

**The news, the muse,  
the economy and other myths**

# Newspapers fall out of orbit as an innovation recession threatens their relevance and their future

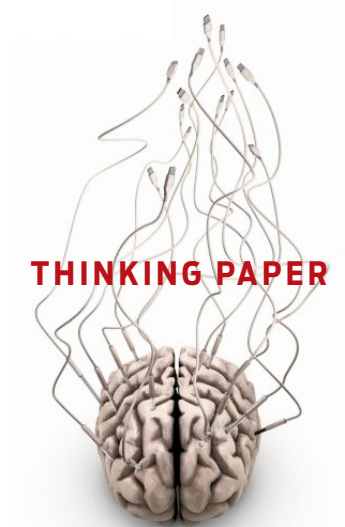
By DALE PESKIN | Late last year William Dean Singleton, the CEO of MediaNews, announced he had identified the problem behind years of steep decline in the news industry.

“It’s a good old fashioned economic recession,” Singleton said.

In the absence of motion, sooner or later the problem will be recession.

All motion is relative. You can move away by standing still. The news industry has, relatively, stood still during a long transformation that it should have seen coming.

In 1995, New Directions for News (the first incarnation of iFOCOS) forecast the rise of personal information devices, the fragmentation



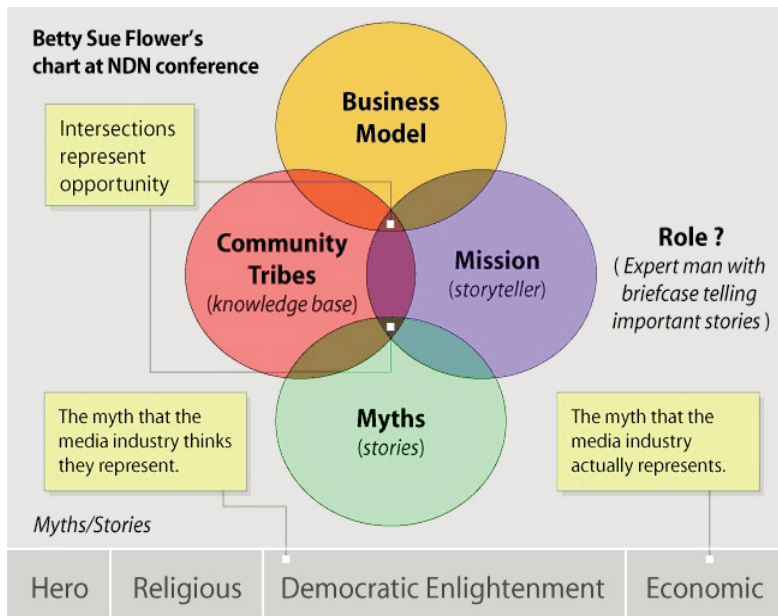
INFORMATION  
NEWSPAPERS  
CRISIS  
LEADERSHIP  
ENGAGEMENT  
NETWORKS  
RELEVANCE  
MULTIMEDIA  
INTERACTION DESIGN  
WORKING MODELS  
RISK-TAKING  
SUCCESS  
FAILURE  
CREATIVITY  
INNOVATION

of society, the loss of relevance of the news industry, and a steady decline in audience, profits and margins. The project with the Rand Corporation was commissioned by the news industry as an operational scenario through 2010, when NDN forecast that news business would irrevocably implode. It started coming apart earlier than forecast.

In 2002, the Media Center at the American Press Institute (the next predecessor of iFOFOS) forecast We Media, the rapid democratization of media where ordinary citizens would usurp traditional media as the principal purveyors of news and information.

In 2004, iFOFOS launched the first We Media conference to stir innovation and unify all voices for the dramatic changes that lay ahead in news and information.

Last year, before the economy excuse, iFOFOS forecast the dilemma media companies would face in a slowing economy where ad spending was shifting, markets were volatile, and transformation was requisite.



*A slide from the 1995 NDN conference.*

These were just a few of the signs that an intransigent industry ignored. The poet reminds us that the future enters us slowly, as if to transform us, long before it happens. The accountant is left to tally the consequences.

