Chapter 8

New Users, New Revenue: Alternative Ways to Make Money

> *"The basic point about the Web is that it is not an advertising medium, the Web is not a selling medium, it is a buying medium. It is user-controlled."*
> —Jakob Nielsen, Web usability expert, 1998[1]

The journalism business these days often seems like a strange new world. As Jack Sweeney, who has been the publisher of the Houston Chronicle since 2000, puts it, "I thought I knew this business, and I did. But this business-model blowup is totally different." Sweeney has had a long career with newspaper advertising departments in Washington, D.C., Trenton, N.J., and Boston,[2] and he could have been talking about a number of the efforts news organizations are making to grow—like a Utah TV station's classified-ad service that has turned into a community resource, or a national media company selling ads that never appear on its own sites, or his own initiative as a service provider to small businesses. The tactics differ, but they share a common strategy: News companies are developing new businesses, not just propping up the old ones. And in doing so, they are challenging some of the orthodoxies that had slowed their transition to the digital world.

For most of these companies, the revenue from such new initiatives is modest; it doesn't begin to replace the dollars lost in the traditional business. But there are encouraging signs. The process of finding new readers and dollars is forcing media companies to redefine who they are and what business they are really in.

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Sweeney makes his point with a spreadsheet that shows how much some of Houston's biggest retailers spent in 2010 on ads in the Chronicle. The numbers aren't what they used to be, and he knows they're not coming back. Even though the Chronicle remains the country's 10th-largest newspaper, its circulation dropped by more than 10 percent in 2010 over the year before, to 343,952. A decade ago, it was nearly 550,000.[3] Moreover, online display advertising, which was just under $28 million in 2010, won't make up the difference on its own, as it represents 12 percent of total ad revenue.

So the Chronicle, with guidance from its owner, Hearst Corporation, is looking to a sector often ignored by big media—the small fry. "We didn't used to go after mom-and-pop businesses," Sweeney says. "Houston has 310,000 businesses with 10 employees or less. The potential is huge. As department stores have consolidated, we needed something new."

What makes the Chronicle's approach interesting is that it isn't based on selling ads that appear on the pages of the site or in the newspaper. Instead, the Chronicle is launching a consulting business—selling a host of Internet services, from website design to improving businesses' rankings on search engines. And when the Chronicle does sell ads as part of this outreach, those are just as likely to appear on Yahoo or Facebook as on chron.com.

To get started, Sweeney hired about 30 employees, some of whom who knew the world of small businesses from having worked at Yellow Pages. The Chronicle also retrained some of its own staff. The sales pitch it makes to businesses is this: The Chronicle evaluates their websites, improves their rankings on search-results pages and helps them write press releases that are posted on the chron.com site to give traffic a boost.

The Chronicle charges $500 and up a month for the service, asking its clients to sign one-year contracts. As of April 2011, the fourth month of the program, it had enrolled nearly 500 businesses and booked more than $2.5 million in contracts. Sweeney's goal is to reach around $7 million in annual revenue.

Others are also in this business. One firm, ReachLocal Inc., signed up nearly 17,000 advertisers, booking nearly $300 million in revenue in 2010.[4] McClatchy has partnered with Webvisible, a California-based Web services firm that says it has more than 10,000 clients.

But even if the effort is as successful as the Chronicle hopes, Sweeney figures it would do no more than match the current revenue from one of the paper's biggest advertisers. In other words, it will be a big help but is not, in itself, a replacement for the old business model. "This has become a nickel-and-dime business," he says. "And you need a lot of nickels and dimes."

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A decade ago, KSL, a local TV station in Salt Lake City, came up with what was then a novel idea: It would start its own classified-ads section on KSL.com and end its relationship with a company that was already providing that service for the site.

