Weighing the Costs of New Media

Patrick Cooper
Prof. Larry Stuelpnagel
Issues in Contemporary Journalism
7 May 2001

Weighing the Costs of New Media

Back in 1994, John McManus would not have known the World Wide Web was coming. The "information age" had not yet dawned. The Santa Clara University professor would never have heard of a "dot com," and a little computer program called "Netscape" was still in development. But as he wrote Market-Driven Journalism: Let the Citizen Beware?, McManus knew change was on its way. Noting advances in telephone, cable and fiber optic communications, he wrote that an "interactive media" was being built (208). This media would allow households to select only the information they wanted to see, "thus excluding many commercials."

Now in 2001, McManus's simple predication has quickly become true, and unexpected side effects have arisen. As millions of people surf the Web, statistics show they are ignoring the medium's advertising to the point that the medium is floundering for lack of funds. Online journalism, the so-called "new media," has not been left out. Searching for new ways to support themselves in recent months, leaders of online news Web sites have begun considering a paid-subscription business model, charging a set fee on a monthly or annual basis, and a few have even implemented such a plan. While this move makes sense for magazines and niche publications, which have traditionally counted on paid-subscriptions for part of their financial support, general interest newspapers and broadcast news have no such tradition.

After decades of relying on advertisers to keep their products free or almost free, for a newspaper or broadcast station to charge for content on its Web site is surprising. Although newspaper subscriptions are of course available and popular, a person can usually buy a single paper for a quarter or two and can watch the morning, evening and nightly news or can turn on radio news for free. (Even with cable, viewers are paying for a wide variety of broadcast services, not just news.) By giving away or nearly giving away their products, general interest journalism has established a tradition of serving the entire public – those who can afford to pay a great deal for their news and those for whom “free” is the only price they can afford.

Charging subscription fees for general interest online journalism could be troublesome for this tradition. As the medium grows, the costs of subscriptions could lead to more elite audiences for news, leaving behind those who cannot afford to pay. In losing this section of the population, online journalism would hurt the news audience at large and the industry itself.

The Problem

As “new media” has developed into a new medium of journalism, separating from print and broadcast to gain its own studies in universities’ journalism schools and its own industry organizations, it has grown free, so to speak, like the media it sprang from. But facing an advertising crunch, industry leaders have been rethinking their plans. “Is anyone willing to pay us for what we do as journalists online?” asked Paul Grabowicz in April at the fourth annual New Media Conference (Kumar 1). Grabowicz was the director of the new media program at the University of California at Berkeley’s Graduate School of Journalism, the host of the conference. “Gravity has ceased, people are not sure where to go, or even which stars to go by,” he said. “Everything is up for grabs again.”

Beginning in 2000 and continuing into 2001, the advertising model of many Web sites was crumbling, resulting in layoffs, bankruptcies and a hunt for a new model. While last year’s New Media Conference theme was “Online Journalism: A Medium in Motion,” this year’s theme was “After the Fall” (Kumar 1). Online publications and other “dot com” companies had attempted to support themselves by selling space on their Web pages to advertisers, usually collecting a set fee every time an ad was viewed 1,000 times (a CPM, or cost per thousand). But this model grew weaker over time. In a 1997 column titled “Why Advertising Doesn’t Work on the Web,” prominent Internet analyst Jakob Nielsen noted the average “click-through” rate at the time was about 1%, meaning 99% of the people who saw the ad chose not to click on it. He made updates to the column in July 1998 and October 1998 when the rates had fallen to 0.7% and then to 0.5%. According to a March 2001 *Washington Post* article, that number has since fallen further (Musgrave 1). “Click-through rates continue to drop and we continue to observe strong banner blindness in user testing,” wrote Nielsen in a December 2000 column (“The Web in 2001: Paying Customers”). “Users have even stopped clicking on useful page elements that *look* like ads” (emphasis is Nielsen’s). With no one clicking, Internet advertising has become much cheaper during the last year, down from an average $20 CPM to nearly $5, the *Post* reported (Musgrave 1). The effect for Web companies, such as new media publishers, trying to sell ads on their site is obvious: less profits. To summarize December’s column, Nielsen wrote in part: “Offering free services on websites is not a sustainable business model, nor is advertising, which doesn’t work on the Web.”

