Reuters Institute Fellowship Paper

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Common Ground

Is the successful digital transition of newspapers threatened by free public news?

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1. Can publicly funded news spoil the apps game?

It was August 2009 and the sky was still relatively bright blue over News International. When James Murdoch, the company's chairman and chief executive in Europe and Asia, delivered his MacTaggart lecture at the Edinburgh International Television Festival, he could probably not have imagined how quickly it might cloud over the global corporation founded and headed by James' father, Rupert Murdoch.

The speech though had a certain tone of gloom, conjuring up a dystopian world where an overreaching BBC kills competition and the state establishes total control over the media. It was, using the phrase in the Guardian newspaper's account of the performance, "a scathing attack on the BBC"[1]. The paper reported him as saying:

> "We seem to have decided to let independence and plurality wither. To let the BBC throttle the news market, and get bigger to compensate."

He ended the speech with those now infamous lines that were oddly out of sync with a post-Thatcher, post-Blair, mid-financial-crisis universe: "The only reliable, durable, and perpetual guarantor of independence is profit."[2]

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[1] James Robinson, "James Murdoch Hits Out at BBC and Regulators at Edinburgh TV Festival," *The Guardian*, August 28, 2009, sec. Media, http://www.guardian.co.uk/media/2009/aug/28/james-murdoch-bbc-mactaggart-edinburgh-tv-festival.

[2] "James Murdoch's MacTaggart Speech (transcribed on Broadcastnow)," *Broadcastnow*, August 28, 2009, http://www.broadcastnow.co.uk/comment/james-murdochs-mactaggart-speech/5004990.article.

Later developments at the News of the World would put this “independence” and “plurality” in a different light (and the company’s profits, too), and made one wonder if the values held by certain leaders of the conglomerate do promote a news market that is worth being throttled. As Mark Thompson, director general of the BBC wrote two years later in the same newspaper:

> If James Murdoch was giving his MacTaggart lecture this year instead of 2009 and in the (yes, admittedly unlikely) event that he turned to me for drafting advice, I'd suggest that he amended only one word in that ringing final sentence. The only reliable, durable and perpetual guarantor of independence is not profit. Nor who you know. Nor what corners you can cut. It's integrity.[3]

That is of course a wise piece of advice and one cannot really argue against it. There is little room for argument against the perception by Nick Davies (an investigative reporter at the Guardian, who did a lot to uncover the phone hacking scandal): „The phone-hacking scandal never was simply a story about journalists behaving badly: it was and is about power.”[4]

But even if we accept that the Murdoch phone hacking and bribery saga was about power politics rather than practical questions in journalism, and however arrogant the tycoon’s speech was, there were at least some sentences that bring up important questions from the newspapers’ point of view:

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[3] Mark Thompson, “Why James Murdoch Is Wrong About the BBC,” *The Guardian*, August 24, 2011, sec. Comment is free, http://www.guardian.co.uk/commentisfree/2011/aug/24/james-murdoch-wrong-on-bbc.

[4] Nick Davies, “Leveson Witnesses Halt the Tabloid Power Grab,” *The Guardian*, February 27, 2012, sec. Media, http://www.guardian.co.uk/media/2012/feb/27/leveson-witnesses-power-nick-davies.

> "Dumping free, state-sponsored news on the market makes it incredibly difficult for journalism to flourish on the internet. Yet it is essential for the future of independent journalism that a fair price can be charged for news to people who value it."

A public press instead of a public broadcaster?

Fear of public funding for news is not James Murdoch's private terror of a bigger state and more regulation. In an established democracy in many cases a state subsidy or direct state financing of a news organization is seen as an attempt to control news flow by the government. According to this logic, exposing private news companies to unfair competition with a publicly run company will choke independent media and subsequently undermine free speech.

As newspapers were heading for stormy waters in the mid-2000s, the debate intensified.

A suspicion towards public companies is the general consensus in the United States where public broadcasting is much more limited compared to the practice in the countries of the European Union. However, even in the United Kingdom, where (through a licence fee) a substantial amount of public money goes into funding the BBC, a clear line was established long ago: there was a *public broadcaster* for sure (though it is supposed to operate independently of the political parties and the government), but – apart from the London Gazette, where the government publishes official, regulatory and legal information – there was no such thing as a *public press*.

A government funded newspaper at least would have been a dubious enterprise in the 20th century. The idea of such an official news outlet was regarded with a hint of contempt in democracies: a phenomenon typical of autocratic countries. That is why in the 1990s new democracies hurried to scrap the derelict institution, too. In Hungary for instance, Magyar Hírlap, a national broadsheet established in 1968, used to be the official government daily of the communist state. In 1990, after the change in the political system, the paper was privatized, and became a mouthpiece of liberal political parties, especially of the SZDSZ (Alliance of Free Democrats).

However, with the advent of the Internet this clear line that restricted publicly funded news service to broadcasting, started to blur. In fact, it has blurred so much that by now national newspapers are bound to compete with public broadcasters on the same platform and in the same format.

So has a publicly sponsored news company become a threat to private media enterprises in an age when many of the traditional newspaper are on the verge of extinction anyway? Or, on the contrary, could it provide just the necessary spur for them in just the right direction?

Before attempting to answer these sad questions, I first have to establish some facts and figures.

Newspaper transition: Dancing on egg shells

It is now quite a fact, that BBC's website has become a formidable news outlet – and not only in Britain, but probably in the whole world. The danger some can see here is not that this new public press in any way serves as a mouthpiece of the government. The talk is rather about how a publicly financed giant, which can drive independent newspapers out of business, can destroy a plurality of voices. And about how this new competition comes at a very sensitive, transitional time, when newspapers are struggling with inventing a new business model for the digital age.

The angry Murdoch junior could see the times coming: when The Times newspaper put up a strict paywall in 2010, it saw its readers fleeing to BBC's free news service. According to a 2010 November survey only 14 percent of regular Times readers subscribed using the new pay wall (and under 1 percent of those, who were not regular readers). And 64% of those who switched to using a free alternative news site, chose the BBC[5] .

