Advertising-Supported Media and the Future of Traditional Journalism

Workshop on How Journalism Will Survive the Internet Age
Federal Trade Commission | December 1, 2009
The newspaper biz as a combined supplier of journalism and ad intermediary will continue to shrivel as will traditional journalism itself.

Traditional journalism refers to hiring editors, reporters, photographers to collect and write news. It is this labor-intensive process for generating content that is under challenge.
Overview of Analysis

Growth of web has increased supply of content and ad space, diverted viewers and advertisers from newspapers, and reduced ad prices.

More web apps + internet-connected mobile devices will increase supply of content /space and further divert viewers and reduce ad prices.

Traditional journalism will decline because advertisers have other options to attract viewers and viewers will decrease consumption if they have to pay.

Newspapers as advertising intermediaries will decline because more efficient Web-based technologies for connecting viewers and advertisers.

New models for supplying news and information will emerge.

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Basic Economics of Ad-Supported Media
Basics of Supply and Demand

Supply of advertising = space x viewers =
- Space has physical and time dimensions
- Viewers are heterogeneous based on expected sales
- Supply aka “advertising inventory”

Demand for advertising
- Depends on likely return from selling more to consumers
- Depends on cost of alternative methods of reaching consumers

Price of advertising
- Often based on “cost per thousand viewers” or the cost for some action like a click-thru

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The Ad-Supported Media Business

Journalism is the bait for securing viewers for advertisers

Viewers attracted by content (the bait)
- Typically pay some price less than marginal cost of printing and distributing

Advertisers pay for access to viewers
- Typically main source of covering fixed costs and profits

Intermediaries match viewers (buyers) and advertisers (sellers)
- Journalism/editorial side
- Ad sales side
The Traditional Journalism Business

Traditional journalism mainly funded indirectly by advertisers

Mainly an input into production of viewers for advertisers

Quantity demanded of journalism today reflects prices that are between free and low

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What’s Happened to Newspapers?
Significant increase in advertising inventory

- Vast increase in space (marginal cost of “space”=0) on web
- Significant increase in “page views” (increased by at least 40% since 2004) and unique visitors (increased by 67% since 2004); page views understated because of introduction of Ajax technologies.

Much of inventory closely substitutable for newspapers

- For advertisers online classifieds very close substitutes
- Display “online” looks like “offline”
- Online “engagement” may be less so advertisers don’t value as much.

Online Traffic in the United States

Pageviews (MM)
Unique Visitors (000)

Source: Comscore Media Metrix Reports, May 2004-October 2009
Increased supply of online content reduced demand for offline ad-supported media; time spent readers newspapers down 17% 2004-2009.

Online content closely substitutable for newspaper content; all wire services available online and lots of news-oriented material.

Reduction in viewers offline; accelerated decline beginning around 2004.
Increased Competition with Web-Based Intermediaries for Matching People and Advertisers

Classifieds
- Job boards
- Real estate sites
- Auction sites
- Craigslist etc.

Display ads
- Ad networks
- Ad exchanges

- eBay
- Google
- The Ladders
- careerbuilder.com
- craigslist
- InterCLICK
- IAC
- 24/7 Media
- BurstMedia

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Advertising revenue declines because
- Lower realized prices
- Fewer viewers = less inventory
- Advertisers substitute for online

Subscription revenue declines because
- Free stuff available online; newspapers trim content to cut costs.

Downward spiral because
- Fewer viewers \( \rightarrow \) less advertising \( \rightarrow \) less journalism \( \rightarrow \) fewer viewers

Move to online can’t make up for this
- Online ad prices too low so moving eyeballs off to online sharply reduces revenue. Online readers spend much less time with paper (68 seconds vs. 16 minutes for NYTimes) and are less engaged.

Source:

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The Big Question for Newspapers

Are newspapers like typewriters (kaput!) or like bicycles (smaller than it might have been but vibrant)?

Does this downward spiral result in collapse?

Does it result in a new equilibrium with different mix of subscription and advertising revenue and journalism; less print and more online?

49 newspapers have closed in last 5 years including some major ones; others are distressed.

Total circulation has declined by 11 percent in last 5 years.

Advertising revenue has declined by 26 percent in last 5 years.
Either way: difficult to see how traditional journalism won’t shrink considerably. Still might have a soft landing like bicycles.
The Coming Deluge of Ad Space
Vast Expansion of Ad Inventory on Mobile Devices

Number of internet-connected mobile phones (many with great screens) will increase from 144 million in 2008 to estimated 619 million in 2012.

Increase in amount of time people spend online on mobile

Active users of mobile internet in US grew from 22.4 million in July 2006 to 40.4 million in May 2008.

Smartphones Sales in North America

Continued Expansion of Ad Inventory on Web

- Social networking sites (Facebook)
- Broadcasting media (Twitter)
- Online portals (Google, MSN, Yahoo)
- Video (YouTube and Hulu)
Implications

Explosion of space will likely depress off-line and online ad prices thereby reducing demand for traditional journalism.

- New space will suck even more advertisers and viewers from traditional media
- Further depress advertising revenues
- Further reduce demand for traditional journalism
Future of Traditional Journalism and Media
Traditional journalism shrinks a lot
• Diminished economic value for attracting viewers
• Little evidence to suggest that online models with no print cost would support traditional journalism
• Online advertising prices can’t support traditional journalism cost it seems.

Print newspaper business (maybe) shrinks to
• Scale driven properties that can average distribution and content costs down.
• Niche properties that provide valuable and chargeable content or rely on user-generated content.
• Moves primarily online.

Drastic Disruption for Traditional Journalism and Newspaper Business Models

Hard to see how the traditional journalism and print newspaper model could be sustained
Policymakers should recognize drastically changed economics of media businesses; implications for antitrust, copyright, regulation.

Hard to see a market failure in the production of traditional journalism; shouldn’t subsidize production of something consumer’s don’t value.

Expect entrepreneurs to develop new ways of meeting consumer demand for information and engaging in public discourse.

Public Policy Observations

Don’t underestimate the ability of innovation to serve consumer demand

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Further Reading

• Evans, Online Advertising Industry: Economics, Evolution and Privacy, *Journal of Economic Perspectives*, Summer 2009


• Also see various blogs on [www.catalystcode.com](http://www.catalystcode.com)