At the New Media Conference, one of the business model ideas that participants debated was a paid-subscription model. Microsoft’s *Slate* online magazine tried this route to revenue with much publicity in 1998 but without much success. The publication dropped their $19.95 yearly subscription fee in February 1999, citing a slowing number of subscriptions (Hu 1). Keeping this failure in mind, leaders at several online publications cautiously began offering new paid-subscription services in 2001, including Slate-competitor *Salon*, media industry analysis site *Inside*, and entertainment news powerhouse *Variety* (Kumar 1).

But these niche-oriented publications fill far different roles in society than general-interest, mass-oriented news organizations, such as city newspapers and network news broadcasts. Rather than aiming toward a specific audience, the mass-oriented organizations have worked for years to provide the news to everyone at very low cost. In his analysis of The Commercialization of News in the Nineteenth Century, Gerald Baldasty notes that the growth of advertising during the century changed news forever. “Publishers and editors realized that they could make large profits by pitching newspaper content to the masses and then selling their huge audience to advertisers,” Baldasty writes (139). James Baughman covers this phenomenon too in The Republic of Mass Culture: “Publishers in the late nineteenth century had greatly broadened ‘news’ to encompass the nonpolitical … This extended agenda, along with sharp cuts in newspaper prices, had created for most Americans the habit of taking one or more dailies” (9). With this kind of cheap access, there is no real barrier for a person to become a part of the general news audience for print or broadcast. Tradition has essentially made them free mediums.

Resulting from easy participation in the exchange of news information, the theoretical “marketplace of ideas” grows. In The Dissident Press, Lauren Kessler sums up the marketplace concept well:

> The press, say believers in this concept, ought to operate as an open forum for the exchange of ideas, a marketplace that presents the public with a diversity of theories, thoughts, sentiments and opinions. The public meanders through the marketplace (by reading, listening, or viewing the mass media), “buys” (accepts, agrees with) certain ideas, and rejects others (8).

By having a low entry cost, the marketplace as related to general news can have a large amount of the public actively “meandering through” its ideas. People can pick up papers at the corner store or turn on the television whenever they want, possibly when they become interested in certain news topics. Currently in new media, the same can be done, simply by typing a Web site’s address into a browser or clicking on links. (The financial barrier to entering the online world can be higher—computers are more expensive than television sets or newspapers—but public computing facilities, such as those at libraries, are becoming more common and computer prices are dropping.) The dynamics shift, however, when subscription fees are introduced. "Moving from an advertiser-supported to a subscriber-supported system changes the news transaction," writes McManus in Market-Driven Journalism (208). "But if consumers must bear the full cost of news directly, rather than enjoy an advertising subsidy, many marginal consumers may opt out."

The Call to Change

The *Wall Street Journal* is currently the only major paper to charge for its entire Web site, but some other large newspaper sites are examining their pay options. In April, Media General Inc. representatives said some of the company's newspapers, which include the *Tampa Tribune* and *Richmond Times-Dispatch*, would be charging for content on their Web sites by the end of the year (Robins 1). On the *New York Times* site, readers currently must pay for only crossword puzzles and newspaper archives, but a company spokeswoman has said this may change. "Over the next months, we'll be experimenting, determining what other types of content we want to offer on a paid model," Christine Mohan told *Editor and Publisher* in April.

