

Statement of

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before the

Federal Trade Commission

Workshop: "How Will News Media Survive the Internet Age?"

Washington, DC

December 1, 2009

Mr. Chairman, thank you for your leadership in trying to further the interests of journalism and the news business with these workshops.

I would like to initially discuss what has happened to the newspaper business over the past few decades and then suggest a number of initiatives which can help support and preserve high quality journalism in this country.

What's happened to the newspaper business model? There are three major areas that have contributed to much of the financial challenges our industry currently faces: the decline of classified advertising, the fixed cost nature of our current business model and the realities of the online marketplace.

Classified advertising

Over the course of the last several decades, most American newspapers developed a burgeoning stream of highly-profitable classified advertising revenue which until the last few years represented between 40-60 percent of the advertising revenues of most newspapers and the lion's share of the profits. In fact, we went back at Scripps and looked at the amount of classified advertising over the last three decades and we can confidently say that without classified advertising, there would have been very little profit at most of our newspapers.

There are two primary reasons for the decline of classified advertising: the advent of interactive tools that efficiently connect buyers and sellers and the rapidly increasing penetration of broadband Internet access in the U.S. which stood at roughly 44 percent of U.S. households in 2000 but had reached 74 percent by 2008.

While many newspaper companies have a variety of strategies aimed at providing similar services to buyers and sellers online, the reality is that the amount of profit associated with all of these efforts pale in comparison to the former print model.

New streams of revenue are a fraction of the old

As newspapers transition from dependence solely on print to a combination of print and interactive, the stark reality of this transition is most clearly described in this way: Our print businesses generate roughly \$500 per year per set of eyeballs in print revenue but our online businesses generate roughly \$75 per year. It's this essential tension between the new and the old which continues to place pressure on our businesses overall.

The fixed-cost nature of our business

The \$500 per set of eyeballs has traditionally been sufficient to pay for a number of our fixed costs which include expensive distribution systems, capital-intensive production operations as well as other print-related costs.

Today, roughly 20-30 percent of our personnel are devoted to what we feel is our long-term competitive advantage - content and sales. While we and other publishers are rapidly trying to pare back on other parts of our business that do not relate to generating content or selling, we are still faced with huge economic challenges brought on by the rapid decline in our classified business.

What's happened to the competitive landscape? At Scripps, we have experienced a decline in print circulation but have seen our online audiences grow between 30 to 50 percent each year for the last four years leading us to conclude with confidence that our combined audiences have never been bigger.

But as our audiences shift, we are faced with a brand-new phenomenon that Internet advertising has introduced into the media advertising ecosystem. According to an extensive historical analysis

from FTI Consulting recently concluded that the Internet is not only taking market share from traditional media but is actually shrinking the overall advertising market.

Their analysis shows that for every \$1 of new spending on Internet advertising, traditional media loses approximately \$3.

So in addition to a large array of local and national competitors with whom we compete for advertising dollars, this new phenomenon makes our efforts even more challenging because of this new economic reality which faces all traditional media players.

Necessary steps toward a more healthy industry.

Our businesses are clearly in a state of transition and I do not want to signal that there are any silver bullets that alone will allow us to preserve our journalistic missions.

Creating economic stability will require a number of changes on the part of owners, associations, governments and communities in order for us to continue to serve readers and advertisers in economically sustainable ways.

We believe there are several areas that we feel, however, could make a difference to all newspaper owners moving forward.

1. Behaviorally-targeted advertising. Many local media owners have begun to offer these services which allow us to sell not just specific products but a specific audience who may use our products. This type of advertising is an essential part of improving our future financial sustainability. We are extremely sensitive to the privacy issues here but feel that our experience in maintaining the public's trust will allow these practices not to inappropriately invade an individual's right to privacy online.

2. Changing the definition of the relevant market. For example, in evaluating an advertising market, we feel that it would be appropriate at this point for the government to expand the evaluation of competition beyond a comparison of newspapers to an evaluation of an entire market, including newspapers, broadcast, the Internet, direct mail, and others.

3. Support efforts to help us protect and license our content. Unlike other industries - such as the music industry - we do not have adequate structures in place to help publishers monetize the content we produce but which is often redistributed without compensation by third parties who have not had to bear the fixed costs of creating the content in the first place. The industry is working on a marketplace solution that will make it convenient for unauthorized users of newspaper-generated content to license and pay reasonable fees for such use.

4. Assist in creating uniform online audience definition standards. More than 15 years after the wide-spread adoption of the Internet, there are no universally-accepted definitions that both publishers and advertisers agree upon...there are several. Creating one gold-standard definition should help assist publishers in deriving a more fair value for the online inventory all publishers create.

Thank you again for this opportunity. Hopefully, these discussions will lead to practical actions that will help maintain the type of journalism that local communities deserve and expect.