the end of 2010, about double its audience of a year earlier. By March 2011, Business Insider had almost 8 million visitors, which represents a 30 percent jump in just three months. If the site becomes truly profitable, it will be by virtue of having continued that growth—getting to an audience of 15 million to 20 million visitors each month while keeping expenses flat.

The example of Business Insider suggests a provocative comparison with the old-media world. In the newspaper industry, a rule of thumb has been that every 1,000 additional readers justifies an additional newsroom employee. Going by Blodget's numbers, the comparable figure in online news media is closer to one person on the editorial staff per 150,000 readers.

As far as costs are concerned, then, the real advantage of digital-only operations, from The Batavian to Business Insider, is that they don't have to "trade dollars for dimes"—they are natives of the dime economy. By contrast, legacy news outlets must navigate a tricky cost transition when they go digital, cutting expenses and boosting online revenue while minimizing the damage to the traditional advertising that still sustains them.

This process begins by learning how to get the most out of their newsrooms in each medium. At the Atlantic, Justin Smith says, cost efficiencies depend on employees working across the digital/print divide. "There are very few employees who don't do both print and digital work," he says. "Maybe a couple of fact-checkers and one senior editor who concentrate on long pieces. We have about 60 people in editorial, and 99 percent of them are completely integrated." In advertising sales, all salespeople sell print and digital.

The Atlantic got a lot of attention in 2010 for having become profitable ("a tidy profit of $1.8 million"[11]) for the first time in decades. But the numbers disclosed were for the company as a whole, including print, digital and events. Still, Smith insists that the company's move to profitability depended on containing costs on the print side. "We were brutal about shifting resources away from print," he says. The company made layoffs in both the editorial and ad sales departments.

Does this mean the Atlantic makes money online? The company reported that digital advertising revenue rose 70 percent, and print advertising revenue 27 percent.[12] "The digital version of the Atlantic is definitely profitable," Smith says. "And it is a source of growing profit." Smith says this is the case even as the company continues to increase staff and resources on the digital side. The New York Times' report on the Atlantic had the magazine's overall revenue doubling, to $32.2 million in 2010, with advertising revenue accounting for about half of that. Digital ads supplied 40 percent of ad revenue.

For a large metro newspaper, the calculus of cost-cutting is tougher. Even in the face of declining readership and ad revenue, executives often fear that major cuts will only accelerate their slide in circulation.

Detroit is an exception. Newspaper executives there met early in 2008 to consider their options, none of which was very attractive. The Detroit area was on its way to a dead-last rating in a survey of 363 cities' job growth for the first decade of the 21st Century.[13] While most U.S. cities had one newspaper, Detroit had two—the Free Press and the News—bound in a joint operating agreement and dividing diminished circulation and ad revenue. (The agreement means that the two newsrooms compete, but their partnership handles both papers' ads, circulation and printing. The Free Press is owned by Gannett and the News by MediaNews Group; as part of a revised agreement, Gannett must pay MediaNews around $45 million over a 20-year period, according to Crain's.[14])

Then-publisher Dave Hunke assembled his team, and they kicked around ideas on how to cut costs. The ideas ranged from publishing a pocket-sized newspaper, to arming 200 citizen journalists with cameras, to a "dinner in a bag" promotion that would give special consideration to readers when they pick up meals at a local grocery store. The newspaper executives also considered deep reductions in staff or space devoted to news.

In the end, they came up with a radical idea: eliminating home delivery of both papers on Monday, Tuesday, Wednesday and Saturday. The reasoning was that those four days were responsible for only 23 percent of the papers' print ad revenue. The cutbacks went into effect in March 2009.

The four non-home-delivery days are now responsible for only 7 percent of the papers' print ad revenue. Those days' papers are smaller and are still sold as single copies in the city; several thousand are picked up by independent contractors who deliver them to houses, generally in Detroit's wealthier suburbs. The papers also have a same-day edition available by U.S. mail that reaches about 4,000 subscribers.

In October 2009, the dailies doubled their newsstand weekday price from 50 cents to $1. The cost of home delivery for Thursday, Friday and Sunday is now $13 a month, slightly less than what subscribers used to pay for seven days a week.

As part of the change, the companies launched an electronic edition for subscribers—basically a replica of that day's papers, available online. It loads slowly, though that has been improved since the early going. Access to the papers' websites remains free.

As a cost-cutting measure, executives say the move to three-days-a-week home delivery met their goals and helped stabilize their journalistic efforts. The company says the delivery change enabled it to trim its overall costs by 15 percent. "It ensured our survival," says Paul Anger, editor and publisher of the Free Press. Joyce Jenereaux, executive vice president of the Detroit Media Partnership, adds, "If we hadn't done it, we'd be putting out horrible products." But the bleeding hasn't entirely stopped. In November 2010, unions representing 900 employees got to look at internal financial data for the papers; after doing so, they agreed to pay cuts, a two-year wage freeze and increased health insurance payments.[15]

One thing that isn't clear is whether the Detroit strategy was successful in getting readers to move from print to digital platforms. As executives expected, circulation of the Detroit papers declined. In the months before the delivery change, the papers' combined weekday circulation was 436,238; in early 2011, that circulation was 230,876. Neither of those figures includes the e-edition, which has weekly traffic of more than 100,000. But the weekly e-edition number doesn't represent that many individual readers; someone who logs on five days in a row would be counted five times. Daily figures show that about 20,000 people visit the e-edition on each of the four days the paper isn't delivered, and that a third that many use it on days when the paper is delivered.[16] Engagement is substantial, as e-edition users spend about 18 minutes per visit. But the e-edition doesn't reach nearly as many people as used to get home delivery on the days that have been eliminated.

As for the papers' websites, they had significant growth in 2008—a year before the change in home delivery. That was a big news year which included the collapse of the auto industry, the historic Obama election and a scandal involving Mayor Kwame Kilpatrick's affair with his chief of staff. (The Free Press won a Pulitzer Prize for its coverage of the mayor's woes.) The papers grew 31 percent in unique users. After the cuts in home delivery, the number of users on the sites continued to grow, but more slowly: by 6 percent in 2009 and 10 percent in 2010.

Similarly, the year of big increases in time spent per visit on the Web was 2008, when it went from about 8 minutes to more than 13 minutes. Why? One reason, executives say, is that 2008 was the year that reader commenting was enabled on the site. "There was not a discernible bump when we made the model [delivery] change," says Patricia Kelly, senior vice president at Detroit Media Partnership. Kelly also notes that digital ad revenue is up 65 percent since 2005. Print advertising, meanwhile, is down 50 percent in the same period. As a result, digital is expected to represent an estimated 19 percent of total ad revenue in 2011.

The changes in the delivery model have affected the culture of the newsrooms to some extent. The papers' news staffs are designed to operate daily, just as before, without paying much attention to whether they are publishing in print or online on a particular day. Anger says, "It's everyone's responsibility to be invested in digital publication." But, says another editor, "There's still a feeling that, if you want people to see something, you're going to shoot for Thursday, Friday or Sunday. … We haven't divorced ourselves from the idea that the big story should run on a day we publish a paper."

The deep cost-cutting measures by Detroit's dailies illustrate the challenge legacy news providers face as they adapt to the economics of online media. The strategy worked as a survival mechanism in a tough market; the damage from cutting home delivery was checked by the fact that print revenue is falling so quickly anyway. But it hasn't transformed a great number of print readers into new digital users. The sites' main growth occurred before the delivery change, and appears to have been fueled by big, well-covered stories, and improved functionality that got readers more involved.

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[16] Figures provided to the authors by Detroit Media Partnership.