

THE MEDIA INSTITUTE

## *Policy Views*

### Digital Journalism: The Audience Is Here. But Who's Monetizing the Content?

*Kurt Wimmer*

Washington is awash in inquiries into the crisis in journalism. The Federal Communications Commission launched an inquiry into the future of media because of a decline in the “accountability journalism” that provides “credible information to communities.” The Federal Trade Commission launched a proceeding offering strategies “to support the reinvention of journalism.” At a hearing last year, the chairman of the Senate Commerce Committee, Senator Jay Rockefeller, asked, “what happens when our watchdog grows mute and can no longer bark?”

All told, the amount of attention being given to the so-called “crisis in journalism” over the past two years has been staggering. Government agencies involved in regulating media are right, of course, to assess changes in the media industry and calibrate regulatory approaches to new marketplace realities. But much of the commentary surrounding these inquiries misses the essential point. Many commentators presume that the audience for journalism has deserted the media in favor of newer, shinier digital models. They too often focus on how the government can prop up newsgathering to weather this perceived loss of interest.

But, in fact, the “crisis” faced by the media industry does not arise from audiences turning away from journalism. The audience is here, and it's growing. Instead, the crisis is about how to monetize content in the new digital environment, and it is a challenge for existing and new media alike. It arises because the companies monetizing news and information are no longer those creating it — and,

conversely, that those who create it cannot use that monetization to fund more and better journalism. The divide must be bridged.

***Digital Investigatory Journalism: The Killer Application?*** Today's audience for "accountability journalism" is growing, not declining. A study released just last week found that the number of unique visitors to newspaper websites is at an all-time high — in the month ending April 2010, the audience for news in the largest 25 markets in the United States gained an additional 10 percent compared just to January 2010. The print circulation of *The Wall Street Journal* declined by about 20,000 over the past year, but the newspaper's overall circulation increased because of about 31,000 new online subscribers over the same period. And interest in online news remains strong locally as well: Considering print and electronic viewing together, *The Washington Post* reaches more than two-thirds of the adults in the Washington, D.C., market.

For its part, television viewing remains a critical part of Americans' media experience. Nielsen Media Research reported that in 2009 the average American spent about 140 hours each month watching television, about the same as a year earlier. But while total television viewing remained steady, the amount of time that American viewers spent watching video over the Internet each month grew by almost 35 percent from the previous year (and much of that growth results from time-shifting consumption of prime-time programming online on innovative sites such as Hulu). And the websites of local television broadcasters also continue to register double-digit growth.

To be sure, users are changing how they relate to media, and new digital tools for media consumption are changing the landscape forever. That explains the overwhelming interest in the Apple iPad and in iPad applications such as *Wired* magazine's digital edition, which was purchased by more than 62,000 people in its first week on sale — more than three-quarters of the magazine's average monthly newsstand sales. It also is reflected in the Pulitzer Prize awarded earlier this year to the nonprofit news outlet ProPublica for an investigative report that it published

in collaboration with *The New York Times*. It also is reflected in the classrooms of journalism schools, which are packed with enthusiastic digital natives learning to use converged media to tell stories in more interesting and innovative ways. The same is true in video journalism — Americans still demand that someone speak truth to power, whether that trusted voice is Walter Cronkite or Jon Stewart (both of whom gained prominence working for sister companies CBS and Viacom, respectively). American journalism is deploying new digital tools to continue to serve this demand, whether through delivering content to multiple platforms or “crowdsourcing” during investigatory research. But the demand remains strong and sustaining.

***The True Source of the Crisis.*** To be sure, however, there is a deep-seated challenge facing journalism. It lies in the increasingly deep division between creating and monetizing the journalistic content that consumers so clearly demand.

As billions of dollars have flowed out of the media industry — from pressures that are both cyclical and secular — the media industries have been forced to cut expenses to match revenues, and they are struggling to do more with less. Given journalism’s central role in maintaining our democracy, we are right to be concerned when fewer reporters are available to do the tough investigative work that the American public deserves and expects. There is reason to believe that media companies are turning the corner and beginning to monetize digital content — Gannett, for example, reported \$1 billion in digital revenues for 2009, amid total revenues of \$5.6 billion. Most media companies are optimistic for 2010 as revenues begin to rebound. Secular trends may also benefit from new digital platforms. It was reported this week, for example, that advertisers appear willing to pay up to five times more for an advertisement in an iPad application than for the same ad on a website.

Although the crisis in monetization is often associated solely with the “mainstream media,” it is worth noting that many pure-digital media outlets that commentators have named as the presumptive winners may still be searching for

the silver bullet as well. Many are still in venture-funding phase and not expected to yet turn a profit (such as Twitter and Foursquare) and may still be experimenting with business models. Others find themselves subject to the same pressures as other media (such as Gawker, which also had to cut staff in 2009) or are private and are not releasing numbers (such as Facebook). Others, including Pro Publica and many nimble newsgathering start-ups supported by the great Knight Foundation, run on philanthropy. Even the biggest blog on the planet, *Huffington Post*, is still in venture mode, raising money from investors as recently as December 2009 at a valuation of about \$125 million — about the value of a major-market television station in the United States.

So is anyone monetizing digital content? Yes. News and information continues to be monetized — at a rapidly increasing rate — by search engines, content aggregators, and others whose new, targeted advertising models have overtaken the spending that had supported journalism in the past. Again, the dramatic new feature here is the split between content creation and content monetization — those who create the content are not those who are monetizing it. Google, for example, had a record \$23 billion in revenue during 2009, without producing a word of original content. Google's job is simply to monetize the content that others have created, and it has performed that job exceptionally well. Today, more than 70 percent of the Web searches conducted in the United States (and up to 90 percent of those in Europe) flow through Google's servers. By its recent acquisition of AdMob, Google will control the vast majority of the mobile application advertising market as well.

