

Robert G. Picard

Killing journalism?

The economics of media convergence

Abstract: There will always remain a need for news and journalism. What is changing is the business of news: the ways that news have been financed, distributed, and consumed are being altered and the sustainability of existing news organizations has been altered; new technologies to produce and distribute news have appeared; and there is a shift in media use and a shift of power from the media to the consumers. News organizations must innovate and adapt to developments of the converging media world. Newspapers and news providers that cannot adjust to this new situation, that cannot effectively serve their original purposes, that can no longer serve the needs of their audiences, or that remain badly managed deserve to die.

Keywords: news organizations, financing, business models, change, innovation

1 Self-interest without self-reflection

The condition of journalism needs measured consideration, but that necessity is not being met through discussion among journalists today. Much of the dialogue is driven by newspaper journalists whose self-interests and beliefs that only existing newspaper-based organizations can provide quality journalism are clouding our understanding and limiting our consideration of other alternatives (Meyer 2004; Reilly Center 2008; Pickard/Stearns/Aaron 2009; Jones 2009).

News stories focus on declining revenue, layoffs, and bankruptcies in the newspaper industry and contain little of the business analysis traditionally given to other industries. There is little self-reflection and stories primarily illustrate problems appearing in a few locations, particularly the Anglo-American newspaper industries. The view conveyed is compounded by technophiles who are promoting digital media as an immediate substitution and go as far as saying that newspapers will be dead by 2015.

This has led proprietors of newspapers in Europe and North America to use the concern and rhetoric to their own advantage by trying to get beneficial subsidies, tax breaks, and protections of their business models.

There is no doubt that technological changes and the recent global recession have created enormous economic pressures on newspapers and other news

organizations, but the underlying problem is that the traditional monopoly on news and information held by newspapers is gone. This change has been underway for several decades, but its effects have now become abundantly apparent.

2 Diminishing audiences, advertisers, and wealth

Today, radio, television and cable TV, Internet, mobile phones, and taxi, bus, and elevator screens all provide general news and information, business and finance news and analysis, sports news, analysis, and statistics, entertainment and celebrity news and gossip, and lifestyle news and features. The public is now using these platforms in ways that are altering their use of legacy news sources – especially newspapers and television news. The problem today is not that there is insufficient news and information, but that audiences are drowning in it.

All of these choices have led advertisers to alter their expenditure patterns (see Siegert in this book). Newspapers have paid a particularly heavy price – especially in countries such as the U.S. where papers had an unhealthy dependence on advertising income and relied on it for 85 percent of their income. The changes in advertiser choices and the downturn in the economy thus had dramatic consequences for the financing of newspapers. Even in Europe – where ad dependency tends to be 55 to 65 percent of income – the economic crisis produced significant declines in revenue (Currah 2009; Levy/Nielsen 2010).

These changes in the primary income stream of newspapers have been particularly painful because between 1950 and 2000 advertising revenues increased about 300 percent in real terms and made papers extraordinarily wealthy in the 1980s and 1990s, even as audiences were shifting their use to other media (Picard 2002). The last two decades of the twentieth century marked an unusual era for newspaper revenue, but today we think it was the norm for the industry throughout the last century.

As a consequence of the growing wealth, newspaper firms created large organizations with heavy overheads. They increased the size of the markets; they added journalists to their payrolls; they expanded their bureaus; they made great profits for the owners.

News providers of all kinds created expensive organizations and operations. News Corp. – which had revenues of 6.7 billion dollars (10.9 billion dollars today adjusted for inflation) in 1990 – reached revenues of 30.4 billion dollars in 2009. The BBC – which had an income of 220 million pounds (1.7 billion pounds today

adjusted for inflation) in 1975 – had an income of 4.605 billion pounds in 2009 (27 times more money in real terms than in 1975).¹

All the companies expanded and some commercial news firms, particularly in North America, took on heavy debt on the expectation the good times would continue (Picard 2006). They did not, of course, and the structures and costs developed in the wealthier era can no longer be maintained; hence, the cutbacks and downsizing.

A portion of the difficulties many firms are having adjusting to the changes in the contemporary media environment result from organizational success making change and innovation difficult. Growth of company size creates complexity and the need for more managers and greater division of responsibilities. This makes decision making more difficult and company policies and processes often interfere with the pursuit of new initiatives. This occurs because there is a natural tendency for companies to continue to follow paths that made them successful, especially if innovation often offers less short- to mid-term reward than historic activities.

This has been particularly troubling for the newspaper industry, whose identity is integrally wrapped up in printing and traditional print journalism. The problem is that large portions of the public are now fleeing newspapers that once aggregated large audiences in some markets. Those who remain customers are spending less time with them, and young people are not widely adopting the newspaper reading habit.