"We were making like $300,000 a year [in revenue] on the partnership, which back then was a lot of money online," says Clark Gilbert, president and chief executive officer of Deseret Digital Media. But the station, an NBC affiliate, saw the change as a way to build traffic to the site. Its classifieds service would also be a way to showcase the moral standards of its owner, the Church of Jesus Christ of Latter-day Saints. Deseret Digital Media runs the online properties for the church's TV station and its newspaper, the Deseret News, along with sites more obviously of the church, MormonTimes.com and DeseretBook.com.

Today, KSL.com is a powerhouse on the Web. The site has more than 4 million unique users and generates an astounding 250 million page views a month, says Gilbert. (KSL's sister property, the Deseret News, has a more typical audience of about 2.5 million unique users and 30 million page views; the website of a competing newspaper, the Salt Lake Tribune, has roughly the same size audience.) In a recent study of Web traffic data in major markets, a company called Internet Broadcasting found that KSL.com reaches 48.8 percent of its local market. That is more than any local media outlet in the survey but one, the Minneapolis Star Tribune's site. And it is far beyond the Web footprint of the top local TV stations, which average under 20 percent market share.[5]

Still, all that traffic didn't keep Deseret Digital Media from announcing layoffs last year at the Deseret News[6] that, despite the sunny headline that announced the news ("Deseret News set to lead, innovate"), resulted in a cutback of 43 percent of the newspaper's workforce and consolidation of some news-gathering operations with KSL-TV.[7] (The Salt Lake Tribune announced the layoffs with some competitive schadenfreude: "Tribune to press ahead in face of News changes."[8])

KSL.com's strategy relies partly on its worldwide audience of church members, but it also offers useful lessons for news organizations seeking untraditional ways to build a digital audience.

The classifieds themselves are mostly free, though advertisers can pay up to $10 a day to get prominent placement. The classifieds pages also host other ads, and more importantly, they are responsible for about 70 percent of KSL.com's total traffic, so they provide tremendous benefits to the rest of the site. The pages carry prominent links to news stories and videos on KSL.com, which helps to generate 70 million to 80 million page views a month for content that isn't classified ads. "The main route to the site is still the news page," Gilbert said. "We haven't tried to make 'KSL.com/classifieds' our bookmark. That made the [KSL] news site bigger than any other news site in the market."

Gilbert adds that there is another benefit: "Here's something hard for old-media people to accept. … Our news content gave a level of trust to the classifieds, and classifieds drove relevance back to the news." Or, put another way, the fact that readers have come to rely on the classifieds under the KSL brand helped to build relevance and credibility in the news as well.

KSL.com had some important advantages. First, it started early, shortly before Craigslist came to Salt Lake City. And because it was a TV station's website, it wasn't perceived as competitive by its existing staff; there was no classified-ads manager to complain about giving away a lucrative revenue stream. "KSL didn't have legacy products that were competing with this service," says Chris Lee, general manager of DeseretNews.com. "If they wanted to do cars, there wasn't someone saying, 'But we're already doing cars!'"

The site also demonstrated a keen sense of its audience—which shouldn't be a surprise, given the church ownership. Managers tried to be especially vigilant about keeping the site clean ("no way were we going to allow prostitute or massage ads," Gilbert says) and detecting fraud.

KSL.com also committed to "letting our users develop the product with us," Gilbert said. For instance, in the spring of 2011, KSL.com asked its readers what kinds of firearms they thought the site should allow to be sold. It also asked them, "How often do you believe people are using the KSL Classifieds Firearms and Hunting section to circumvent firearm laws?"[9] Users help police the site for bad actors. Anonymity isn't allowed: "Sellers had to have an identity," Gilbert said.

The classifieds give KSL.com an unusually high level of engagement. According to Mike Petroff, vice president of new media sales, the site gets around 10 million page views from 250,000 users on an average weekday, for a stunning daily rate of 40 page views per visitor. (The ads don't appear on the newspaper's site; the Deseret News shares business, but not newsgathering, operations with the Salt Lake Tribune, owned by MediaNews Group.)

Most ads expire after 30 days. Even with such a short lifespan, there were more than 206,000 listings on a typical day in March 2011, in categories ranging from goats to muzzleloaders, from paintball equipment to bands seeking members.