Here's a snapshot of how a once powerful, once profitable, once influential industry looks today:

- More than two-thirds of publicly traded newspaper companies face bankruptcy, according to their Z-scores — a multivariate formula that measures the financial health of a company and predicts the probability of bankruptcy within two years with 80 percent accuracy. Savvy Internet users can find Z-scores, which companies hold closely and internally, on a protected area of Bloomberg.com.

- Newspaper stocks fell an average of 83.3 percent in 2008—twice the fall of the S&P 500—wiping out \$64.5 billion in market value, according to Alan Mutter's Newsosaur blog. This, after a 40 percent loss in value over the previous two years.

■ Since 1994 and the release of the first commercial web browser, newspaper audience penetration has fallen from 23 percent to 16 percent. In that time, circulation fell 14 percent (59 million to 50 million, according to the Newspaper Association of America) while population rose 20 percent. At its peak, newspaper circulation reached nearly 70 percent of Americans, and in some communities more than 100 percent.

■ Since 1994, newspaper print advertising revenue fell on an inflation-adjusted basis by 10% (from \$34 billion in 1994 dollars to \$42 billion in 2007 dollars,) says NAA.

■ Since 1994, the number of newspapers in America fell from 1,548 to 1,422, according to NAA.

■ In 2008 alone, 15,586 newspaper jobs were lost, according to the Papercuts blog.

■ In 2008, the Pew Research Center found that the Internet surpassed newspapers as a primary source of news for Americans (following TV). For young people, 18 to 29, the Internet will soon surpass TV, at nearly double the rate for newspapers.

■ More than two-thirds of Americans do not trust news organizations, according to polls conducted for iFocos and other organizations, including the American Society of Newspaper Editors.

■ The median age of newspaper readers is 56 years old.

■ Young people between the ages of 12 and 25 will “never read a newspaper. Never,” according to a 2007 survey by the University of Southern California Annenberg School’s Center for the Digital Future.

■ Citing a lack of foresight, development, training and impact by the news industry, the John S. and James L. Knight Foundation shifted more than \$100 million in funding to community-journalism entrepreneurs outside the newspaper industry.

The newspaper business is a satellite falling out of orbit. It has started to burn up in the atmosphere.



*Young people between the ages of 12 and 25 “will never read a newspaper. Never.” That’s according to a 2007 survey from USC.*

## Looking for love in all the wrong places

There has been grudging change as publishers covert newspapers into a digital facsimile of the printed page. The audience for online news sites has long since surpassed print circulation, reaching 69 million unique users in fall 2008, according to NAA. And the total online news audience is about 100 million—more than half total U.S. Internet users—according to ComScore.

Finally there is movement. But is it too little, too late? A tipping point occurred last month as more people in America got their news online for free than paid for it by buying newspapers and magazines, according to Pew.

*Time magazine cover piece  
by Walter Isaacson.*

As a recession takes the wind out of some promising initiatives of late, newspapers move into the New Now with a sense of desperation, futility, and in some cases, finality.

Currently a new story is circulating to “save your newspaper”: consumers should pay publishers for news, one piece at a time, on the Internet. The new story, of course, is the old story. It wasn’t a very good one when the Internet first disrupted, disintermediated and dismembered the American newspaper about 15 years ago.

Back then, a few enterprising publishers saw the Internet as an additional distribution channel for content they produced and controlled. But most viewed it as a befuddling technological nuisance (they said the same thing about television), a fad that would fade.

The arrogance was supported by profits. As the Internet began to develop in the mid-nineties, newspaper profits peaked. Profit margins reached 30 percent and higher; for some companies 50 percent or more. The industry was awash in





cash and rewarded its executives with compensation and bonuses that would make a Merrill Lynch executive blush.

*We air-dry the news.  
Want it with starch?  
Micro-payments accepted.*

The vision and mission of publishers in the 90s: make money and drive market value. One of my former bosses, the CEO of a company that owned newspapers and television stations, couldn't use email but set up a computer outside his office. He used it for one purpose: to watch it display the current price of the company's stock. If the price slipped, he placed a call to a vice president responsible for classified advertising.