This shifting media use is central to the challenges facing the news industry. The increasing competition from other types of media – in terms of number of media available and number of providers on those platforms – is wreaking havoc. Part of this trend is the result of changing society and lifestyles created by urbanization, commuting, changing roles of women, and new concepts of community and connectedness. In an era where technology empowers users, the desire and ability for increased control over content use and participation in the content itself are rising – a development that is anathema to many journalists (see Laufer and Quiring in this book). Audience members are no longer content to be spoon-fed news and information and are now exercising individual choices and developing new consumption habits (Picard 2011). Advertisers are following audiences and moving heavily to other forms of marketing – diminishing the role of advertising in their marketing mix.

¹ Revenue figures are from News Corp. and BBC annual reports. Calculations of current dollar values were made by the author using U.S. Department of Commerce price inflator data.

Although these trends have particularly affected Anglo-American newspapers, if one looks behind the basic circulation and advertising expenditures in other nations a similar pattern is emerging and starting to have profound effects.

3 Shifting control, power, and organizational structures

Underlying all this is a power shift in communications. Media space was previously controlled by media; today it is increasingly controlled by consumers. News and information are no longer supply-driven, but demand-driven markets. The financing of all initiatives in cable and satellite TV and radio, audio and video downloading, digital television, and mobile media are based on a consumer payment model. Today, for every euro spent on media by advertisers, consumers now spend three euros. This has led companies to reduce advertising expenditures and they are now only about one-third of total marketing expenditures of major advertisers. Marketing money is moving to personal marketing, direct marketing, sponsorships, and cross promotions.

The shift in power is also facilitating production of consumer-created content with inexpensive and readily available creation software for audio, video, web design, personal sites, and blogging (Küng/Picard/Towse 2008). The technologies are promoting new types of news and information providers, peer-to-peer sharing, social networking, and sharing of information. Fixed place communications has shifted to mobile communications, and interactivity and user choices are shifting significant time to alternative interactive media uses (Bakardjieva 2005).

It may seem profane, but newspapers and news providers that cannot adjust to this new situation, that cannot effectively serve their original purposes, that can no longer serve the needs of their audiences, or that remain badly managed deserve to die. Journalists seem to think that newspapers have a right to exist and can exist forever. It is incredibly naive to believe that any company or organization will last forever. Few companies last more than two or three generations. There are only about 1,500 firms worldwide that are two hundred years old. A few newspapers are on the list, but most are vineyards, breweries, hotels, and restaurants.

Economic, technical, and social trends are creating huge challenges for legacy news industries. The costs of news gathering and distribution are markedly lower for digital media and these lower costs of entry facilitate risk-taking in developing new means of conveying news and information, and allowing the

introduction of novel news and information products by other firms. The new products are revealing product limitations and flaws in legacy news media, and weaknesses in customer orientation of legacy media, thus attacking economics of scale in legacy media, and making organizational inefficiencies and cost structures even more untenable. Change is no longer a choice; it is a requirement for news organizations!

Some important evidences of changes are: the increasing disputes among owners and board members of legacy media; newspapers selling their large city-centre buildings; reorganizations and break ups of newspaper groups; the closure and divestiture of less profitable or central activities; unsolicited offers to purchase news organization assets; and new owners and funders entering the industry with different motives and operational ideas.

But does this mean that journalism is being killed? Listening to the rhetoric one would certainly think it is.

If one steps back, however, it is clear that there will always remain a need for news and journalism. The need for news is not changing; what is changing is the business of news. The ways that news has been financed, distributed, and consumed are being altered and the sustainability of existing news organizations has been altered. The tempo of change is affecting news media differently. Some countries are being affected more rapidly than others. Broadcast audiences are more affected than print audiences, but the financial situation of newspapers is most affected because they have the highest non-news cost structures. National and large metropolitan newspapers are most affected in some countries, but local newspapers are most affected in other countries (Picard 2010).

The appearance of new means of communication has always induced changes in existing media by altering their functions and roles, their business models, and their use, forcing them to adapt to survive. In the past two centuries, telegraph services changed with the spread of the telephone, radio altered when television appeared, television channels adjusted to development of cable, and newspapers are now changing because of television, cable, and the Internet.

But change does not necessarily lead to wholesale destruction. We still send the short quick messages of the telegraph, albeit by SMS and e-mail. We listen to the radio for entertainment, news, sports, and discussion of public affairs and watch television for the same purposes. We read newspapers for news, analysis, and features. We use the Internet for communication, social interaction, information, and news. One is not completely replacing the other but is changing the amount we use the various media and creating new preferences for serving certain types of content from particular media.