Meanwhile – in the USA and Europe at least – daily newspaper print circulations have been falling rapidly, while paper and printing costs are on the rise. Moreover, the 2008 financial crisis worsened a situation in which newspaper ad revenues had already been diminishing. Even the most competitive papers like the New York Times will face a long transition during which

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[5] More on the Oliver & Ohlbaum Associates research: Joel Gunter, "Times Paywall Has Converted 14 Per Cent of Audience to Subscribers, Says New Research," *Journalism.co.uk*, December 2, 2010, http://www.journalism.co.uk/news/times-paywall-has-converted-14-per-cent-of-audience-to-subscribers-says-new-research/s2/a541816/.

considerable downsizing of its editorial staff is to occur. As Business Insider commented on the New York Times Company's 2011 fourth quarter results:

> The trends of the past five years are also likely a sign of the future of the New York Times: Steady restructuring and shrinking until the size of the newsroom and broader organization is finally in line with the size of the company's online business, which is thriving. We estimate that the digital business will eventually support a newsroom about one-third to one-half the size of the paper's current one.[6]

This transition is one of course from print production to the on-line world and requires strategic thinking to manage – not only at The New York Times.

For most of the papers the dilemma is about how to time the transition. Since print advertisement generates much higher revenues than online ads, encouraging readers to abandon the print newspaper for the online version could be a financially self-destructive enterprise, if this change happens too fast.

The big question for newspapers is: how to get the best of both worlds *at the same time*? Or at least enough to survive…

Bundling print subscription with paid online news, and gradually phasing out the print product seems a good long term strategy here. To do this, new mobile platforms like the iPad (or Android pads) can be life saving for newspapers.

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[6] Henry Blodget and Kamelia Angelova, "The Incredible Shrinking New York Times," *Business Insider*, February 4, 2012, http://articles.businessinsider.com/2012-02-04/tech/31023915_1_online-business-red-line-blue-line.

The iPad revolution

In 2010 the Apple iPad was launched, and it triggered the “internet tab” revolution: myriads of Android tabs have followed, while the new version(s) of Amazon's book reader (the Kindle) has also been an unprecedented success so far.

Obviously, the media experienced its “next big thing” as a moment of awe in 2011. But this time, it might be an enduring moment: in 2012, as the dust settles, we can still see the new horizons shining ahead (or lasting mirages – according to the more sceptical).

What is so great about these gadgets (except for the fact you can play Angry Birds on a bigger screen)? These platforms offer news companies something that they had failed to establish with their internet sites: an effective subscription system and readers who are willing to pay for the news again.

The system is effective due to several factors, but one is preeminently important here: on these platforms readers do not pay only for news. They pay for convenience, too. As *Newsweek* Technology Editor Dan Lyons put it once about iTunes in his fake Steve Jobs blog (The Secret Diary of Steve Jobs):

> People said we would fail at selling music because you could already get music at no cost from a zillion different pirate sites. But those people were wrong. We’ve sold 600 billion songs in the last three months alone. Why is that? Because it’s easy. Because it works. They’re paying for convenience. Do you get it? [7]

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[7] Dan Lyons, “The Secret Diary of Steve Jobs: Every Time I Go to New York, I’m Reminded How Lucky I Am to Live in California,” *The Secret Diary of Steve Jobs*, February 4, 2010,

What happened to music will probably happen to news on iPhones, iPads and Android devices, too. iTunes is more and more becoming a general marketplace where news can get back their value – expressed in dollars and pounds – again.

If they do, mobile platforms could become an effective means for news organizations to distribute their products. More importantly, they are able to bundle more effectively their paid services online with their print newspaper subscriptions. (Something that is, as I mentioned, a crucial strategy for them to survive.) As Ken Doctor, a leading news industry analyst put it in his blog post:

> In newspapers and in magazines, we see the interim play: the bundled, all-access subscription — pay us once and get both analog and digital, print and pixel. That's a move for more consumer revenue in the short-term, but also a longer-term pricing play to get pure digital revenue as readers give up print. [8]

However their business model can be affected, or even seriously undermined by the fact that public news companies increasingly use the same new platforms to deliver news. Free.

The land of the free

In February 2010 the BBC announced it was launching mobile applications for the iPhone in April that year. The Newspaper Publishers Association, an organization and lobby group for

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http://www.fakesteve.net/2010/02/every-time-i-go-to-new-york-im-reminded-how-lucky-i-am-to-live-in-california.html.

[8] Ken Doctor, "The Newsonomics of Netflix, Newspapers and Forcing the Digital Shift," *Newsonomics*, July 28, 2011, http://newsonomics.com/the-newsonomics-of-netflix-newspapers-and-forcing-the-digital-shift/.

Britain's national newspapers, was quick to condemn the plan and asked the BBC Trust to launch an investigation. “[The BBC] will undermine commercial media organizations' ability to establish an economic model on these emergent platforms,”[9] said David Newell, the director of the NPA about the drive behind the organization’s request.

The Trust subsequently told the BBC to delay the launch of these apps and started an assessment of the situation. However, later the Trust ruled that the apps did not involve the creation of new content, and gave the BBC apps a green light. The public company soon (in July 2010) came out with its BBC News iPhone/iPad app and next May the same app was published on the Android platform, too. Moreover, in February 2011 the BBC launched on these mobile platforms its iPlayer application, which enables (iPhone/iPad/Android) users to view its broadcast content on these mobile devices. BBC now claims to put “all of the BBC’s national television channels and radio networks in your pocket”[10].

The move illustrates a tendency that newspapers cannot neglect in their financial plans anymore. While once upon a time during the dawn of the internet age they gave away their news free on their website, just like the BBC, now they seek to re-monetize news with the help of the new mobile platforms – *unlike* the BBC.

The basic assumptions in this debate are clear:

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[9] Mark Sweney, “Trust Should Review BBC Mobile Apps, Says Newspaper Body,” *The Guardian*, March 9, 2010, sec. Media, http://www.guardian.co.uk/media/2010/mar/09/bbc-mobile-apps.

[10] David Madden, “BBC iPlayer: iPhone App and 3G Streaming Across All Mobile Networks,” *BBC - BBC Internet Blog*, December 12, 2011, http://www.bbc.co.uk/blogs/bbcinternet/2011/12/iplayer_bbciplayer_iphone_android.html.

- the old status quo (public broadcasting – private newspapers) is breached
- newspapers are competing on a platform that is used by the public broadcaster too
- the mobile apps gold rush can be affected by players who are willing to give away news free on the new platforms (much like the way news were given away free in the late 90s - a move now regarded as the original sin in the news industry)

With this in mind, we can guess at least some of the fears newspaper companies might have concerning a strong public news company:

- they cannot charge readers enough
- public broadcasters will be able to pour more money into innovation, and
- produce better hard news content with a wider reach

These points could all be valid of course. However, why newspapers reacted with such vehemence to BBC's successful attempt of launching mobile apps may have a more robust explanation.