Publishers weren't about to abandon the lucrative business of manufacturing printed pages and distributing them to audiences that had few other places to get information in their communities. One astute manager, baseball's Tommy Lasorda, put it this way: "Never argue with anyone who buys ink by the ton."

Then the ink turned digital and was made available to everyone. The Internet emerged as something much more than a new distribution channel for news. It was electricity – the power for audiences to access, interact with, create and exchange news and information on their own. Publishers underestimated, denied, or ignored the extent to which the Internet democratized media, diminishing the significance of the so-called trusted intermediary.

It didn't take long for the consequences of denial or intransigence to manifest. The fundamentals of the news business changed, almost overnight. New Internet businesses emerged from unexpected competitors with daz-

zling solutions for information, communications and commerce.

Sites operating at the speed-of-now targeted specific audience segments and behaviors, rendering dated, once-a-day newspaper bundles obsolete. Start-



*Digital has changed newspapers. The challenge is to innovate to new solutions that take advantage of the medium's interactivity.*

ups such as Craigslist, Google, eBay and Monster, and thousands of other free or low-cost sites dismantled newspapers' classified advertising business -- an arcane marketplace for goods, services, real estate and jobs based on a bizarre classification system and the tiniest ads you could print. With the demise of its classifieds business, newspapers lost as much as 70 percent of their revenue.

Soon other forms of advertising began to fragment. Alternative formats on the Internet provided more frequency and greater reach than newspapers, which published once a day within a relatively small distribution area. Meantime, the largest advertisers migrated to a few, large web sites that were able to achieve massive audiences by aggregating content produced by others.

Within a decade the advertising subsidy had deteriorated. The customer base -- readers -- had

eroded, too, leaving newspapers without a viable revenue model to support the high cost of news gathering, a costly infrastructure required for production, and a mechanized distribution system that is expensive and outdated.

Its role in society diminished, the daily newspaper now sinks into oblivion as it searches for new models of revenue and relevance. The Internet, once regarded as a way to expand markets for news and advertising, now undermines virtually every strategy associated with the traditional newspaper model.

### **The new order of order**

As all content becomes digital, the problem escalates for newspapers, even those with an aggressive presence on the Internet. The economic myth that has sustained newspapers for 200 years was their ability to create value for content by enhancing it with journalistic standards, then organizing it for distribution on the printed page.

Look at it like technologist, philosopher and author David Weinberger: “The world started out miscellaneous, but it didn’t stay that way because we worked so damn hard at straightening it up.”

That’s what newspapers do: straighten things up. They juggle multiple principles of organization to make sense of a complex world. Then they push a map of the day to a society that’s trying to make sense of things. It’s called journalism. If enough people are interested in the journalism of the day, then you package it with other content, much of which is not journalism, and sell it to advertisers who are also trying to sell something to those who buy the newspaper. But before they purchase space in the newspaper, advertisers prefer that a lot of people actually buy the paper and read it, which too few do these days.

The Internet really messes up the principles of organization known as the newspaper. It introduces a new order for order. Content pours through walls, coming from everywhere, spiraling through the digital mediascape. Content is atomized. All of it is miscellaneous, as Weinberger suggests. What value is there in organizing the news like a newspaper when the goal is to get rid of the idea that there’s a best way of organizing the world?

Amid this sometimes chaotic restructuring, newspaper publishers and journalists cling to two myths of declining currency. The first is the myth of democratic enlightenment. It holds that the journalist is society’s storyteller, the trusted intermediary for the public. The second is the economic myth. It establishes a value for the stories that journalists create and the businesses that publishers build around those stories.

With both of those myths crumbling in the new order of things, publishers and journalists embrace traditional values and old stories with a fervor that is almost religious. Every few years, a movement emerges to restore the value of news produced by those who earn their living from it. They argue that journalists are underappreciated and that society would willingly pay more for news if only it understood the cost and commitment associated with the old myths.