Gilbert came to Salt Lake City in late 2009 after a career that included a professorship at Harvard Business School, where he worked closely with Clayton Christensen, author of "The Innovator's Dilemma," a well-known book about disruptive change.[10] The two of them collaborated on the "Newspaper Next" project, a 2006 study sponsored by the American Press Institute to encourage innovation.[11] Gilbert was hired by Deseret Management Corp.'s president and chief executive officer, Mark Willes, who had a troubled reign as CEO of Times Mirror (1995-2000) and publisher of the Los Angeles Times (1997-1999).[12]

One of Gilbert's main goals was reflective of a tenet of Christensen's philosophy: "Business units don't evolve; corporations do."[13] So Gilbert separated the digital sales force to enable it to take more risks. He said that KSL.com had been "run through the mainline channel—the TV. The [ad] sellers would have an afterthought to also sell Web. They'd throw it in if you also bought TV." The new company "created a profit-sharing relationship with the legacy organization. They'd benefit from our growth—but they didn't control it."

KSL.com's revenue grew 75 percent from 2009 to 2010, executives say, though they don't spell out numbers.[14] Gilbert says his company will continue to push on both the cost and the revenue sides of the equation: "News is expensive," he says, and audience loyalty is key. "You can't get two clicks and expect to pay off on that investment."

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For decades, there has been a connection between the journalism that news organizations provide and the advertisements that generate most of their revenue. Whether it's a glossy spread that runs before the table of contents in a fashion magazine, or the anchorman's "more after this message" assurance on the local Eyewitness News, ads and content have always been closely linked in the stream that appears before the consumer.

That linkage is breaking down, and news organizations are scrambling to replace it with something else. That may mean selling ads on sites they don't own or control. "Creating content doesn't ensure a well-sized audience," says Chris Hendricks, vice president of interactive media at newspaper chain McClatchy Co. "We're accepting of the fact that the two may be disengaged." He then adds something one wouldn't have heard a few years ago from a media executive: "The longstanding premise of content and advertising being inextricably linked has clearly fallen apart."

McClatchy and other companies are turning toward selling advertising space on other sites, including Facebook and Yahoo. "It's almost like we are a sales and distribution company that decided we're going to fund journalism," says Hendricks.

Salespeople at McClatchy's 30 daily newspapers, as well as those at many other news organizations, sell ads on Yahoo as part of their pitch to local advertisers. For a worldwide company like Yahoo, "it's very difficult and expensive to set up a local sales force of size," Hendricks says. In the 1990s, Microsoft tried and failed to crack the market with a venture called Sidewalk, which was designed to produce city guides and sell local ads. Hendricks notes that Yahoo's rates for local ads tend to be higher than for national ads—but Yahoo needed people who knew the communities and businesses. "So we became their local sales force selling their inventory."

Because Yahoo has such broad reach, the relationship opens a big market for local news organizations. "The typical paper has 15 percent penetration in the local market," Hendricks says, speaking of online operations. "When we partner with Yahoo, it takes us up to 80 percent." And because many Yahoo ads are "behaviorally targeted"—meaning they are more closely geared to readers' interests, based on Web usage habits, geography or demographics—the rates are much higher. But those ads need a lot of viewers to ensure that the subsections of the audience are big enough to interest advertisers. "It's almost impossible to sell behaviorally targeted ads with 15 percent penetration," Hendricks says. "With Yahoo's scale you can." McClatchy averages an $18 cost per thousand views for targeted ads, Hendricks says. That's about twice the average for its usual display ads, though it has to share the proceeds with Yahoo.