I have already described how the iPad revolution enables newspapers to time their digital transition with a more beneficial outcome for them. But why is this timing possible in the first place? Why are they able to sell online subscriptions, something nobody seemed to want a few years ago?

It is the result of something much bigger in this game. It is a newspaper's ability now to re-bundle their content on a new platform.

How newspaper content got unbundled by search engines, and later on, by social media is an old story now. It is enough to say that most of the online readers now arrive at a newspaper story through a search engine (for the most part via Google) or by social media shares (for the most part via Facebook).

That means it is increasingly difficult for newspapers to present themselves as a bundle of products and services (that is to say, a brand), which is of course hurts their ability to sell advertisements. (Offering news stories unbundled from ads or other paid services is a financial doomsday scenario for news businesses – that is the most scary unbundling of all).

Unbundling content threatens not only newspapers' business models, but the very viability of professional journalism itself. Nicholas Carr in his book, The Big Switch, points out the process in an alarming way:

> The most successful articles, in economic terms, are the ones that not only draw a lot of readers but that deal with subjects that attract high-priced ads. And the most successful of all are those that attract a lot of readers who are inclined to click on the high-priced ads. [...] On the other hand, a long investigative article on government corruption or the resurgence of malaria in Africa would be much less likely to produce attractive ad revenues. Even if it attracts a lot of readers, a long shot in itself, it doesn't cover a subject that advertisers want to be associated with or that would produce a lot of valuable clickthroughs. In general, articles on serious and complex subjects, from politics to wars to international affairs, will fail to generate attractive ad revenues.[11]

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[11] Nicholas Carr, *The Big Switch: Rewiring the World, from Edison to Google* (W. W. Norton & Company, 2009), 154.

This observation is accurate: ‘serious and complex subjects’ are part of the brand of broadsheets, but probably they piggyback on many other types of content that are more easy to get and more popular with readers.

But this observation also shows to what extent the mood can change in four years in an industry that sees the next big thing on every corner (call it optimism or desperation, depending on which side of your bed you get out of).

Carr’s book was first published in 2008, and it did revel in soothsaying bad times – reflecting the mood of the newspaper business at the time. Fast forward four years, subtract a number of big titles (that have gone out of business since then) and add the iPad to the problem set, and voila, you get a more positive attitude. I would describe it as post-apocalyptic hope. “When the newspaper moves online, the bundle falls apart”, Carr wrote, but now this seems more like a likely scenario than an unavoidable fate.

In fact, new phenomena show newspapers now have more tools to re-bundle their contents. But as in the case of so many disasters, or rather, diseases, the cure could require complex remedies, a cocktail of medicines instead of a single wonder pill.

The successful ‘cocktail’ may include these ingredients:

- Strategically fine-tuned paywalls
- Mobile apps offering a convenient and hip way to access bundled contents and extra services
- Highly professional archives (including print articles from pre-digital editions, too) as part of the subscription package

- Other products and services using the brand as a selling point (e-books, books, events, databases, merchandise, etc.)

So, what is to be achieved by using a well-proportioned mixture of these substances? There are four major goals that can be set here:

- Try to reduce the number of subscribers fleeing print: eliminating readers' incentive to ditch their print subscription for free alternatives online – at least until digital revenues hit satisfactory levels
- Boost the number of digital subscribers
- Drive digital innovation, explore new subscription models: come up with something that readers are willing to pay for online (e.g. iPad app)
- Re-bundle content behind a fine-tuned, sophisticated paywall and in the walled gardens of paid apps, recreate and strengthen your brand

2. Models of success: innovative digital subscription packages

That is all nice and beautiful in theory, but how does this play out in the real world? We now look at some good examples from British and American papers that will undoubtedly have an impact on myriads of other newspapers – if the ones scrutinized below do succeed.

The New York Times

Regarding its digital makeover, it has been indeed no bed of roses for the New York Times for over a decade now. The Grey Lady, who likes to reflect upon itself as no less than the world's leading paper of record, first went a bit pale, and then went through harsh times in the quest for the online philosopher's stone; that is, to answer the question: how are we going to make money out of all this?

Its first major attempt to turn its free website into a service that would generate income was an utter failure. The TimeSelect subscription program, which was launched in 2005, survived only two years, and was scrapped abruptly in September 2007: the former 'freemium' policy was restored as uneasily as Charles II might have set foot again in Dover on a soil of a country that had gone ahead too boldly with progression.

The New York Times piece that explained the reason behind the about face was clear on the motives leading to the decision:

> "But our projections for growth on that paid subscriber base were low, compared to the growth of online advertising," said Vivian L. Schiller, senior vice president and general manager of the site, NYTimes.com.

> What changed, The Times said, was that many more readers started coming to the site from search engines and links on other sites instead of coming directly to NYTimes.com. These indirect readers, unable to get access to articles behind the pay wall and less likely to pay subscription fees than the more loyal direct users, were seen as opportunities for more page views and increased advertising revenue.
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> "What wasn't anticipated was the explosion in how much of our traffic would be generated by Google, by Yahoo and some others," Ms. Schiller said.[12]

It took the Times team three years to churn out a new paid content system. The New York Times pay wall went up in March 2011. The article that announced the move was trumpeting it as a bold step:

> No American news organization as large as The Times has tried to put its content behind a pay wall after allowing unrestricted access. The move is being closely watched by anxious publishers, which have warily embraced the Web and struggled with how to turn online journalism into a profitable business.[13]

The new system has been undoubtedly a success, even if it has, so far at least, failed to bring in enough bucks to compensate for the loss in print readership. The Times 2011 earnings report boasted of 390,000 digital subscribers overall and a growth rate of 20% fourth quarter

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[12] Richard Pérez-peña, "Times to Stop Charging for Parts of Its Web Site," *The New York Times*, September 18, 2007, sec. Business / Media & Advertising, http://www.nytimes.com/2007/09/18/business/media/18times.html.

[13] Jeremy W. Peters, "New York Times to Impose Fees for Web Readers on March 28," *The New York Times*, March 17, 2011, sec. Business Day / Media & Advertising, http://www.nytimes.com/2011/03/18/business/media/18times.html.

over third quarter[14]. Also, with three-quarters of print subscribers registered, as Ken Doctor put it in his Newsonomics blog, the Times “climbed a major mountain”[15], because this proves that “paying customers increasingly see value in both print and digital”. It is indeed an important victory in the newspapers’ struggle for making readers stay with the print edition and embrace the new digital editions at the same time.