One question Web site managers must deal with is obviously how much to charge but also: what will people pay for? In Massachusetts the small *Standard-Times* in New Bedford began charging a $19.95 annual fee for users to read popular community features, including court listings, obituaries and engagement announcements (Robins 1). "We charge for the stuff people can't get anywhere else," Mike Conery, the paper's online service manager, has said. The fee got an "incredibly negative" response from readers, but this reaction seemed like a good thing to him. "It proved our editorial content had value, because if it didn't have value, (readers) wouldn't be so upset at having to pay for it," he said. Other sites have chosen a stricter approach, deciding to put all of their content, including news, behind a paid-subscription wall. The Rochester, Minn., *Post-Bulletin* announced in March that their Web site would require all users to subscribe to the paper's print edition or to an online only service (available for $60 a year) by the end of April. Non-subscribers would only be able to read headlines on the site. The goal of the move was "to further develop the bond between our newspaper and our Web site," wrote Jon Losness, the paper's general manager and editor, in a note on the paper's site. "We're looking at the Web site as value-added for our print subscribers," he said. According to *Editor and Publisher*, he quickly received more than 200 e-mail messages about the change. Most were negative.

Prominent investor Warren Buffett recently joined this camp as well, telling the Associated Press that free online newspapers are trouble for their print brethren. Buffett, chairman of the Berkshire Hathaway company, said he could often read stories on the *New York Times* or *Boston Globe* Web sites the night before they appear in the newspaper (Beck 1). The notion that he was both reading the stories online for free and also paying for a print subscription troubled him. "That cannot be a good thing for newspapers," he told the AP. "It's not a good idea to be charging a lot of money for something you can get for free." But in addition to possibly losing subscriptions, Buffet warned that Internet publications could take away advertising dollars. It would be nonsense to think "the idea that chopping down trees, running them through million-dollar presses … is going to be competitive with some little click on a computer," he said.

A Different Type of Consolidation

When paid-subscription business models are considered, mass-interest online journalists must look at the potential effects. In his essay "The Corporate Domination of Journalism," former *Texas Observer* magazine editor Ronnie Dugger addresses the press's role in distributing information, but he also importantly alludes to the public's role in receiving that information. He writes: "It's well said that 'Control of information is political power.' The press, Theodore White once wrote, 'sets the agenda for public discussion' and 'determines what people think about and write about'" (40). By this wording, he indicates that people are not a passive audience but an active one, an audience that thoughtfully considers and then acts upon what they have learned. Dugger proceeds in his essay to discuss media industry consolidation, but he makes some observations on the effects of consolidation that are relevant to audiences as well. Consolidation "amounts to the ascension of major media owners and CEOs to more and more power over opinion, politics, economics, culture, and society – in short, over the shape, texture, direction, and content of our lives," he writes (41). Also, "a few persons have now acquired what may already be, and – assuming the continuation of present patterns and trends – will certainly become, control of the dominating reach of expression among the majority of the people in the United States and the world" (43).

If we are to assume, however, that an active audience exercises their media literacy and puts forth some kind of critical commentary, the audience then somewhat takes control of the "shape, texture, direction, and content" of their lives. But if mass-focused online publications price some of their readers out of the marketplace of ideas, the audience becomes a smaller and more elite group. Dugger's wording could be easily changed to fit. Audience consolidation "amounts to the ascension of *more elite readers* to more and more power over opinion, politics, economics, culture, and society," the statement could read. This smaller audience, by their active participation, would join in "control of the dominating reach of expression." On the outside, those excluded from the audience by costs, and thus the marketplace of ideas, would see a drop in their little amount of societal power. Already separated by differences in wealth and consumer power, populations would be parsed even further by their membership or lack thereof in the audience. An audience status as “member” would find a stronger correlation with societal status as “dominator,” and “non-member” would in turn become closer to “dominated.”

