

Additional Background on Closing Remarks, FTC, June 15, 2010

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In *The News Landscape in 2014: Transformed or Diminished* (November 2009), Richard Foster of Yale School of Management and I outlined three strategic responses that newspaper publishers need to pursue, *if* they are to transform their business models and position their news organizations to survive and thrive in the digital age.

Simultaneously, they need to:

- Eliminate high fixed costs associated with the traditional business model (focusing first on outdated “legacy” printing and distribution systems) while keeping pace with readers’ and advertisers’ changing media habits.
- Reestablish community (or multiple communities) of loyal readers online.
- Build online revenue streams to replace declining print revenue, by tapping into new sources of “non-traditional” marketing that have flourished in the interactive age.

Research the University of North Carolina conducted over the last two years on newspapers in small and mid-sized markets confirms what national publications, such as The New York Times and the Wall Street Journal, found using similar surveys designed to gauge reader loyalty. Simply put, loyalty to a specific newspaper is determined by whether readers – those who read the online version, as well as the print -- believe it is “the most credible and comprehensive source of news and information” they care about. Loyalty and engagement, in turn, drive an advertiser’s willingness to pay a premium to reach a certain audience, or “community” of readers.

So, in answering one of your closing questions – as to what could be done to encourage innovation – I mentioned three initiatives that could make an immense difference to quality rural and community newspapers – especially the three small newspapers we’ve worked with in North Carolina through a grant from the McCormick Foundation:

- Encourage the build-out of broadband and wireless in rural areas, which would allow the newspapers to offer both readers and advertisers the sort of online functionality they expect in a digital age.
- Allow behavioral targeting of advertising – something the advertisers say they desire from the local newspaper, and loyal readers indicate they would “trust” the newspaper to provide.
- Encourage standardized and downloadable record-keeping at all levels of government so that small newspapers can take advantage of open source ware

such as Open Block. By mapping, organizing and analyzing local, publicly available data (everything from births to police activity to real estate transactions), community newspapers can produce their own proprietary version of “Everyblock.” Numerous advertisers in the rural markets we surveyed for the McCormick project expressed interest in sponsoring – at a substantial premium above current online CPMs and “click-throughs” -- an online version of “Everyblock” that would reside on the local newspaper’s web site.

As part of the McCormick project, UNC students and faculty conducted extensive market research in all three North Carolina markets (Whiteville, Washington, Wilkesboro) – online surveys of 200-300 readers, as well as one-on-one half-hour interviews with 10-15 print-only readers and 10-15 longtime advertisers.

Perhaps most relevant to this discussion is research we conducted on the twice-weekly *Whiteville News Reporter*, (circulation 10,000) which has made an aggressive push into the online world. Its two-year-old web site (*whiteville.com*) averages 2,000 unique visitors a day and its Facebook page (set up nine months ago) has more than 1,000 friends. Breaking news stories are updated via a Twitter feed (“This Just In”).

Not surprisingly, readers of both the print and online editions express very strong loyalty to the *News Reporter*, giving it high marks for credibility and comprehensiveness of coverage of news and information concerning Columbus County. But *whiteville.com* is in danger of hitting a digital wall – since only half the homes in Columbus County have access to broadband or wireless. (This low broadband penetration in the county is typical of what we found in the other two newspaper markets, and of rural counties, in general, in North Carolina. Even though North Carolina is the tenth most populous state, more than 70 out of 100 counties are classified as rural.)

If anything, the online readers in Whiteville tend to be even more passionately loyal than those who consume the print version. Their loyalty (as measured by the statement: “Would you recommend to a friend or colleague?”) surpassed even the scores of premium national “brands,” such as The New York Times, in the online survey conducted by UNC.

A third of those loyal online readers surveyed report they “rarely or never read the print edition” and prefer the online version because it is “more comprehensive.” Half of the loyal online readers also read the print version. – but they turn to the web to find information they couldn’t find in the print version, everything from updates of breaking news to video of local high school football games. This suggests that quality news organizations cannot not only transfer loyalty to their online editions, but also enhance it.

But, *all whiteville.com* visitors reported that they access the web site through a broadband connection, either at home or at work– not surprising since many of the most popular features on *whiteville.com* require such connectivity. In a case of the glass half-

empty or half-full, continued growth of loyalty to *whiteville.com* requires, at a minimum, that all 10,000 current readers of the *Whiteville News Reporter* have access to broadband.

Similarly, advertisers express long-standing loyalty to the News Reporter and appreciation for the historic role it has played in creating a “marketplace” where readers and advertisers connect. But like the readers, they express a desire for much more interactivity and targeting ability on *whiteville.com* – specifically they want to move beyond “banner” or display advertising and start experimenting with some of the new “non-traditional” marketing opportunities offered by the local television stations, or national search firms. They also express some reluctance to advertise on *whiteville.com*, given the “small” audience vs. the print edition.

While television and search is usually a more inefficient buy for small town businesses, many advertisers have, nonetheless, begun to move dollars out of the print edition of the *News Reporter* and into more interactive venues. Advertisers surveyed estimated they are currently spending as much as 40% of their marketing budget on these “non-traditional” forms of advertising (and decreasing their spending with the *News Reporter* in similar proportion.) But advertisers also indicated they would be willing to “transfer” back to the online version of the *News Reporter* if they were offered “online products” that engaged readers. UNC is working with Whiteville to come up with a sales program that speaks to the engagement of the audience currently using the web site. However, unless Whiteville can also grow substantially the number of its online “readers” (so it is on parity with the printed edition), the web site will likely remain a “step sister” in the eyes of advertisers – even though the readers who currently have access to *whiteville.com* think it is superior.

Finally, even as the *News Reporter* pushes into the digital frontier with its online delivery of news, it is facing an old-fashioned challenge collecting the news – specifically accessing and publishing local data on everything from births to real estate transactions to police activity to campaign contributions. Collecting this information is the first step in creating an “Everyblock” mapping and organizing feature for the Whiteville web site. UNC students developing an open source “Everyblock” template that will be shared with community newspapers around the country (through the McCormick grant) have discovered that most state records (such as school test scores and health department inspections) are easily accessible online and downloadable. However, local records – even those that are searchable onsite at the Register of Deeds or police station, for example – are not downloadable, thus making the entry of this data into an Everyblock template time-consuming and very expensive for small, thinly staffed news rooms.

Once this data has been collected, organized and made available to online readers of *whiteville.com* (via a version of “Everyblock”), it has another important second life. Reporters can then analyze the numbers and trends, providing readers with contextual stories about important public policy issues affecting the community. In other words, by sorting, organizing and analyzing downloadable public information, these community newspapers can continue to be a vital link in a democracy – using online data collection

to inform citizens and their elected officials about policy issues that concern them, as well as future generations.

In summary, it is more important than ever in this digital age that community newspapers continue to be seen by both readers and advertisers as being “the most credible and comprehensive source of local news and information.” All three of these initiatives – roll out of broadband and targeted behavioral advertising, and standardized online access to public records – can help community newspapers take the leap of faith that is required during a time of economic upheaval and disruption.