

OVERVIEW

The Board of Directors for the Northern California Chapter of the Society of Professional Journalists stands firmly in opposition to any attempt by the Federal Trade Commission to issue regulations that would affect the practice of journalism in the United States, whether in traditional or online media.

Our board offers the following responses to five discussion points identified by the FTC (quoted in bold below). You are welcome to make any use of them you wish in preparing SPJ's national response to what we recognize as a threat to the free flow of information to the public and to the First Amendment rights of journalists.

While we limit our remarks here to the points raised by the FTC, we would welcome an ongoing discussion within SPJ on the broader issues related to quality, diversity and innovation that stem from the evolution of new and old media.

(1) “The economics of journalism on the Internet and in more traditional media”

As the FTC notes, the Internet has opened a variety of interactive channels that benefit the public and enhance the free flow of information, to the betterment of an informed public. Millions of Americans now get their news online, whether from traditional newsgathering organizations, neighborhood blogs, nonprofit startups, ad-supported news companies or other outlets of their choosing. While this has been a disruptive force to the print news industry, it is inevitable, it is already benefiting society and will yield far greater benefits in the years ahead.

Several media organizations have established new and profitable business models, paving the way for others to follow. The newspaper and magazine industries have had nearly two decades to prepare for these new markets.

It would be an oversimplification to blame the decline of newspapers on the growth in online media. And to issue regulations to alter that relationship has far greater potential to compound problems than to improve the situation for either print or online publishers.

In addition to responding to challenges brought by new media, several major newspaper chains took on extraordinary debt burdens from 2000 through 2005, in a bid to consolidate as industry revenues peaked. In hindsight, these repeated waves of consolidation reduced the amount of information available to the general public and eliminated thousands of jobs in journalism.

These debt-heavy chains were also highly vulnerable to the economic recession that began in December 2007 and contributed heavily to the current declines in newspaper advertising revenue. However, newspaper revenue is likely to improve as the broader economy resumes its growth.

The evolution of any new medium has historically taken 25-30 years to form mature business models. This was true for radio and television. Both of those once-new media developed effective business models and thrived, even as newspaper revenue

continued to grow. We expect online news media to mature similarly over the next decade.

There is no reason for the FTC to issue regulations that would affect this competitive environment. Indeed, intervention at this point is likely to thwart development of effective new journalism models. Further, regulation would be a potential threat to the free flow of information as guaranteed by the First Amendment.

(2) “How the business models of different types of news organizations may evolve in response to the challenges associated with the Internet”

Online business models are already evolving along the 25-30-year cycle cited above. Media organizations (including newspapers), nonprofit foundations, venture capitalists, individual investors and private citizens are working furiously to improve online news models already in the market and to build more efficient and profitable models for the future -- much the way they did in the early days of radio and TV during the 1920s and 1940s, respectively.

In this period of experimentation and growth, it would be highly injurious to the public and to these entrepreneurial activities for the FTC to intervene in any way that might affect these efforts.

We also believe it imprudent to interfere with the evolution of news media during the current economic downturn. As the economy improves, so will advertising revenue of both online and print publications.

While substantial advertising revenue is clearly shifting from the print to online worlds, ad spending is likely to rise sharply with improved economic conditions in both print and online media. Online advertising has grown into a multibillion-dollar market, and its growth is accelerating.

(3) “Innovative forms of journalism that have emerged on the Internet “

The Internet already has given birth to new media products that have become household names -- Facebook and Twitter, for example, which gave citizens in places like Iran and Thailand new tools to report news that could not be covered by traditional media. Their public benefit is without question, whether used overseas or on Main Street, USA.

Companies like MarketWatch.com and cNet have opened the doors to new ways of presenting useful news and information to, respectively, investors and consumers. Nonprofit newsrooms have sprung up in almost every major city, often providing hyperlocal content that goes beyond the reporting of local print papers. The Internet also has allowed ordinary news consumers to gain access to widely differing views on myriad subjects through search technologies.

