



# The Business of Online News

BY

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*In today's helter-skelter media environment, it often seems that the only thing that remains constant is constant change. Yet it was not so long ago that the business model for a typical news organization was simple, straightforward and sustainable.*

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## The Old Journalism Models

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Back in the day, becoming a player in this media space required a large capital investment in the mechanics of production and distribution. This high-cost-of-entry exercised a “chilling effect” on new competitors, and limited the alternatives available to subscribers. Those subscription revenues alone didn’t cover the costs of production — nor were they expected to. The real money came from advertising — display ads, classified ads and commercials — and so journalism’s business models sought to maximize those advertising revenues. Since a larger readership base (in desirable demographic groups) allowed higher advertising rates, publishers were careful to keep subscription costs attractively low.

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## Digital Disruption

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With the advent of digital journalism, print media now face competitors with markedly lower cost structures.

The new challenge? To pass the torch of traditional news values and professionalism while adapting to the new realities imposed by technological, societal and economic realities.

With the rapid growth of the digital information environment, cracks soon began to show — and widen — in the advertising-driven business models underlying news organizations.

Paper, printing and distribution for traditional newspapers and magazines all became increasingly expensive. In contrast, producing and distributing comparable text-based information online became less expensive — and was eminently scalable. As a result, bloggers and niche websites came to provide timely news content that once was only available through mainstream media — if at all. So traditional newspapers lost subscribers — and with them, the advertising revenues necessary to fund the increasingly expensive production and distribution of news.

In the realm of video journalism, digital technologies significantly decreased production costs. However, this affordability (and the advent of cable television and online outlets) spawned a host of attractive alternatives to broadcast television news. As in the print media business models shaken by technological innovations, social media and digital video developments changed the economic equation for television news operations.

Unfortunately, most old-line media organizations didn't do themselves any favors as the digital media juggernaut began picking up speed. Many publishers and journalists were quick to denigrate the validity of social media and "the new news" — living in a state of denial, rather than learning and adapting.

Today, established news organizations face challenges from both internal and external forces. They need to cut costs, and shed the "legacy expenses" that still remain from a bygone era. They need to defend themselves against numerous competitors — innovators that can emerge without "deep pocket" investments. They need to provide differentiated content to attract and retain subscribers. And they need to discover non-traditional ways to generate revenues that will sustain a news operation. Meeting these, and other, challenges is the acid test for the digital business models underlying news organizations today.

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## The Business Of Digital Journalism

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In 2011 the Columbia University Graduate School of Journalism produced an ambitious report on the economics of digital news. “The Story So Far: What We Know About the Business of Digital Journalism,” sought to shed light on key elements transforming the business of news. The report identified relevant characteristics of the changing world of digital journalism, including those noted below:

- Digital requires a new way of thinking about your audience, one that now feasts on an abundance of information.
- Digital platforms fundamentally change the customer experience, in ways that are both advantageous and harmful for news organizations’ economics.
- Digital enables news organizations to trim the cost of doing journalism,
- Digital upsets media’s typical pattern of high fixed costs and low variable costs.
- News organizations can more easily build new audiences centered on specialized topics or interests.
- Digital platforms enable publishers to deploy their readers and viewers in publicizing and distributing their content.

Although much has changed in the two years since “The Story So Far,” the report’s findings remain valid — both for the characteristics identified and for their relevance to anyone interested in understanding the evolution of journalism’s digital business models.

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## Digital Is Different

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“Business Insider” is the business-and-technology news website co-founded by Henry Blodgett (its editor-in-chief) in 2009. This online publication is an example of how a news-oriented startup can break into a crowded marketplace in less time (and with a smaller investment) than would have been conceivable not so long ago.

In a recent letter, Blodgett wrote that Business Insider’s monthly readership (more than 30 million) puts his relatively new site third (behind the Wall Street Journal and Forbes) in the rankings of digital business news publications. Blodgett’s comments had a particular resonance to those who observe journalism’s digital business models:

“...Digital is different, and you can’t just shove square print and broadcast pegs in round digital holes ... To build a successful digital journalism business, you have to build a native digital newsroom, native digital distribution, a native digital business model, and a native digital cost structure. And building those things isn’t as easy as it may seem.”