There are longstanding examples of moves to sell inventory beyond a company's sites, including careerbuilder.com, an employment-classified site that McClatchy jointly operates with Gannett and Tribune companies.[15] But there can be difficulties. It isn't easy to persuade traditional ad departments to sell inventory that is not their own. "The gravitational pull of print is very strong. As soon as you get away from distribution and content adjacency, the harder it gets," Hendricks says. And ad sales on other sites represent only a small revenue stream so far. Hendricks says McClatchy sold about $15 million of Yahoo ads in 2010 and expects to increase that to as much as $19 million in 2011. To put that into perspective, as dismal as 2010 was for McClatchy, the company still sold a billion dollars of advertising that year.[16]

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One of the issues in selling others' ad space is that a publisher must adjust to a variety of pricing schemes. For example, the Houston Chronicle tells advertisers that it can help them reach, say, local men between the ages of 25 to 64 on Facebook. But Facebook users would need to see an ad 2,500 times before the advertiser could be assured it would generate a single click, according to the Chronicle. That's a key reason that the price of ads on Facebook is low: $1,500 for 1.875 million impressions on Houston's rate card, or a CPM of just 80 cents, less than a tenth of what most news sites get. Others have calculated Facebook's effective CPMs as even lower, below 20 cents.[17] By comparison, for targeted ads on Yahoo Sports or Finance, the Chronicle expects to charge up to $4,400 per 200,000 impressions, for a CPM of $22.

Actual ad costs often vary from what appears on a rate card as a result of bargaining between buyer and seller. Nevertheless, it's noteworthy that the Chronicle charges nearly 28 times as much for ads on Yahoo as on Facebook. The price difference is a result of several factors, including the more prominent display space on Yahoo and the problems that social-media sites like Facebook have getting users to see or click on ads. In November 2010, the Wall Street Journal reported that 24 percent of all online display ads in the U.S. now appear on Facebook, but that they are responsible for less than 10 percent of total display-ad revenue.[18]

Why do Facebook ads get such low rates? And what does that mean for the rest of the market? It could be that the standard ways of valuing advertising—that is, by whether it will impel a consumer to buy a product, visit a store or feel better about a brand—simply don't work very well in a world where people using social media aren't looking to be sold something.

In a prescient 2008 AdAge column, Matthew Creamer summed up an issue that runs throughout this discussion: "The Internet is too often viewed as inventory, as a place where brands pay for the privilege of being adjacent to content. ... The presumed power of that adjacency has provided the groundwork for the media industry for decades."[19] Companies today have faster and cheaper access to consumers. "The marketer, once at the mercy of a locked-up media landscape, can now be a player in it," he adds.

Inevitably, as Creamer notes, the discussion becomes one of how marketing is shifting to "earned" media rather than paid. One analyst defines the distinction this way: "'Earned media' is an old PR term that essentially meant getting your brand into free media rather than having to pay for it through advertising," writes Sean Corcoran of Forrester Research. "The term has evolved into the … word-of-mouth that is being created through social media."[20]

If marketers believe they can reduce their advertising costs by engaging consumers directly, that almost certainly cuts revenue for news organizations. Although some firms are trying to capitalize on the trend by assisting advertisers with their social-media strategies, that is a labor-intensive business that is outside the expertise of many media companies.

And there are journalistic problems that go beyond the economic loss represented by the decline of old-fashioned advertising relationships. A Florida company, Izea, explicitly sets up arrangements so people who blog or tweet favorably about a company can get compensated in cash, travel or in other ways. The company insists that its writers adhere to Federal Trade Commission guidelines, enacted in 2009, requiring disclosure of " 'material connections' (sometimes payments or free products) between advertisers and endorsers."[21]

But a 2010 study by Izea found that many people engaged in this "social media sponsorship" weren't aware of the FTC guidelines or had been offered compensation without a requirement to disclose it. The survey respondents also priced a "sponsored tweet" from a personal Twitter account at an average of $124 and a "sponsored blog post" at $179—around the same amount a small news organization will pay for a story and far more than an average blog post would ever get from display ads.[22]

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None of these ventures comes close in potential payoff to the online coupon craze, pioneered most successfully by Groupon. The company was launched in Chicago in November 2008, offering its customers daily discount deals on services ranging from nail salons to restaurant meals. For the deals to kick in, a minimum number of users must sign up; the system encourages users to spread the word and to take advantage of social media.