Low financial entry points on the Internet have empowered millions of new voices to report news of critical interest within their communities, shining a light into corners often overlooked by ad-driven print newspapers. The Internet has given greater voice to ethnic minorities, women, the poor, seniors, youth and other marginalized groups. More

exciting developments are likely with the evolution of news-reporting models that will create a wave of sustainable, profitable journalism models.

Again, we urge the FTC to avoid taking any step that may alter competition with print publications, which continue to dominate every major urban market in the country, even in this financial downturn.

(4) “How competition may evolve in markets for journalism and advertising”

For advertisers, new technologies offer new, low-cost channels to reach desired customers. Online advertising, which was negligible in the mid-1990s, generated \$10.9 billion in revenue during the first half of 2009, according to the Internet Advertising Bureau. As more advertising shifts to online media, it will build financial support for commercial news organizations.

Because of low costs of entry, nonprofit publishers -- most with socially beneficial missions -- are emerging. Foundation funding has been cut sharply, largely due to broader economic problems. However, nonprofit news sites are springing up across the country, reflecting ingenuity and dedication of entrepreneurial journalists who see an opportunity to expand the flow of information.

Most newspaper chains have seen sharp drops in advertising during the recession, after reaching a record year in 2005. Growth in online advertising has not offset the loss. Print media companies, however, will eventually stabilize as they learn to compete more effectively in the evolving online sector and as traditional ad revenue rebounds.

(5) “Changes in governmental policies that have been proposed as ways to support journalism”

FTC policies affecting evolution of the news industry would not only be ill-advised but could be unconstitutional. They may interfere with the changing activities of journalists in media new and old. "Congress shall make no law ... abridging the freedom of speech, or of the press."

It may be that certain newspaper companies may wish to transform themselves into tax-exempt nonprofit corporations. Legal mechanisms to do so are already in place and require no action by the government, although such efforts may require consent from the shareholders of print media companies. Such companies, however, should be held to the same strict standards as other 501(c)3-chartered companies, if they choose to reconfigure themselves as such. We would oppose the notion of creating a special category for print publishing companies that would give them competitive advantages over other news-focused nonprofits, which have long struggled to compete in a market dominated by large newspapers. Special status for the largest players would run counter to the best interests of the marketplace of ideas or, for that matter, to any free market.

There also have been calls for easing antitrust barriers for large media companies. This would further narrow the variety of unique viewpoints available to the American public while putting smaller, emerging media companies at a distinct competitive disadvantage. Much of the current problem facing newspapers stems directly from recent consolidation,

which limited the flow of news from competitive publications, triggered cutbacks in newsrooms, limited choice for advertisers, and led to huge debt burdens for the publishers themselves, to the detriment of shareholders.

Conclusion

In consideration of the above reasons, we urge the Federal Trade Commission to refrain from action that would alter evolving competition in the news marketplace.

Thank you for your attention to this matter.

Sincerely,

Board of Directors, Northern California Chapter of the Society of Professional Journalists

OVERVIEW

The Internet has revolutionized the way Americans get their news and how that news is reported and shared with the public. These changes have advantages and disadvantages for the industry and American society.

On the one hand, the Web has empowered the public by creating an exponentially large pool from which to draw news and information. Readers, who once tapped only the TV, newspapers and radio for news, can now access an array of useful information and opinions from blogs, "citizen-journalists," databases and social media sites such as Facebook and Twitter.

On the other hand, the competition posed by the Internet and other forms of entertainment have changed the economics of journalism such that traditional media are still struggling to compete. The Internet, and the failure of traditional media to adapt to it, has spurred layoffs of journalists and the deaths of traditional news-gathering institutions around the country.

Nearly every major newspaper in the country has reduced staff as profits have shrunk, and those lost are often the most experienced and knowledgeable about their communities. Meanwhile news staffs across America are being told to "do more with less" as their operations are trimmed. We're hard-pressed to find the benefit of such cuts, which we fear imperil watchdog journalism.