Undoubtedly, the new mobile apps are a part of the success story. The New York Times Print subscriptions now include the subscription for iPhone, Android-powered phones and Windows Phone apps, the iPad app, and for the computer version (Times Reader), too. And in fact this combo is cheaper (at least in many cases – depending on the home delivery address) than the All Digital subscription that does not include home delivery of the print.

The key to success? The New York Times used a different approach, a so called metered pay wall, that both tries to sell subscriptions and draw non-paying readers to display ads. As the article explains, readers

> will be able to read 20 articles a month without paying, a limit that company executives said was intended to draw in subscription revenue from the most loyal

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[14] Quoted in Ken Doctor, “At Almost 400,000 Digital Subscribers, Inside the New York Times Pay Strategy, Year 2,” *Newsonomics*, n.d., http://newsonomics.com/at-almost-400000-digital-subscribers-inside-the-new-york-times-pay-strategy-year-2/.

[15] Ibid.

> readers while not driving away the casual visitors who make up the vast majority of the site's traffic.[16]

Moreover, the metered pay wall is strategically 'punctured': readers arriving through Google search are able to read their articles without the piece counting in their allowance (which was recently reduced to ten articles per month only[17]).

The New York Times piece heralding the new pay wall used the words "no American news organization as large as the New York Times has tried", and rightly so. The basic recipe for a successful metered pay wall had been out in the open almost since the New York Times' doomed TimeSelect program was scrapped: it was, and still is the Financial Times' metered pay wall, which was launched in October 2007.

The Financial Times

The Financial Times' pay wall is, then, no surprise, in many ways similar to the New York Times'. But not entirely. The New York Times pay wall model in fact tries to let as many visitors from the outer darkness of the web into its enlightened space as possible. According to Felix Salmon, a finance blogger at Reuters, it is so porous that the fence is in fact not a fence. It is

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[16] Peters, "New York Times to Impose Fees for Web Readers on March 28."

[17] "Press Release," *The New York Times Company Website*, March 20, 2012, http://phx.corporate-ir.net/phoenix.zhtml?c=105317&p=irol-newsArticle&ID=1674346&highlight=.

more like “a polite ‘please keep off the grass’ sign, with symbolic low green hoops separating would-be readers from their desired content”[18].

Unlike the FT’s barbed wired fence:

> At the FT, by contrast, the pay wall was much less porous from day one, and has been tightened up substantially since then. In fact, with the exception of Google’s First Click Free program, the FT has deliberately made it as hard as it possibly can for non-subscribers to read its content.[19]

The reasons for this difference could be numerous but there is one explanation that would be very hard to make sound arguments against: The Financial Times has put up a nearly impenetrable pay wall because it could get away with it. Why? Because

- its content is niche
- they have become known for carrying that niche content better than anyone else
- that niche is quite sizeable
- those in the niche are usually rich enough to pay for this content (if they are offered a convenient and fast way to do it) and to be targeted by advertisers

It is a very important set of conditions: for further reference, I will call it the FT test.

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[18] Felix Salmon, “Why the NYT Paywall Isn’t Like the FT’s,” *Reuters Blogs - Felix Salmon*, August 15, 2011, http://blogs.reuters.com/felix-salmon/2011/08/15/why-the-nyt-paywall-isnt-like-the-fts/.

[19] Ibid.

But besides all this, similar to The New York Times' case, mobile apps have given a tremendous boost to an otherwise slow transition at the FT, too. The Financial Times business appears to be in the pink of condition, and the management seems flabbergasted. Rob Grimshaw, managing director of FT.com said in a March 2012 conference that "We've been surprised by people's willingness to pay for premium-priced subscriptions through mobile devices"[20], adding: "This is a tectonic shift which is as great in scale as the shift from print to desktop [computers]."

Grimshaw's main points supporting his claim were:

- the FT now has 260,000 paid-for digital subscribers
- 15-20 per cent of its new digital subscriptions are sold through a mobile device
- revenues from the paid content model will surpass online ad revenue by the end of 2012
- mobile will become the title's main form of news distribution within three to four years

A new form of distribution indeed, but FT's form may differ a bit from that of other newspapers and magazines. After initial success with the FT's iPhone and iPad apps, the

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[20] The conference, News on the Move, was organized by the British journalism magazine Press gazette. The source of quote and the key facts from Grisham speech is based on the magazine's report: Andrew Pugh, "FT: Paid-for Content Revenue Will Overtake Ads This Year - Press Gazette," *Press Gazette*, March 9, 2012, http://www.pressgazette.co.uk/story.asp?sectioncode=1&storycode=48916.

newspaper removed them from Apple’s iTune store and the FT has not appeared on Apple’s new digital store Newsstand (practically a shop window for magazines and newspapers for iTunes, making digital subscriptions or buying digital copies an effortless and enjoyable endeavor for the reader on iPhones and iPads).

The newspaper did not rebel without a cause. The reason why the newspaper left Apple’s subscription scheme was not really the computer giant’s 30% take of the fees[21] (which do seem a bit exploitative, to put it mildly). It was Apple’s policy on subscription data[22]. Apple owns the personal and demographic data of the subscribers – a data set crucial for newspapers – and allows publishers only limited access to it. So the FT developed its own formula (based on the Html5 code) to circumvent Apple’s system, thus gaining an upper hand on data policy, and the way it can monetize its newspaper content and reach its customers with other products.

However, regarding the fact that Apple’s iTunes was developed with the “paying for convenience” imperative in mind, the FT can lose out on readership with this rebellion.

On the other hand, the jury is still out on this: other big titles can follow the FT’s mutiny, fleeing the Newsstand scheme. This means many of the important titles may be unavailable on Newsstand in the future, which seriously endangers Apple’s plan to create a general digital

[21] The source of this claim – which was corroborated by interviews with FT editors by this author – is the following blog post: Darrell Etherington, “Can HTML5 Replace an iPad App? Financial Times to Find Out,” *GigaOM*, August 31, 2011, http://gigaom.com/apple/financial-times-to-find-out-if-html5-can-replace-native-app/.

[22] The source of this claim is – corroborated by interviews with FT editors by this author – the following blog post: Ibid.

newspaper and magazine distribution system. (How much Newsstand fits magazines' needs rather than newspapers', is outside the scope of this paper)

So a broadening war on content distribution might force Apple to change its policies, or could strengthen alternative iOS or cross-platform newspaper or magazine subscription services which can offer more for less.