The screenshot shows the news.com website layout. At the top is a navigation bar with links like 'WELCOME', 'MY NEWS', 'BIG STORY', and 'TODAY'S FEATURED SECTIONS'. The main headline is 'Ashcroft wins confirmation' with a sub-headline 'But 42 Democrat 'no' votes put President Bush on notice. Read time: 2 minutes'. Below the headline is a 'Read Ashcroft stories from:' section with links to various news sources. To the right of the headline is a 'Story posted: 17 minutes ago (18:37 GMT)' and 'News.com Reader Rank: 1 (375 readers in last 15 minutes)'. Below that is a 'Story popular with:' section showing a demographic breakdown. Further down is a 'Recent reader comments' section with a comment from 'soulfinder'. To the right of the main article is a 'SAVE OR SEND THIS STORY' section with options to 'Add to your favorites list' or 'E-Mail to:'. Below that is a 'Has Bush's choice of Sen. Ashcroft made you rethink your vote for him?' poll showing 40% 'Yes' and 60% 'No'. At the bottom right is a 'Bush: The first 2 weeks' section with a 'Watch tonight at 7pm on Channel 8' button. The bottom left has a 'Read it? Rate it!' section with a star rating system.

*A conceptual prototype for “Amazoning the News,” developed for NDN in 2001.*

A former editor who now runs the prestigious Aspen Institute has resurrected both myths with a cover piece, “How to save your newspaper,” in Time magazine, a blog post on the Huffington Post, and appearances on Charlie Rose’s and Jon Stewart’s television shows.

Walter Isaacson’s modest proposal: consumers should pay for individual news stories on the Internet – at least those that originate in newspapers. Isaacson, a former CNN exec and formerly Time’s managing editor, says that news companies erred by selling stories cheaply in print, and by giving them away for free on the Net. He

contends that micro-payments for news on the Internet would now help fund the journalism valued by readers, and “allow the media once again to set their compass true to what journalism should always be about.”

Stewart countered with a better idea: addictive ink. He joked that the ink that rubs off newsprint onto your hands could be chemically mixed with an addictive agent that causes readers to keep coming back for more. Finally a business plan: newsprint as a narcotic.

Isaacson’s bold, old idea is less controversial — at least in newsrooms across America. Actually, there’s nothing that prevents newspapers from charging for

their content on the Internet now – some still do. The Wall Street Journal, The New York Times, The Financial Times and a number of other newspapers have charged for all or some of their stories with mixed results. But revenue from pay-for-news plans disappointed as stories hidden behind a paid wall significantly lower site traffic, which can be monetized with advertising that currently generates far more revenue than pennies for pieces.

Isaacson argues that things have changed, that newspapers have more readers than ever before. Here, the facts are misleading, if not surprising to the Audit Bureau of Circulation. Citing the Pew study, Isaacson says the time has come to charge, charge, charge, charge, charge ahead. “News organizations are merrily giving away their news for free,” he contends.

Not exactly.

Google ,Yahoo! and others pay news providers millions of dollars to make their stories searchable on the Internet, and to provide links back to them on the pages of the providers. These are essentially micro-payments to the news network, a small transaction in a seemingly limitless supply of news and information that drives traffic. Here the numbers mislead the “more readers than ever” argument, which in all



*Jon Stewart talks  
to Walter Isaacson  
on The Daily Show*

fairness is a little right. There is no arguing that the millions of computers connected by the World Wide Web “hit” pages on news sites in huge numbers. But do those hits actually represent a reader? Probably not. The computers hit a piece of data – a word, a link, an image – then report a data transaction, typically measured in the millions or hundreds of thousands. One page has thousands of data points. Each point can be the target of an automated transacted, whether or not a human actually acts on a data cluster.

Take Isaacson’s Time magazine piece. As of this writing, there were more than 30 million links to it on Google. Does that mean that 30 million people actually read the piece? If they did, and each was willing to pay the micro-payment price of 99 cents (I would; it’s worth it), then Walter could make almost \$30 million for the article. Bank on micro-payments, or keep your day-job at the Aspen Institute, Walter?