When it comes to digital delivery of the printed word, *Newsweek* Editor Jon Meacham may have put it best when he recently said the media is at the "Sony Cassette Walkman" stage of innovation. But while rapidly advancing technologies continue to make it easier for consumers to access news and information, the print media has so far failed to invent a profitable model for digital content delivery.

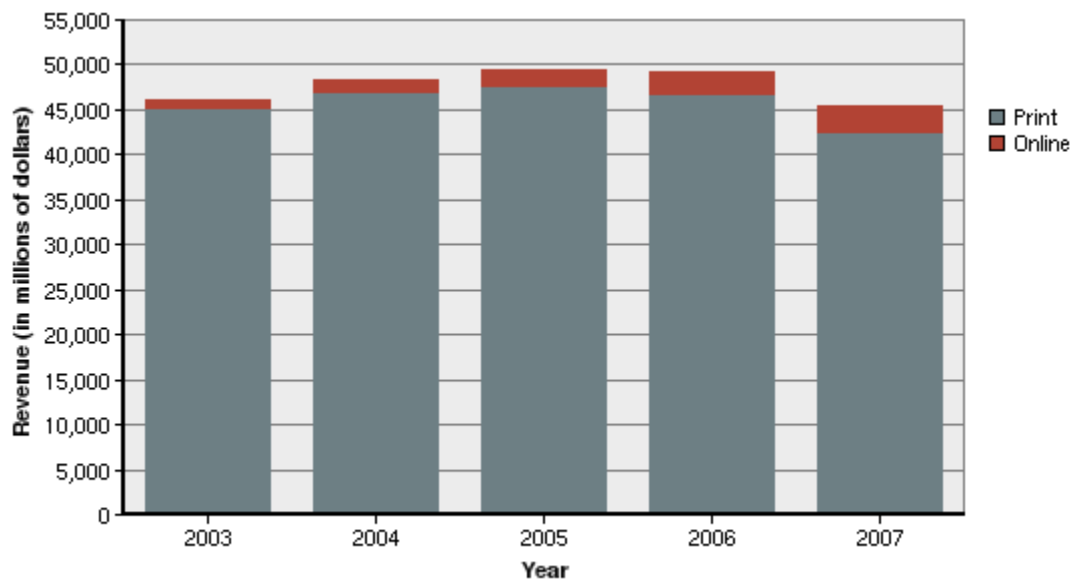
As recently as two years ago, online ad revenues were a healthy source of growth for newspapers, when they climbed nearly 19 percent between 2006 and 2007, according to the Newspaper Association of America. But online ad revenues fell 1.8 percent to \$3.1 billion for all of 2008, before plummeting 13.4 percent between the second quarter of last year and the same period this year.

There are two main reasons why newspapers have failed to profit from online ads. First, papers devalued online ads in the mid-1990s just as consumers increasingly turned to the Internet for news. For years, newspapers charged minimal fees for online ads or gave them away in package deals when advertisers paid for print ads.

Secondly, advertisers still await the emergence of an accurate, standard model to quantify the reach of newspapers' online ads and value them accordingly. Identifying the person viewing an online newspaper ad, how long the ad is seen (if at all) and whether the ad drove floor traffic remain as challenges.

The failure of newspapers, however, to tap online ads as a primary revenue source is not for lack of an audience. Newspaper Web sites attracted more than one-third of all Internet users in the third quarter of 2009, according to the NAA. But advertisers still don't value online newspaper ads because those visitors often fly quickly in and out of newspaper sites. As often, readers view one story of interest — found through a search engine or a news aggregator Web site — without viewing online ads elsewhere, such as on papers' homepages and in digital classified listings.

Internet ad revenue on the whole is expected to grow in the U.S. this year (it's the only advertising medium in which experts anticipate revenue increases for 2009). The media service firm ZenithOpimedia has predicted Internet ad revenue will rise 9.2 percent to \$54.1 billion this year. The trouble for newspapers is they face a glut of tough Internet competitors including free classified listing from sites such as Craigslist. And at most newspapers, Internet ad revenue only represents a small fraction their revenues. Newspapers still make more money from print ads.