Google's ability to innovate and to generate record profits in a depressed economy is remarkable. But its dominance raises an important question: What happens if one entity controls access to virtually all of the content — including news content — on the Internet?

***The Role of Search and Advertising.*** Some 88 percent of adult Internet users today report using a search engine to find information, according to a study by

the Pew Internet and Life Project — about the same as the number of people who use the Internet to send and receive e-mail. And according to a recent report by the research firm Outsell, nearly half of all visitors to the Google News aggregator service scan news headlines without clicking through to the newspapers' own sites. As a result, Outsell concluded that, while aggregators like Google News may “driv[e] some traffic to newspapers,” they also “tak[e] a significant share away.”

As we consider the crisis facing the media today, should we be concerned that one entity controls access to content for virtually three out of every four Americans? The evidence is growing that we should.

A lawsuit filed last year alleged that, without any explanation, Google raised the fees that it charged a competing search provider, TradeComet, for advertising from a few cents to between \$1 and \$10 per click. The increased costs forced TradeComet to withdraw from Google's ad network and, because of Google's dominance in online advertising, TradeComet became unable to generate the traffic it needed to compete with Google. Another competing search website sued Google after the company lowered its search ranking without explanation, again depriving the site of users and revenue. And a recent news article charged that Google has a practice of “whitelisting” favored websites, adjusting its algorithms to ensure that handpicked publishers rise to the top of its search results. The owners of the site Foundem, based on its experiences, have called for the FCC to focus on “search neutrality,” in addition to the narrower network neutrality rules it is now considering.

Time will tell if these allegations have merit. In the meantime, Google has admitted that it ranks sites that it owns higher in so-called “natural” search results, even where the websites of competitors are more popular. A Google vice president explained that the practice “seems only fair” because “[w]e do all the work for the search page . . . so we do put [our own products] first.” The company also limits competing search providers' ability to index Google's popular video website, YouTube, improving Google's own video search results in comparison and

entrenching Google's dominance in search. The Google Book Project, too, is essentially an effort to obtain an exclusive trove of content that will be off-limits to the search engines of competitors. If there were many players in online search and advertising, these practices might not be cause for alarm. But because Google is the dominant player in both by such a staggering degree, we are compelled to ask what effect its policies could have on the media that rely on the Internet to survive.

One concern raised by these practices is the prospect that, as the Internet's dominant search provider, Google could single-handedly promote — or eliminate — the speech of news organizations that it disfavored. In February 2008, reporter Matthew Lee was told by Google that his blog reporting critical of the United Nations ([innercitypress.com](http://innercitypress.com)) would be delisted from Google News. "We periodically review news sources, particularly following user complaints, to ensure Google News offers a high quality experience for our users," the notice from Google told Mr. Lee. "When we reviewed your site we've found that we can no longer include it in Google News." Google also has told author Ken Auletta that it favors *The New York Times* over other competitors in ranking Google News search results.

It's impossible to know the full impact of these actions because Google does not disclose how it produces its search results. In connection with a recent government investigation surrounding Google's surreptitious acquisition of private data from WiFi networks during its collection of photographs for its Street View service, for example, the company claimed that it had not collected any data from private networks. The company later admitted that it had collected that data but initially refused to turn over the illicitly collected material to regulators. That incident illustrates the potential that the government might never know if Google altered its search results to influence consumers' perception of the news.

A recent article in *The Atlantic* magazine (itself a purveyor of long-form journalism subject to the same pressures as all media) profiled Google's own approach to "saving the news." In the article, Google described a range of experiments — a process that it called "permanent beta" — that it claimed would

provide resources to struggling news organizations. Among the proposals were arrangements in which news publishers would engage Google to sell ads on their websites or to administer their online subscription systems (including by selling “bundles” of news subscriptions through Google News). In each case, Google would learn about the publication and its subscribers, using that information to customize a user’s Google News search results so that Google News, and not any individual news outlet, would remain the consumer’s home base for journalism.

Two features of this vision are striking. The first is that it assures that Google, and not a content-provider (or even a competing search provider), will retain its place at the top of the news ecosystem. Not surprisingly, the economic engine that has given Google its enormous cash reserves — AdWords and AdSense — would not be a part of any of these around-the-margins proposals. The second is that as Google offers a range of techniques that publishers *might* use to monetize their content — and as each of those techniques generates revenue for Google — the company takes no position on how publishers might share in the profits. On the question of how Google’s subscription service would translate into revenues for publishers, one Google employee responded, “We don’t want to encourage anyone to start charging for content, or not to charge for content. That’s entirely up to them.”

Given this fundamental problem, any effort to understand the so-called “crisis in journalism” must begin with an evaluation of the new digital environment for the consumption and monetization of journalism. Advertising is central to this inquiry — even if all the “charge for content” ideas in play today result in circulation revenue being replaced by subscription revenue, that amount will not move the dial dramatically if digital advertising is not front and center in any solution. Similarly essential is a close inspection of the role of competition in Internet and mobile search and advertising.

As they continue their efforts to focus on the crisis in journalism, our regulators should acknowledge the central role of competition in the digital environment and urge the Department of Justice to consider the impact of Google’s

dominance in this marketplace and to ensure that the antitrust laws are rigorously enforced. The government need not enmesh itself in reinventing journalism, or in considering troublesome options such as subsidies and bailouts. It is only by considering the issue of dominance in online search and advertising, and their impact on content monetization, that the government can help journalists effectively weather the crisis that they face.

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