The pay-for-news idea hasn’t generated traction outside of journalism’s priesthood. Most Netizens simply reject the idea as their own myth – the myth of “free” content – circulates throughout cyberspace.

“Isaacson’s prominence may have re-ignited enthusiasm for an old idea, but it’s really a non-starter,” says entrepreneur Alan Webber, the founder of Fast Company magazine and former editor of the Harvard Business Review.

The place where news starts on the Internet is search. Seekers are more inclined to search for headlines on Google than they are to visit the home page of a new site.

For all but a few, large destination sites, the home pages of newspapers have become obscure outposts on the digital frontier. Increasingly, specific stories that reside within the site have more value than the destinations themselves. Hiding these stories behind a paid wall would disrupt expectations of news seekers accustomed to the immediate reward of accessing content they seek. Asking them to pay for it would, in most cases, kill the transaction.

Additionally, the pay-for-news model becomes problematic when savvy Internet users have the means to find alternative, free sources of news and information.

But publishers remain loyal to the Derivative Myth, a fallacy that holds that most of the news on the Internet originates in newspapers. Roy Peter Clark, a scholar at the Poynter Institute for Media Studies, has even suggested in a controversial essay that citizens have a civic obligation, a duty, to read the newspaper in print, not pixels. Clark must have ingested the narcotic in the



*Walter Isaacson, now of the prestigious Aspen Institute, wrote the “How to save your newspaper” cover piece for Time, where he was once managing editor.*

ink. The problem is that newspapers no longer inspire such confidence.

Our latest iFOCOS poll shows that about 70 percent of Americans are dissatisfied with newspapers. The number is consistent with three years of iFOCOS polling, and with polls conducted by other organizations, including the American Society of Newspaper Editors.



*Finding news affinities helps create connections that traditional newspaper sites miss.*

Our poll also shows that most Americans believe traditional news media are least likely to lead the U.S. to a better future. Traditional media finished last on a list of choices with only 13% saying that media should lead the way. That trailed small business/entrepreneurs (63%), science/technology leaders (52%), people you know (38%), yourself (36%), the Internet/blogs/social networks (32%), non-profit groups (32%), government/government Leaders (31%), and religious leaders (28%),

So, U.S. newspapers disappoint even as most Americans have a low expectation for them. That doesn't establish much value for the content that publishers would like to sell to an audience that has a world of choices.

Still, Isaacson's old story should not be dismissed outright. Might consumers buy news the same way they buy music, one song at a time? Would they buy and consume related stories compatible with their interests and buying habits?

Both of these ideas have also been around a while. iFOCOS collaborators developed an iTunes-the-News concept five years ago as the Apple iPod turned the music industry on its ears. Back in 2001, collaborators Chris Willis, Shayne Bowman and Ellen Kampinsky created an Amazon-the-News model that applied Amazon's mass collaboration technology and its relational-content database to news.

Newspaper publishers ignored it, but several start-ups have built successful businesses around the concept. Meantime, broadcasters such as CNN, The Travel Channel and Hulu (NBC) have outmaneuvered newspapers on the web with on-demand video and interactive stories that appeal to human senses and digital sensibilities.

To extract added value from news on the Internet, newspaper companies must drastically improve the value proposition for news that begins in print. Reading the news online is not exactly one of the Internet's more compelling experiences. To regain their valued role in society, newspapers will have to do more than charge consumers for news on the Internet that they don't read in print. They must reimagine their place in society and reconsider businesses that are failing.