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## 24/7 Wall Street's Stripped-Down Business Model

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In stark contrast to the business model complexities embraced by Business Insider is 24/7 Wall Street — a financial news website started in 2006. Although this organization is small (with less than ten people on staff) the success of its business model could make it the envy of many others in the digital news space. A key differentiator is the site’s simplicity, and its tight control over expenses: No apps; no multimedia; most stories don’t even include photographs. “We just don’t spend any money on any of that stuff,” said CEO Douglas A. McIntyre.

Every day, the analysts and writers here produce more than thirty articles of long-form (some in excess of 4,000 words) financial commentary. The stories are syndicated to Yahoo Finance, The Huffington Post and many other large news sites — resulting in between one and two million visits to 24/7 Wall Street every

month. The resulting advertising revenues account for about 85% of this site's revenue.

“We Talk Biz News” recently interviewed McIntyre, who commented on the site's commitment to being profitable right from the start. “We never took any money. And from a business model standpoint, that sets us apart. So for every dollar in revenue, we're profiting 60 cents,” he said.

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## The Ongoing Search For Revenue

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Between the ambitious growth of Business Insights and the profitable niche content of 24/7 Wall Street there lies a vast expanse of opportunities and innovations. As digital news organizations continue to plumb these depths for sustainable revenue streams, these are a few of the many innovations under consideration (and constant revision).

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## The Paywall Model

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The “paywall” model for generating online revenues is hardly a new idea. However, effectively implementing the strategy — without leaving huge numbers of potential subscribers behind — is a tricky business. (And if there's a news organization that's discovered the perfect balance in this equation, they're not talking about it.)

By way of history: When bricks-and-mortar news organizations finally recognized that online news content was a threat to their businesses, they sought to re-create their analog products in the digital environment. Once these media properties were installed online, they faced a tradeoff: The need to remove barriers-of-entry (i.e. subscription fees) in order to maximize online traffic vs. the ingrained desire to begin charging for their online product as soon as possible. For all but the most specialized content providers, news providers “bit the bullet” — and provided a period (often stretching for years) of free online access.

Many news organizations (The New York Times, for example) approached this tradeoff by providing both a limited amount of

free content and protecting “premium” content behind a paywall requiring a subscription. Some newspapers (such as the Dallas Morning News) found the paywall approach took too heavy a toll on its traffic metrics — and removed the payment requirement entirely. In the language of the racetrack, it’s “horses for courses.”

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## Content Aggregation

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Content aggregation is the practice of gathering stories produced elsewhere and packaging them in a way that adds value to news consumers. Notable aggregation sites include The Huffington Post, The Drudge Report, Reddit and Guy Kawasaki’s Alltop.

Aggregators “curate” content resources at low cost — and “piggyback” on the credibility of their sources. In the words of investor Aaron Kushner, “The definition of a competitor now is someone who gives away your story for free.”

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## Sponsored Content

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In this revenue model, a publisher accepts payment from an advertising “sponsor” whose name brand becomes associated with a particular piece of content. (Depending on the arrangement, that content may-or-may-not be produced by the advertiser.) Sponsored content initiatives are evolving quickly at visible social sites such as Facebook, LinkedIn and Twitter.

Formerly.com is a site that aggregates news on global commerce and retail innovation. (A tagline on the site reads: “Formerly takes the work out of staying informed.”) Co-founder Ranjan Roy describes the sponsored content opportunity as “...generating an experience that doesn’t interrupt your reader and is as good as your original stories.”

What about all the other alternatives? Revenue-sharing. Crowd-funding. Nonprofit news. Affiliated events. Product extensions, and new developments in video and mobile. The list goes on and on.

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## Journalism's "Golden Age"?

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Given all the uncertainties and variables — and the vibrant experimentation now underway — what does the future hold for journalism's online business models?

Admittedly, Henry Blodgett doesn't qualify as a disinterested observer, but he does have an "insider's" perspective on this space. From Blodgett's perspective, this is a time of great opportunity: "... I really do think that this is a golden age for journalism and that we're only in the early innings of what good digital news companies like Business Insider can become."

For anyone who came of age under the avuncular guidance of Walter Cronkite, Blodgett's "golden age" label may seem to be overreach in the extreme. Many observers are uncomfortable with the increasingly cozy relationships that now blur the lines between commerce and news. And the social media explosion has redefined journalism's very identity. Despite these reservations, however, no one can claim that journalism remains the hide-bound business that shaped our information environment for so long. Digital innovation threw journalism's business model into a cocked hat — and we're beginning to see how successful news organizations will put those pieces together again.

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