Introduction

Few news organizations can match the setting of the Miami Herald. The paper's headquarters is perched on the edge of Biscayne Bay, offering sweeping views of the islands that buffer the city of Miami from the Atlantic Ocean. Pelicans and gulls float near the building; colorful cruise ships ply the waters a few miles away.

And Miami Herald executives long held some of the best views in the city, from the fifth floor of the company's headquarters.

Not any longer.

The Herald, like most U.S. daily newspapers, has faced severe financial troubles in recent years, suffering deep cuts in the newsroom and other departments. So, in one of many efforts to raise revenue, executives attached a billboard to the east side of the Herald building, completely obscuring the bay views of many newspaper employees, including the publisher.

The benefits of the billboard are obvious: the low six figures in annual revenue, according to a Herald executive, or enough to pay the salaries of a few junior reporters.

The irony is obvious as well, for the advertiser buying the space is Apple—the company that now controls a commerce and publishing system crucial to the future of the news business. And the product being advertised on the Herald's wall is the iPad, a device that is both disruptive and helpful to media economics.

Indeed, the two companies provide a way to see the destruction and creation in the media business over the past decade. At the end of March 2001, the stock market valued the Herald's parent company, Knight-Ridder, at almost precisely the same amount as Apple: $3.8 billion.

Ten years later, Apple's valuation is more than $300 billion. And Knight-Ridder no longer exists as an independent company.[1]

Miami Herald building, with Herald logo on right and Apple iPad billboard on left, April 2011 (*Jeff Binion photo*)

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The difficult financial state of the U.S. news industry is no longer new. Most big newsrooms have faced severe cutbacks, and even though online-only outlets have sprung up in communities throughout the country, they haven't fully taken the place of what has been lost.

These issues were explored in a precursor report[2] to this one, sponsored by Columbia University's Graduate School of Journalism and written by Leonard Downie Jr., former executive editor of the Washington Post, and Michael Schudson, a professor at Columbia. At the end of that report, which was published in late 2009, the authors provided a number of recommendations to stanch the losses in independent reporting.

Most of the recommendations were based in policy, including changes in the tax code to provide news organizations easier access to nonprofit status and encouraging philanthropists to support news gathering. Most controversially, Downie and Schudson recommended the creation of a national "Fund for Local News" supported with fees the Federal Communications Commission would collect from telecom users, broadcast licensees or Internet service providers.

That suggestion drew praise from some, as well as criticism from those who saw it as an intrusion by the government in a free and robust press. In the words of Seth Lipsky,[3] editor of the New York Sun, "The best strategy to strengthen the press would be to maximize protection of the right to private property—and the right to competition. Subsidies are the enemy of competition."

This report stands on the shoulders of the first one, but takes a different approach. Without addressing the merits of philanthropists or governments supporting news gathering,[4] we wanted to address another question: What kinds of digitally based journalism in the U.S. is the commercial market likely to support, and how?

While this report will examine some traditional, or "legacy," business models for media, our focus is on the economic issues that news organizations—large and small, old and new—face with their digital ventures.

This report focuses on news organizations that do original journalism, defined for our purposes as independent fact-finding undertaken for the benefit of communities of citizens. Those communities can be defined in the traditional way, by geography, but can also be brought together by topics or commonalities of interest. We also look into media companies that aggregate content and generate traffic in the process.

We confine our report mostly to for-profit news enterprises. We recognize the outstanding work done by such national organizations as ProPublica and the Center for Investigative Reporting, as well as local sites like Voice of San Diego and MinnPost. But for the purposes of this study, we felt it was more valuable to spend our time examining organizations that rely as much as possible on the commercial market.

We do have a bias: We think the world needs journalism and journalists. We welcome the tremendous access people now have to data and information, but much of what Americans need to know will go unreported and unexposed without skilled, independent journalists doing their work. That work can include reporting and editing in the traditional way, as well as aggregating information from other sources, or sorting and presenting data to make it accessible and understandable.

We decided to restrict our studies mostly to the U.S. market. We found the domestic news scene to be a rich and textured one, with plenty of complexity of its own, though we appreciate that a great deal of innovation is taking place beyond U.S. borders.

We define digital journalism broadly. While many publishers still see it as an online phenomenon—that is, displaying content on a PC screen via the Internet—we have included other platforms, including mobile phones and tablets.

We found several challenges in preparing this study. First, while a great deal of data about digital ventures is available, much of it is unverifiable. Small startups and other private companies have no legal reporting requirements, so some of the figures we cite here are taken with appreciation and on good faith. Further, digital revenue is still such a small sliver of the total for publicly traded companies that, when it is broken out at all, it is rarely displayed in such a way that reveals how much comes from a particular station or publication. And, it often isn't clear how much of a company's stated digital revenue represents genuinely new income as opposed to legacy dollars reapportioned to online businesses.

We sought to make this report accessible to newcomers and useful to those who have spent years in this field. We have tried to explain such terms as "CPM" (cost per thousand of views) and "impressions" (advertising spaces that appear on a digital page) in the text. And we have tried to be as rigorous as possible in examining numbers that media companies provide when describing their digital results. We also consulted a number of secondary sources to provide background and data unavailable elsewhere. These included important texts from the dawn of the digital age, such as Stewart Brand's "The Media Lab,"[5] and more recent books, such as James Hamilton's "All The News that's Fit to Sell"[6] and "Information Rules"[7] by Carl Shapiro and Hal R. Varian. Of course, we also relied on more current sources, particularly such sites as paidcontent.org, niemanlab.org and cjr.org.

But the bulk of the research in this report is based on a series of interviews we did in late 2010 and early 2011. We visited mainstream print and broadcast organizations with rich histories and Pulitzers and duPonts lining the walls; we also interviewed the founders and editors of innovative new journalistic enterprises. In most cases, publishers and editors were open, candid and willing to be quoted on the record. In a few instances, we decided to trade confidentiality for access to internal numbers or insights that would not otherwise be available.

We recognize, finally, that digital journalism is such a dynamic field that some of the findings and conclusions we reach in May 2011 will be outdated within months. That is what makes this subject so fertile for researchers and so humbling for seers. And we conclude our study not with predictions but with recommendations for how news businesses large and small, new and old, can more effectively meet the challenges brought on by the digital transformation.

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1 Apple's split-adjusted stock price was about $10 (from Yahoo Finance, http://yhoo.it/ecaGAO), while Knight-Ridder's was around $60 (Grain Market Research, http://bit.ly/dGf5F5). Apple had far more shares outstanding, leading to valuations that are within 1 percent of each other.

2 Entire contents of "The Reconstruction of American Journalism" can be found on CJR.org, http://bit.ly/eP6Fjl

3 "All the News That's Fit to Subsidize," op-ed from WSJ.com, Oct. 21, 2009. http://online.wsj.com/article/SB10001424052748704597704574486242417039358.html

4 Media commentator Alan Mutter addressed this in a post, "Non-profits can't possibly save the news," Reflections of a Newsosaur, March 30, 2010, http://bit.ly/dMp86C. He calculated the news media would need an endowment of $88 billion to produce enough revenue to support current models.

5 Stewart Brand, The Media Lab (Penguin, 1988).

6 James Hamilton, All the News that's Fit to Sell (Princeton University Press, 2003).

7 Carl Shapiro and Hal R. Varian, Information Rules (Harvard Business School Press, 1999).