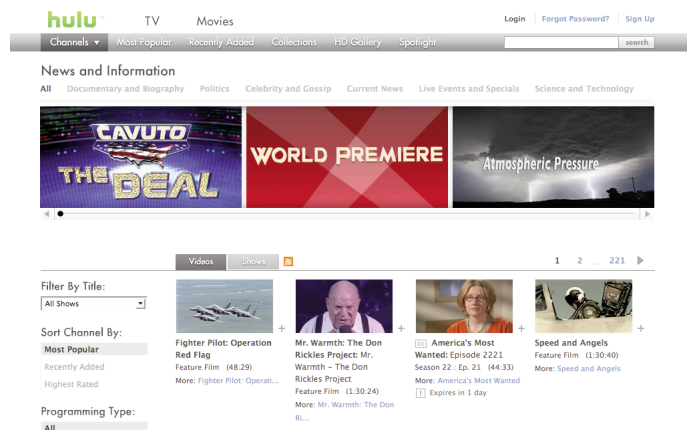
## A few challenges for a sustainable future:

- Invent new metaphors for storytelling that establish additional value for understanding and experiencing the news.
- Design compelling, interactive, multiple media stories for the “three screens” (computer, TV, and mobile phone).
- Develop platforms, algorithms and recommendation engines that glean context, meaning, and relevancy from a universe organized by popularity.
- Develop applications across media that fulfill the experiences of daily life.
- Apply content from everywhere to anyone’s personal page or screens.

## Visions, values and the challenge to innovate

The quest for survival in the New Now is ultimately about two things: vision and value. No matter how you look at the balance sheet, these are declining assets for the beleaguered newspaper industry.

As the recession deepens, institutional rigidity mounts as threatened companies eliminate investment in innovation, slash brainpower from their budgets, and return to the familiar standards and practices of their core businesses.



*Hulu's robust news and information channel.*

Einstein famously said that the definition of insanity is doing the same thing over and over again and expecting different results. He also questioned whether the consciousness that creates a problem has the capacity to solve it. Back to Dean Singleton and the publisher's view of the current problem.

The real problem for newspapers is relevancy in the digital world. Can the news industry develop a new theory of relevance? All motion is relative.

Several companies are beginning to rethink the equation:

- The Associated Press prepares for the future by studying the habits, behaviors and digital DNA of digital natives, and also by developing a technology platform that can deliver relevant pieces of news and information to them one atom at a time.
- Gannett builds on its work connecting engaged communities by hiring social media experts, audience anthropologists, and digital developers.

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<http://www.huffingtonpost.com>

<http://cnn.com>



Non-profit center for global research, analysis and collaboration to foster a better-informed society through media.

- ▶ We Media conference
- ▶ We Media Community
- ▶ We Media bog
- ▶ Media research & ethnography
- ▶ Media innovation

[info@ifocos.org](mailto:info@ifocos.org)  
703.899.6149 or 703.474.5563

■ The Knight Foundation seeds hundreds of community-based projects. It is also stimulating initiatives in technology and public policy through the World Wide Web Foundation with Tim Berners-Lee, and the Knight Commission on the Information Needs of Communities.

There are scores of other projects at newspapers, but too few to compete with the relentless flow of innovation coming from outside the industry. News companies continue to view each other competitively and have never successfully worked as an industry. Meantime, a new generation of developers has learned how to innovate by collaborating and by applying open standards. The process yields high returns at lowered costs.

Venture-backed startups such as Automatic, Outbrain, Disqus and Lijit invest millions of dollars for development of smarter systems to organize conversations and discover relevant content across the web. Open marketplaces such as Innocentive for scientific research and GeniusRocket for advertising production rewrite the rules and economics of trusted business transactions and services.

For newspapers, the challenges are daunting. Can U.S. publishers and journalists get over themselves? Do they have the capacity to innovate out of a recession? Can they work together? Can they see what everybody sees but think what nobody else has thought?

Our most recent data from the iFocos poll creates a scenario for action. The public's outlook for the future is a painful reflection of the place that newspapers currently hold in American culture. Most Americans don't think they will lead us to a better future. They look to science, technology and entrepreneurs for that leadership.

This raises another old question that takes on new meaning as the world's economy reorganizes around collapse and diminished returns: what's the purpose of a news enterprise? Is it simply to produce, package and distribute data?

We look to publishers and journalists to lead us to a better future. That is a call to action to improve performance and to reset expectations. However they are configured, news enterprises must lead. And to lead they must change.

The requirements are vision and value. We hope that challenges inspire and that history is forgiving.

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