Press+: The Independent goes to America

One of the most promising of these services is Press+, an American company that offers a metered-access solution for newspapers. As of April 2012 the service, which aims to create a sort of digital 'kiosk' where readers can buy subscription packages to a large number of titles conveniently, was used by more than 320 publishers[23]. Its advantages to Apple's own subscription system: the company collects 'only' a 20% take (compared to Apple's 30 percent royalty on iTunes sales), and allows publishers to own their subscriber data.

Currently, Press+ concentrates on the web sites of newspapers but it has made it clear that tablets (iOS or Android) will be targeted too with its convenient subscription packages. (In fact, last September it had the first project of that kind: it enabled "subscribers of the Daily Herald in suburban Chicago to sign in to the paper's iPad app as well. […] That option allows publishers to

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[23] "RR Donnelley's Press+ Blows Through '300' Milestone," *Press+*, April 2, 2012, http://www.mypressplus.com/news/rr-donnelleys-press-blows-through-300-milestone.

own subscriber data and avoid Apple's 30 percent royalty on iTunes sales"[24]). Other services like Next Issue (a bundled magazine subscription system currently on the Android platform, but coming this year to iOS) are growing quickly, endangering the all-out success of Newsstand.

For The Independent newspaper in Britain, Press+ is not only a chance to build an efficient metered pay wall around its web site quickly and cheaply. It also means a chance to monetize a market it has not been able to take advantage of with its print newspaper): North America.

The Independent has a unique online strategy: teaming up with Press+ last October it put up a metered pay wall (20 articles per month free before requiring subscription). However, this wall exists only for North American readers, as UK readers continue to get the contents of the newspaper on its web site free. The change is accompanied by a premium, paid iPad application.

This mixed approach is based on a fact and a belief.

The fact is that about 40% to 50% of the title's online traffic comes from readers outside the UK[25]. With the pay wall and the iPad application the Independent can make money on overseas readers. (The iPad app is available for a 9.99 pounds monthly subscription fee).

The belief is that you cannot really sell (hard) news on your web site in the UK. As Independent editor Chris Blackhurst told the Guardian before the launch of this pay wall: "[it

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[24] Jeff Sonderman, "Press+ Offers Its First Newspaper iPad Subscription," *Poynter*, September 27, 2011, http://www.poynter.org/latest-news/media-lab/mobile-media/147421/press-offers-its-first-newspaper-ipad-subscription/.

[25] Mark Sweney, "Independent Website to Launch Paywall for non-UK Readers," *The Guardian*, October 10, 2011, sec. Media, http://www.guardian.co.uk/media/2011/oct/10/independent-website-paywall-non-uk-readers.

was necessary] to make a distinction between the UK and foreign readers. In the UK where you have a BBC it is very hard to make the case for a pay wall."[26]

There you go again. So it is the BBC with its free news, forcing The Independent, with a sizeable overseas readership (it is estimated that there are couple of hundred thousand users in North America who read more than 20 Independent articles in a month[27]) to make money online abroad…

…oh, but wait, can the BBC web site be read in the Americas, too? Is it possible to download its apps in the United States? Yes, it can be and it is possible. Thus, while I do not doubt that BBC's free news on the web and on mobile platforms might hurt the newspaper business in Britain, I cannot really see why the same thing will not happen in the States.

My suspicion is – and it is clearly only speculation – The Independent is trying to cash in on its distinctive product, which seems even more distinctive in the United States. Provided American readers do not wake up every morning with the intention of reading detailed reports on what happened in the UK, I suspect it is The Independent's unique foreign coverage that attracts attention overseas. Its Middle East coverage is distinctly different to that of the American broadsheets.

If that is true, then the localized pay wall may be only the beginning, a sort of test ground to see to what extent readers share the view of the papers' editors, namely, that The Independent is strong on content the BBC will never produce (special news angles, analysis, opinion pieces,

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[26] Ibid.

[27] Ibid.

breakthrough on the ground reporting, etc.). And to see how much these readers are willing to pay for it.

Two sides of the river: The Times and The Guardian

The topic and scope of this paper does not allow a detailed examination of other models, but perhaps it is useful to mention here yet two other British papers in particular.

The Times pay wall have been hotly debated since its 2010 launch. The general consensus was to criticize it as something all-fashioned, stubbornly and single-mindedly Murdocish, and doomed to fail. Lately, as results are trickling in, the opinions are becoming more positive. The pay wall is quite different from the metered model: it is not porous, it does not leak. That is to say, there are no free articles for Times readers: if you want to read any of the newspaper's articles, you have to pay up front.

This approach is plain and simple, but what it leaves behind the wall is not a rose garden. On one hand, and this is the lesser evil, only a fraction of the people who used to read the newspaper online free will stay with it when they have to pay for the same content. The bigger problem with the strict pay wall model is that even those who remain cannot really share articles (on the Internet) with others. That means traffic from search engines and social media almost ceases to exist. And it is not good news in an age where a large part of traffic comes from those cozy corners of the Internet.

However, The Times' is gaining more and more digital subscribers lately, and that might have something to do with the iPad revolution: the Times' £4 a week Digital Pack now contains a subscription for the newspapers' tablet edition (and of course, the print subscription packages contain that, too). While the print circulation is steadily decreasing, the paper added 10,000 digital subscribers in February 2012 alone, bringing the total number of digital subscribers to almost 130,000.[28]

The Guardian, on the other hand, has chosen a totally different policy. It keeps its web content free (and explains this 'information wants to be free' policy with a popular philosophy very likely to be attractive to its core readership), and charges a minimum amount of money for its iPhone application. But its much hyped iPad edition comes for 10 pounds a month, the same price you have to pay for the Independent app (both the Guardian and the Independent applications use Apple's subscription system). The strategy here seems completely different from the New York Times model: keep the web site entirely free, draw in as many visitors as possible and charge for the print paper and the iPad app only.