SOURCE: Source: Business Analysis and Research, Newspaper Association of America / www.stateofthemediamedia.org

Many online businesses are struggling with similar problems. Even with millions of users and an abundance of free user-generated content, Facebook has yet to become "cash-flow positive." Twitter, meanwhile, has surged in popularity, but the site still hasn't turned a profit.

Instead, search engines such as Google have come to dominate online advertising because they are able to customize ads, which pop up beside searches, depending on users' interests.

When businesses do buy ads online, they often opt for cheaper, more targeted ads, which they purchase through networks and exchanges that bundle ad space from multiple Web sites. Such networks include AOL's Advertising.com and Google's DoubleClick Ad Exchange.

For its part, Google uses detailed metrics to measure the effectiveness of their ads, with the site going so far as to suggest the best ad language based on what attracts the most clicks. Meanwhile, newspapers haven't been able to demonstrate that their online ads, which often command a premium compared with other sites, actually perform better. As a result, newspapers are increasingly looking to tap readers themselves for revenue.

TRYING TO FIND A PROFITABLE MODEL

To different degrees, newspapers of all sizes are charging, or considering charging, for content online. Methods to charge for news online include "micropayments" or small per-article fees, archive charges, an array of Internet news subscription services and various incarnations of "pay walls."

Traditional pay walls require readers to buy access to a newspaper's entire site. Other pay walls provide one or more stories for free before charging readers, while some leave most offerings free but selectively charge for unique content such as columns or financial news and analysis. For its part, the Associated Press licenses its stories and photographs to many of the Internet's major hubs including news aggregators such as Google and Yahoo! News. And its executives have publicly mulled charging more to Web sites for rights to publish breaking news slightly earlier than competitors. But the AP, and the media outlets that make up the nonprofit news cooperative's members, still don't feel they're fairly compensated by the aggregator sites that use their content.

Newspapers' moves to charge readers for content online, meanwhile, have been equally unsuccessful at producing an economically viable model. That's partly because many readers have balked at papers' efforts to charge them for news after years of allowing free access. As a result, the media's search for new revenue sources continues. And, in the coming years, industry experts and newspaper executives predict they'll seek revenue by:

- Capitalizing on their brands to create and aggregate news. Newspaper Web sites are likely to increasingly serve as online town squares that

aggregate content from for-profit and nonprofit news sites of all shapes and sizes.

- Converting traditional sites into information and entertainment portals. In addition to providing news, such sites would be crosses between phone books and encyclopedias, serving as handy reference guides on local issues and topics.
- Collaborating more closely with competing newspapers, media outlets and readers to generate content, avoid redundant stories and pool coverage resources.
- Switching to online-only operations or printing less often, but releasing thicker, pricier copies with more local news and investigative pieces.
- Relying more on income from circulation and new revenue streams rather than advertising. For example, newspapers anticipate revenue growth via charging consumers to access news and unique content on their cell phones and through electronic book devices such as Amazon's Kindle and the Sony Reader.
- Letting readers selectively pay for news. Experiments are underway to let readers create customized Web sites programmed to supply and charge for only the news and information the reader is interested in viewing and/or printing.

These days, newspapers are in a transformative phase that is as exciting as it is frightening. Many in the industry are now "platform agnostic" in that they no longer view newspapers merely as ink on wood products. Twenty years ago, music listeners with boom boxes and Sony Cassette players likely never envisioned a world of iPods and musical phones. But, to survive and thrive, newspapers will have to anticipate and participate in the latest, revolutionary content delivery systems.

CHANGING HOW WE GET THE NEWS TO YOU

The Internet has not only changed the business side of news reporting — it has changed how journalists go about their daily lives reporting the news for better and for worse.

As online technology continues to develop, more and more tools are available to journalists to help them find the news. For instance, many public records and government databases, from court dockets to environmental citations, are now easily accessible via the Internet, posted there by government agencies themselves or watchdog groups. This makes it easier for journalists to find important stories about what's going on in their communities.