This is strong language, but real danger exists here. “The nouveau robber barons are emboldened by nothing so much as ignorance and apathy,” writes *Mother Jones* publisher Jay Harris in his essay “What Is Missing From Your News?” (Serrin 172). Harris urges people to “broaden your media diet, start to act on what you learn. Vote, write, make trouble, make change, get together with like-minded others and let the Big Boys and Girls hear you.” But what if people in the future, facing an increasingly new media selection of news, do not have the resources to broaden their diet? This is the class of people who in the past worked for the robber barons of the U.S. industrial revolution, who worked in Andrew Carnegie’s steel mills and on Cornelius Vanderbilt’s railroads. With relative elites on both the giving and receiving ends of online journalism, the “nouveau robber barons” could find as much cruel success as their predecessors. Harris writes that “the ripoffs these days are so massive and so appalling that even a modest public outcry is often sufficient to slow them down,” but if those suffering the most from the ripoffs are not allowed to become members of the audience and of the marketplace of ideas, how quickly will the outcry come? It will take time for the news to trickle up to the news publishers. In a situation like this, everyone loses. As the non-members of the audience find themselves increasingly powerless, the audience members will unknowingly be receiving an incomplete news product. The journalists will be publishing a deficient picture of the events of the world, one only substantiated by a limited world view.

Suddenly the business decision of paid subscriptions, a choice of how to make money from online journalism, has much larger implications. As Harris writes: “The news isn’t a trivia contest; it’s the medium of democracy. We need to connect the information we have with people who can use it. To people who have kids and jobs, maybe two or three jobs, and damned little time” (Serrin 172-173). Codes of ethics used by various news organizations contain similar ideas. For example, the “Statement of Principles” used by the American Society of Newspaper Editors contains the belief: “The primary purpose of gathering and distributing news and opinion is to serve the general welfare by informing the people and enabling them to make judgments on the issues of the time.” By this view, to not connect with the people through journalism is to fail.

Charging subscriptions to mass-interest new media risks this failure, and, worse, it is a failure that those in the journalism profession may never understand or even recognize. In Market-Driven Journalism, McManus makes a questionable point along this line of discussion. “Those who remain [after a new media paid-subscription model is implemented] are likely to want news of higher journalism quality,” he writes (208). “If they are willing to pay for it journalism could be reinvigorated.” The coffers funding journalism may be replenished after this change, but becoming “reinvigorated” would be a stretch. Losing the poorest of their audiences would make news organizations out of touch, hurting them before and after publication. In the marketplace of ideas, before publication, a news organization would lose a source of the newsworthy events and trends on which they build their products. In the marketplace after publication, they would lose feedback from a significant segment of the population.

If Not Paid Subscriptions, Then What?

The search for solutions is ongoing, and paid subscriptions are only one option being considered. A participant at the New Media Conference mentioned that radio and television media had come about before their business models and that "we may be in that case now the Internet" (Kumar 1). As a model develops, those who cannot afford to pay much must be kept in mind, if not but for their greatly increasing Internet presence. According to the Nielsen//NetRatings analysis firm, Internet users earning less than $25,000 grew by 46% between February 2000 and February 2001, making them the fastest growing group of Web surfers by income level (NetRatings 1).

Jakob Nielsen has attacked the paid-subscription model from a technological rather than a journalistic perspective, but he came to the same conclusion in a 1998 column: "Charging subscriptions is like building a city wall: you keep people out" ("The Case for Micropayments"). He wrote that having to choose between paying nothing (and getting nothing) and paying a large subscription fee (and getting everything) would just make Internet users move on to other Web sites. "It is rare that you will know in advance that you will use a site enough to justify a large fee and the time to register," he wrote. "Subscriptions work in the physical world because people can sample single issues of publications through newsstand purchases before they have to decide on a subscription." Speaking with technological vocabulary, he warned about the result of a paid-subscription model: "most people will only subscribe to very few sites: the Web will be split up into disconnected 'docu-islands' and users will be prevented from roaming over the full docuverse." In less technical terms, users—potential members of the mass media audience—will be separated from one another.

But looking at the crucial point when a user walks away from the decision of whether to pay the fee or not, he presents a compromise. He suggests "micropayments," a Web-wide system of payment for content in which viewers would be charged just pennies per page. Content producers, such as online journalism publications, would benefit because viewers, if their interest were piqued, would view more and more pages. Viewers would benefit because they would pay cheap rates and would only pay for content when they wanted it. "Micropayments lower the threshold and do not require a big decision before users get their initial benefits," Nielsen writes. On the downside to this plan, as several of Nielsen's readers noted in responses posted on his Web site, is coordination. For a municipal power company, charging a household for kilowatt-hours of electricity is easy with a meter. On the Internet, however, users come from all parts of the world and can hop on and off of any computer. Regulating such an expanse and protecting against fraud would be difficult.