There are surely well-founded, long term goals behind this mixed system, even if they are a bit difficult to spot. There could be various reasons living side by side in this philosophy, not necessarily working against each other. Some of them might be:

- They do not think digital packages can make readers stay with their print product, so they are aiming for a massive readership online (both overseas and the UK) for a successful digital switchover
- The Guardian is testing various strategies at the same time, to fine-tune a major overhaul we are not aware of yet (e.g. they keep the web site free only

[28] "Even When Everything – News, Films, Music – Is Free, Some Want to Pay," *The Guardian*, March 25, 2012, sec. Media, http://www.guardian.co.uk/media/2012/mar/25/everything-free-pay.

until they have enough subscribers for their premium product, which is the Guardian iPad app, but then the web content gets some sort of pay walltoo)

- They envision a new revenue stream made by services branded with the Guardian, but not the newspaper itself (education, merchandize, broadcasting, ebook publishing, etc.) for which a 'freemium' newspaper model is more beneficial, if they get really successful

Whatever they have in mind, they do not have much time to experiment. Though left-wing and liberal media are shocked and awed by the Guardian's progressiveness and its editor Alan Rusbridger's vision of an open journalism ("When Rusbridger and his departmental heads flop down in a sea of bright-yellow sofas for their daily 10 a.m. editorial conference, a hush falls over the room"[29] – wrote the German Spiegel magazine, comparing the editor to kid magician Harry Potter), this progressiveness burns money[30]. And nobody wants hype without the paper.

[29] Isabell Hülsen, "Can Free Web Content Save The Guardian?," *Spiegel Online*, September 30, 2011, sec. Business, http://www.spiegel.de/international/business/0,1518,789108,00.html.

[30] Andrew Miller chief executive of Guardian Media Group warned in 2011 that company could run out of cash in three to five years if the business operations did not change: Dan Sabbagh, "Guardian and Observer to Adopt 'Digital-first' Strategy," *The Guardian*, June 16, 2011, sec. Media, http://www.guardian.co.uk/media/2011/jun/16/guardian-observer-digital-first-strategy.

3. A tale from Eastern Europe: Why the Hungarian News Agency envies BBC's website

MTI (Magyar Távirati Iroda), the oldest Hungarian news agency and one of the oldest news agencies in the world, was founded by two parliamentary stenographers in Budapest in 1880. Initially a privately owned company, it built up its national and international network of bureaus and correspondents and soon became the semi-official, then the official news agency of Hungary. Later it became a state-owned and controlled enterprise and remained a public provider of news even after the change in the political system in 1990.

In many respects the new Hungarian media law in 2010 changed the framework in which MTI operates. From the point of view of this paper[31] the most important change is that all Hungarian public media companies (Hungarian Television, Duna Television, Hungarian Radio, MTI) were consolidated into a single big public media company. The former, separate public companies survive as some sort of subsidiaries of a single, new company, called MTVA.

The structure is as complex as the name of the new company: Médiaszolgáltatás-támogató és Vagyonkezelő Alap, which means 'Media Support and Asset Management Fund'. To make sure I do not misrepresent what it does exactly, I am quoting here the company's own description:

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[31] This new Hungarian media law caused wide-scale controversy even on an international level. However, this controversy is not the subject of this paper., I am reflecting on this controversy only to the extent it has to do with my topic here.

> All the assets and most of the staff of the three public service media organizations (MTV, Duna TV, MR) and of the National News Agency (MTI), were transferred to the Media Support and Asset Management Fund (MTVA) as of 1st January 2011.
>
> The integration of the public service media providers creates an exciting, interesting and valuable cooperation, with all the participants joining forces. Whereas MTV, Duna TV and MR are in charge of the editorial lines of their channels, MTVA supports the fulfilment of their tasks from its own budget, as well as takes care of the production, commissioning, and/or purchase of their programs.[32]

Though it was (and still is) a publicly funded company, one of MTI's revenue sources used to be its subscription fees paid by private news outlets. In 2010 these subscription services brought in HUF 600-700 million. (National and local newspapers subscribed to its news feed to have access to stories produced by MTI's extensive network of correspondents).

That is less the case now, because since 2011 May much of its news service has been available on the Internet (www.mti.hu) – to any users – for free. Thus, news outlets can now freely use and reproduce MTI news without having to pay a forint for it. Although MTI's website requires users to register, it costs no money.

MTI still have some subscription based services, but is now financed through MTVA, which ensures that MTI's loss of revenue stream is made up for[33].

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[32] "Contacts - Introduction," *MTVA - Médiaszolgáltatás-támogató És Vagyonkezelő Alap Portálja*, n.d., http://www.mtva.hu/hu/english2.

[33] MTI, "Answers Sent to Author's Questions by MTI", April 1, 2012.

The overall picture is still chaotic, as mergers usually ignite infighting and struggles for scope of authority. (At the time of writing this research paper in April 2012, 128 employees of MTI published an open letter and urged decision makers to restore the stand-alone status of the news agency. As many elements of this merger are heavily criticized in Hungary, there is some ambiguity if all of these changes will survive in the longer term.)

So it is uncertain what sort of online strategy MTVA will pursue, but we can see two prominent news webs sites emerging in the new system (both of them used to be around before the changes, but they have gained importance and are being renewed).