But we should not really be concerned with the fate of particular media; what should concern us is the fate of journalism. We thus need to think carefully about

the future and how we respond to the changing conditions. The big question is: “How do we finance and organize journalism in the twenty-first century?”

Obviously, news organizations will need smaller and more agile operations and take a far more entrepreneurial approach than in the past. New and different types of news and supplemental news providers will emerge to fill gaps. News organizations of all types will have to become more innovative in their products and processes and will have to cooperate through alliances and networking in ways they have been reticent to do in the past. Revenue will have to come from multiple sources and reduce the dependency on any one source. In the end, managers will have to rethink their entire business models for media to ensure that it creates greater value for customers.

4 Journalism is separate from news enterprises

Questions about whether we are witnessing the end of journalism have made many journalists in legacy news operations apprehensive. But much of the concern results from a misunderstanding of the nature of journalism.

Journalism is not a job; it is not a company; it is not an industry; it is not a business model; it is not a form of media; it is not a distribution platform. Journalism is an activity. It is a body of practices by which information and knowledge is gathered, processed, and conveyed. The practices are influenced by the form of media and distribution platform, of course, as well as by financial arrangements that support the journalism. But one should not equate the two.

The pessimistic view of the future of journalism that many hold is based in a conceptualization of journalism as static, with enduring processes, unchanging practices, and permanent firms and distribution mechanisms. But if one considers history, one sees that journalism has constantly evolved to fit the parameters and constraints of audiences, media, companies, and distribution platforms.

In its first centuries, journalism was practiced by printers, part-time writers, political figures, and educated persons who acted as correspondents – not by professional journalists as we know them today. In the nineteenth century, the pyramid form of journalism story construction developed so that stories could be cut to meet telegraph limits, and production personnel could easily cut the length of stories after reporters and editors left their newspaper buildings. Professionalism in the early twentieth century emerged with the regularization of journalistic employment, and professional journalistic best practices developed. The appearance of radio news brought with it new processes and practices, including “rip and read” from the news agencies teletypes and personal commentary. TV

news brought a heavy reliance on short, visual news, and 24-hour cable channels created practices emphasizing flow-of-events news and heavy repetition.

Journalistic processes and practices have thus never remained fixed, but journalism has endured by changing to meet the requirements of the particular forms in which it has been conveyed and by adjusting to resources provided by the business arrangements surrounding them. Journalism may not be what it was a decade ago – or in some earlier supposedly golden age – but that does not mean its demise is near. Companies and media may disappear or be replaced by others, but journalism itself will adapt and continue.

It will adjust not because it is wedded to a particular medium or because it provides employment and profits, but because its functions are significant for individuals and society. The question facing us today is not whether journalism is at its end, but what manifestation it will take next. The challenges facing us are to find mechanisms to finance journalistic activity and to support effective platforms and distribution mechanisms through which information can be conveyed.

5 The need to look forward

The perception that convergence and its economic effects are killing journalism can be attributed to an unfortunate and very human tendency to think in simplistic terms. There is a tendency to think of the glorious past and that the future can never be as good. There is a tendency to think there can be only one winner in a competitive market and that gain for one must come at the expense of another. These ways of thought have obscured understanding of what is happening to journalism and news media and what it means to society.

The changes are most felt in newspapers today because the mass media business model that nurtured them for nearly a century is becoming less viable. Television news is also being devastated. Reliance on advertisers to pay the vast majority of the costs is no longer viable because the mass audience is changing into a niche audience that is less attractive to many advertisers.

I do not wish to minimize the shock, dislocation, and harm that the changes have caused for journalists and other employees at newspaper firms and other news organizations. They are very real and very unpleasant. The kind of decline we have witnessed in the past four years is particularly devastating to firms with high overheads, unreasonable debt loads, and investors clamoring for high dividends – an apt description of many news firms before the downward plunge.

The challenges confronting news organizations are not trivial or to be diminished, but we need to view them knowledgeably to realistically assess their real effects, and to avoid panic. Journalism can survive the storm that is pounding news organizations if we maintain the will for it to survive, if we take decisive action to promote journalism in new forms, and if we do not endanger it by poor choices. The process will not be comfortable, but the storm will subside, and innovative news organizations will appear beside legacy news firms. The journalists who work in them will hopefully emerge wiser and seek to avoid mistakes that increased their vulnerability to this storm.

News organizations will probably never return to the halcyon days that made them so attractive to commercial investors in the last decades of the twentieth century. However, if they are run effectively by reasonable proprietors with sensible overheads and debts, they will be able to carry on and to serve the journalistic needs of society for many years.

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