In a little over two years, the company expanded to more than 500 markets in 44 countries and turned down a $6 billion takeover offer from Google. Forbes called it "the fastest-growing company in Web history."[23]

The company's model is a repudiation of much of what has driven online revenue for media companies. "Banner ads seem such a relic of the 19th century," Groupon founder Andrew Mason told Wired.com. "If God created man and the Internet on the same day, we would see more stuff like Groupon."[24]

The company has drawn complaints, particularly from retailers like some Chicago restaurant owners who said many Groupon customers either came only for the discount and didn't return, or gamed the system by copying coupons and using them repeatedly.[25] Groupon has also spawned a host of competitors.[26] And media companies have wavered between joining with Groupon or competing with it.

The Minneapolis Star Tribune launched a coupon service, called STeals. Cox Media has started DealSwarm. McClatchy is trying to have it both ways: It announced a deal with Groupon in July 2010.[27] Less than a year later, McClatchy said it would launch its own deal service, while continuing to work with Groupon. As AdAge noted, "McClatchy gets 15% of revenue from Groupon deals ... on its own, McClatchy could collect as much as 50% from deals it sells and distributes."[28]

But it may be too late for news organizations to get substantial revenue from this business. Groupon is reported to be considering an initial public offering that could raise as much as $15 billion.[29] With so much capital, Groupon could compete on price and breadth in ways that would overwhelm ordinary competitors. And Groupon has its own challenges. It is possible that so many competitors' coupons will flood the market that consumers and businesses will begin to tune them out, which would diminish the value of the idea.

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Many media companies are trying to raise revenue through more untraditional means. Wired Magazine opened a physical "Wired Pop Up Store" in New York City during the winter holidays, where it holds events like a "Geek Dad Family Party."[30] The store sells gadgets and paraphernalia. New York Magazine sponsors a wedding showcase event every year, selling tickets to the public, and sponsorships to national fashion brands; it also caters to local disc jockeys, dress stores, bakeries and other enterprises in the wedding business.

Such events may be good for branding, but tend not to bring in a great deal of new revenue. The Atlantic is different. It is involved in running about 75 events a year, the most ambitious of which is the Aspen Ideas Festival. "Most magazines do events for advertisers," says Justin Smith, president of the Atlantic Media Group. "We use the Atlantic brand and editorial prowess for attracting people." The business, called Atlantic LIVE, also runs events with such names as the Green Intelligence Forum and the Food Summit. They usually include partnerships with organizations tied to the topic. Coverage of the event may appear on the Atlantic's site or in the pages of the magazine.

Atlantic LIVE is run separately from the magazine and website and has its own sales group and editors who run the events. It has become a significant source of income for the company. Of the $32 million reported as revenue by the company in recent publicity, as much as $6 million comes from these events.

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If the old formula of "adjacency"—selling ads and commercials alongside content—is fading, what will replace it? There are many possibilities, but few are likely, on their own, to provide the stream of dollars that advertising and circulation once did.

It may be most useful to resist the temptation to think about digital journalism economics in terms of moving an old business model to a new realm. The common thread in the strategies described in this chapter is that they demonstrate an embrace of the Internet, rather than an attempt to subjugate it to legacy business models.

When viewed that way, the Internet isn't a friend or an enemy. It's reality.

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[18] Geoffrey A. Fowler and Emily Steel, "Valuing Facebook's Ads," WSJ.com, Nov. 11, 2010, http://on.wsj.com/faZueN Advertisers have posted click-through stats on a Facebook chat page. The comments from 2010 and 2011 show varied results: One user said his ad drew 674 clicks out of 320,000 impressions, for a rate of about one click per 475 impressions. Another got one click in 2,480 impressions. Another was one per 1,818. See "Share your experience with Facebook ads (CTR, CPM, etc)," Facebook chatboard. http://on.fb.me/gfd0wI

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