However, the new news economy has shrunk the staffs of many news organizations, leaving many working journalists feeling as though they're being

asked to do more in less time than ever before, leaving them less time to fully report and find good stories. Gone are the days when many news organizations had dedicated staffs of investigative reporters who were allowed to spend weeks or months working on complicated stories about hidden corruption and malfeasance. Good reporting is often expensive in this way, and investigative reporting now comes at a price many news organizations feel they can ill afford right now.

On the positive side, the Internet is driving some of the strongest and most compelling work out there. Today's stories include innovations such as searchable databases for readers to conduct their own research, interactive maps that allow them to find, for instance, all the registered sex offenders near their homes and maps that identify road projects in their neighborhoods.

At the same time, the Internet is radically altering how news content is distributed to the public at large. Social networks and social news sites allow journalists to promote and deliver their content straight to their audiences. Anyone who can perform basic functions on a computer can start a free blog and immediately be a citizen-journalist. Likewise, where an advocacy group such as the Sierra Club or the Eagle Forum once needed to "sell" a story idea to a newspaper editor or TV news producer to get its ideas out, those groups now have their own Web sites and can easily communicate directly with the public, offering readers reports, white papers, research projects, fundraising solicitations, and legislative alerts.

ROLE OF GOVERNMENT

The massive upheaval in the news industry -- particularly the shuttering of news outlets like the Rocky Mountain News -- has prompted many Americans to question what can be done to help the news industry. With that has come much discussion over the impact of government policies and the overall role government should, or should not play, in the news business.

Some people have gone as far as to suggest that government should provide direct financial aid to financially struggling news outlets. But this raises huge red flags. The term "firewall" may not have existed when James Madison penned the Bill of Rights, but he would have understood what it meant: The First Amendment exists to create a firewall between government and the press, and many journalists feel that such financial support would break down part of that wall. It would also raise ethical questions for the news organizations that received such funds: If the federal government injected funds into private or non-profit media companies, the journalistic integrity of said companies would come into question. How can news organizations perform their role as a watchdog on the very institution that provided them financial support?

At the same time, such funding could create other problems as well. If

government seeks to fund "news organizations," then what organizations will be defined as "news organizations"? And who will have the power to write that definition? Such funding has the potential to place private media outlets in the same position as the one the Corporation for Public Broadcasting found itself in a few years ago, in which elected officials, unhappy with the content airing on public broadcasting, put in place appointees at CPB who sought to change that content. It could create a situation in which government officials use the definition of "news" organizations to dole out taxpayer money to news outlets that create stories they like -- such as stories about what a great job those government officials are doing -- and to punish news outlets that craft critical coverage. As a hypothetical, would left-leaning government officials use their power to fund one network or outlet, while right-leaning government officials use theirs to push money to another?

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In an effort to reduce abuse of the "fair use" doctrine, media organizations may decide to go the route that the music industry did – using DRM (digital rights management) – in an attempt to lock down the use of content. However, we should take pause and decide whether it is the business of media organizations to control the use, interaction and distribution of information in this manner. Perhaps as media organizations explore new business models this will be seen as an appropriate route to take. What we have seen thus far with regards to consumption of news and all things Internet is that consumers like free. Getting consumers to buy into the idea of purchasing a DRM tool, i.e., Kindle or buying a subscription to online content may be part of a longer solution to save the business side of journalism.

With the increase in social media tools the future of journalism is bright. "Broadsharing" instead of "broadcasting" is happening all across the world and we should be embracing it, not shackling it. Gathering and reporting the news is happening on a daily basis on too many platforms to adequately name in this statement and by the time this report is read there will be even more applications created and others that will have died on the vine – Facebook, Twitter, Tumblr, Flickr, YouTube, MySpace, are just a few worth mentioning. Thus the challenge we face is how to continue sharing content while still providing sufficient incentives to create that content and not necessarily altering the 'fair use' doctrine or copyright laws.