Mti.hu

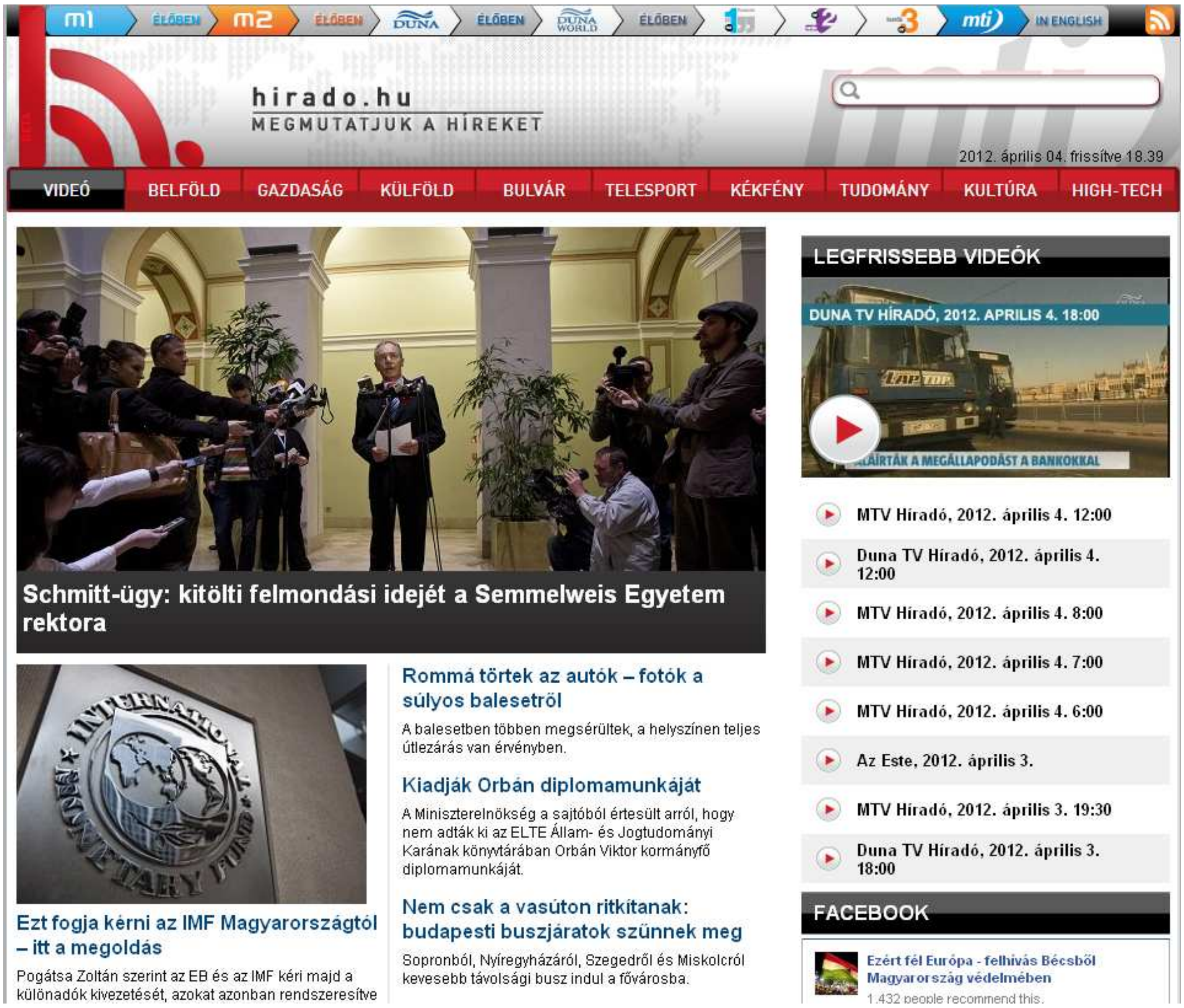
Mti.hu makes MTI news freely available on the Internet. The appearance of the site is plain and stresses functionality. The obvious purpose is to facilitate use and re-use of the content (MTI news stories) on other web sites. This content is free, but to access it, visitors are required to register. (MTI tries to track what proportion of the site's visitors are professional users). Besides its news service, the use of MTI's vast digital archives (news stories published since 1988 and between 1887 and 1949) has become free too, and can be accessed from the same mti.hu site. All this makes MTI more like a tool for professional users (newspaper and radio journalists, editors) or for bloggers who use its news pieces as raw material for creating content. The interface the site offers in fact is the same that used to be available for professional subscribers only (used by editors and journalists in the newsroom) – only this time it is freely available, with registration, for everyone.

Figure 1 Screen grab of MTI's mti.hu website

Hirado.hu

Hirado.hu is flashier, and unlike mti.hu, which has a more professional aura, it aims to be a general news site. Visitors are not required to register, and they are served not only with MTI news but also content produced by various MTVA subsidiaries (e.g. Hungarian Television and Hungarian Radio). Hirado.hu is obviously intended for a wider audience, which basically just wants to consume news and does not visit the site with the intention of reusing or republishing these news stories (except for sharing it on their social media pages).

Figure 2 Screen grab of MTI's hirado.hu website.



While hirado.hu is also managed by MTI (or rather, by a subsidiary company called 'MTI New Media') it apparently aggregates all contents supervised by MTVA (news pieces, television video and radio audio content), also offering social media integration, much like the BBC's bbc.co.uk website. It even offers a mobile app both for the iOS and Android platforms.

The app is not a full-scope news app, but rather is more like a pilot project: it helps fans to track Formula 1 races, results and statistics. But according to MTI officials[34] there are more apps

[34] Ibid.

in the pipeline and a general hirado.hu news app can be expected in the near future (the app will be free).

Criticism

When in January 2011 MTI announced its intention to go free, not everybody was amused.

MTI said the goal was to make the most important content of a news agency financed by tax payers freely accessible to everyone. It argued this was a liability that stems from Hungary's constitution[35].

The views of those who opposed the move can be summarized in two main arguments:

1. A free news service by the MTI (instead of a subscription based one that it used to provide) represents unfair competition to privately owned companies. The argument stresses the fact that the publicly financed MTI operates in the same market as other privately owned news agencies and news providers, and so its willingness to provide a free news service heavily distorts this competition.

2. With state-owned MTI providing its news free of charge, there will be a proliferation of MTI news usage. Especially companies with smaller news budgets (commercial radios, local news outlets, etc.) will be tempted to use the free MTI service more widely than before. This trend could mean that news stories provided by the central news agency influence and saturate more heavily news production at these companies. Which – critics claim – means a news scene shaped more effectively by the government.

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[35] Ibid.

As for the first claim, it is difficult to estimate how much MTI's free service might distort the market. In early 2011 there was a small, privately owned news agency, Független Hírügynökség ("Independent News Agency") that made a well-publicized claim about how the publicly financed free news service violates Hungarian and EU regulations governing competition. The Hungarian Parliament was quick to modify the related Hungarian laws, exempting MTI from certain rules. As for the EU regulations, we will probably never know: the small news agency went out of business before it could file its formal complaints.

Nevertheless, it makes some sense to summarize this story here, as it might map out a more general conflict zone.

The owners of Független Hírügynökség claimed they were trying to build up their business to provide an alternative news source to that of MTI which they saw as heavily influenced by the new (Fidesz) government[36]. It was a noble attempt, except for the fact this small enterprise was neither independent nor really a wholesale news agency.

In February 2011 Független Hírügynökség, which had been present in the Hungarian market since 2004, was bought by a company partly owned by a prominent opposition politician (formerly a cabinet member of the previous socialist government), Róbert Braun. The news agency then went out of business a few months later as MTI went free, but as it turned out, this happened not really for that reason.

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[36] To sum up the related facts I used several articles. I am referencing them as I use their information in my summary. This is the first: Gábor Juhász, "Játék a Szavakkal," *HVG*, February 9, 2011, http://hvg.hu/hvgfriss/2011.06/201106_atrendezodo_hirugynoksegi_piac_jatek_a_szav.

Független Hírügynökség was formerly affiliated with one of Hungary's biggest commercial televisions RTL Klub. Then it was sold to the new owner (Braun and Partners Média Kft), but not all parts of it. The existing contracts, the archives, some of the journalists and the brand were taken over, but for some reason, the most profitable part of the agency was not. The national network of television correspondents remained in RTL Klub's control.