Another option would be to turn to news as a "loss leader," as television networks once did, with other corporate products and services supporting a money-losing news division. But a shift back is unlikely; McManus spends all of Market-Driven Journalism addressing why the first shift is here to stay. "The rhetoric of journalistic responsibility has been replaced with the rhetoric of accountability to markets among advertisers, audiences, and stockholders," he writes (202). "Media owners, more and more of whom have no background in journalism, cannot be expected to accept arguments that market theory breaks down for commodities such as news" (204).

Whatever solution is found, general interest new media must find a way to accommodate as large an audience as possible, a way that understands financial realities and those who face these realities most harshly. Doing so will maintain the traditionally broad news audience and allow the audience to actively participate in the marketplace of ideas. Although he wrote decades before the development of online journalism and new media, Marshall McLuhan's famous proclamation of "the medium is the message" applies here. If the medium cannot be accessed by some, because of subscription costs or otherwise, the message cannot be accessed as well. This new branch of journalism would be no public service.

Works Cited

American Society of Newspaper Editors. ASNE Statement of Principles. 1996. <http://www.asne.org/kiosk/archive/principl.htm>.

Baldasty, Gerald J. The Commercialization of News in the Nineteenth Century. Madison: The University of Wisconsin Press, 1992.

Baughman, James L. The Republic of Mass Culture: Journalism, Filmmaking, and Broadcasting in America since 1941. 2nd ed. Baltimore: Johns Hopkins University Press, 1997.

Beck, Margery. “Buffett: Free Web Sites Not Good for Newspapers.” Associated Press for Editor & Publisher Online. 30 Apr. 2001. <http://www.mediainfo.com/ephome/news/newshtm/stories/043001n13.htm>.

Hu, Jim. “Slate drops subscription fees.” CNET News.com. 12 Feb. 1999. <http://news.cnet.com/news/0-1005-200-338686.html>.

Kessler, Lauren. The Dissident Press: Alternative Journalism in American History. Beverly Hills: Sage Publications, 1984.

Kumar, Aparna. “Online Newsies Gather, Weep.” Wired News. 9 Apr. 2001. <http://www.wired.com/news/business/0,1367,42932,00.html>.

McManus, John H. Market-Driven Journalism: Let the Citizen Beware?. Thousand Oaks, Calif.: Sage Publications, 1994.

Musgrave, Mike. “Not a Banner Time for Web Advertising.” The Washington Post. 9 Mar. 2001. Lexis-Nexis Academic Universe. <http://web.lexis-nexis.com/universe/>.

NetRatings Investor Relations. Lower Income Surfers are the Fastest Growing Group on the Web, According to Nielsen//NetRatings. 13 Mar. 2001. <http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=NTRT&script=411&layout=-6&item_id=158203>

Nielsen, Jakob. “The Case for Micropayments.” Alertbox. 25 Jan. 1998. <http://www.useit.com/alertbox/980125.html>.

- - -. “Readers’ Comments on Micropayments.” Alertbox. <http://www.useit.com/alertbox/980125_comments.html>.

- - -. “The Web in 2001: Paying Customers.” Alertbox. 24 Dec. 2001. <http://www.useit.com/alertbox/20001224.html>.

- - -. “Why Advertising Doesn’t Work on the Web.” Alertbox. 1 Sept. 2001. <http://www.useit.com/alertbox/9709a.html>.

Robins, Wayne. “Newspaper Web Sites: ‘Show Me the Money.” Editor & Publisher. 30 Apr. 2001. <http://www.mediainfo.com/ephome/news/newshtm/stories/043001n2.htm>.

Serrin, William, ed. The Business of Journalism: 10 Leading Reporters and Editors on the Perils and Pitfalls of the Press. New York: The New Press, 2000.