This latter part of the business was highly profitable, while the others, that were included in the deal, were not. Without a strong financial base the new enterprise was doomed from the start. Later, the company tried to lure in new subscribers offering shares in the ownership, but that did not help either. Független Hírügynökség went out of business in May 2011, leaving behind unpaid salaries and angry journalists fighting for their money.

As Index, one of Hungary's most read internet news site, put it:

> […] new owners of the news agency anticipated that MTI's free service would be beneficial for them: [they expected that] major publishers can spend the money [saved on MTI, because it is now free] on services that cannot be accessed free by all market players.
>
> However, because of the crises of the media market no publisher was willing to devote money to an independent news agency, and by no means willing to have stakes in such an uncertain enterprise. [37]

[37] Zoltán Szabó, "Érdeklődés Hiányában Megszűnik a Független Hírügynökség," *Index*, May 25, 2011, http://index.hu/kultur/media/2011/05/25/erdeklodes_hianyaban_megszunik_a_fuggetlen_hirugynokseg/.

So it would be very hard to say that Független Hírügynökség's demise was directly caused by MTI's free service. In fact, its owners even saw a business opportunity in the fact MTI went free. So a genuine attempt to build up a really independent news agency might have as well been a profitable enterprise. Of course, only if it is built on a sound business model.

Thus, Független Hírügynökség's claims about market interference seem rather like a last-minute publicity stunt of an ill-founded business, than a private David vs. public Goliath type of story.

That does not mean however, that Független Hirügynökség did not have a point. MTI's extended operations might pose a real threat to otherwise viable businesses, although not necessarily to small news agencies.

"I have always have said we have to defeat Index and Origo, though I know this will not happen any time soon. But we have to work hard to be successful", Csaba Belénessy, head of MTI said in a press conference held in September 2011.

Origo and Index are the two biggest professional internet news sites in Hungary. (Both of them are financed by online ads and rely on their publisher companies' support). They are more popular among online readers than the daily newspapers' websites. To beat them in their own game would indeed mean MTI wants to be not only the number one news agency in Hungary, but the most read news site as well.

Although MTI`s position has not changed since then ("It cannot be a plan that we start a race with the goal to finish in the 3rd place", they said answering my question[38]), if they take it seriously, they will have to fight a long and uphill battle.

Even a year after MTI went free with its services, to put it somewhat euphemistically, they do not (yet) play in the same league as Index and Origo.

Both of these two maintain a large newsroom and in many respects are ahead of the competition in the online business – certainly ahead of major Hungarian broadsheet newspapers. The numbers show how much:

Table 1 Website statistics of some Hungarian news sites. (Népszabadság and Magyar Nemzet are Hungary's two biggest national broadsheet dailies.) * 2011 december data. ** MTI's own average provided for the author by MTI

News outlet (website address)	Average number of daily visitors	Average daily page impressions
Origo (www.origo.hu)	**946146**	**7611887**
Index (www.index.hu)	**876375**	**13660285**
Népszabadság (www.nol.hu)	**109573**	**358589**
Magyar Nemzet (www.mno.hu)	**100383**	**396440**
Híradó (hirado.hu)*	**130368**	**488429**
MTI**	**3100**	**100000**

Albert Gazda, Origo's editor-in-chief does not think[39] MTI will be able to catch up with their news site, at least in the short run. His words suggest MTI is not even on their radar as a

[38] MTI, "Answers Sent to Author's Questions by MTI."

competitor, and neither are the two mentioned print newspapers: rather, Origo would like to concentrate on its biggest rival, Index and, surprisingly, on some much smaller enterprises. “At this moment I deem it more probable that smaller, more flexible content providers might have more chance to become our competitors. Those that do not think in terms of traditional newspaper editorial offices and are able to react more efficiently to the changes in reader behavior.” Also, Gazda does not really care about the influence MTI’s free news service would make on the scene. “With the spread of the Internet the state’s information monopoly is over”, he said. “We care about the MTI only to the extent it helps us to make our service more colorful and stable. They are where we are not, and that is good. In other words, MTI is not our competitor, but rather a help to us. Looking at the trends I can say this remains so in the foreseeable future”.

[39] Albert Gazda, “The Author’s Interview with Albert Gazda (email Exchange)”, April 10, 2012.

Conclusion

So what can we make of all these digital models? How much is the transition to digital endangered by public financing of free news services? How can private papers be successful when they have to compete with quality 'freemium' content?

To draw a conclusion I would like to quote one of my favorite stories about newspaper change. Or rather, about how some miss the point of change. It is about a French newspaper, a bit similar to the British Private Eye, but maybe it is more informative and comes with important scoops and often with pieces of investigative quality.

> If conventional assumptions about how modern newspapers prosper were a set of iron laws, *Le Canard Enchaîné* would have folded long ago. A thin, eight-page broadsheet printed on low-grade paper in just two colours, the French weekly publishes no photographs, no advertising and no graphics. Its design has barely changed in 90 years, it runs scoops on inside pages rather than on the front, its articles are unsigned and its editor doesn't use a computer. Needless to say, the paper doesn't have a website. And yet, while France's newspapers are buffeted by the storm which has wrought havoc across the western print media industry, Le Canard is thriving, enjoying an abundance of three things every newspaper craves: readers, influence and profit.[40]

[40] Ruadhán Mac Cormaic, "Readers, Influence and Profit?," *The Irish Times*, April 26, 2011, http://www.irishtimes.com/newspaper/features/2011/0426/1224295455201.html.

To correct the article here, actually Le Canard Enchaîné has a website, but you would not find too much there. As the editor explains:

> "We watch what is happening, and we have seen that some people are being ruined by their websites," Horeau replies. "They lost twice," he says of French newspaper ventures onto the internet. "Firstly because they spent money to create the site, and secondly because the websites were tools for losing readers. So clearly it's madness.[41]

The reason why I quoted these lines from the Irish Times is to stress something important here. As we have seen, there are myriads of digital strategies (some with the promise of success) out there. But all of them have a building block they would utterly fail without. It is the paper's strong and peculiar content.

Papers that go through the digital transition will all be put it to the test, but not initially in a technical sense. The test will be what I called the 'FT test'. Because it's their unique content that matters after all. If it is strong and niche enough (and they can be 'niche' in many ways) readers will be willing to pay for it – if it is convenient to do so (here comes the technical part). In this case it does not really matter in the end if general news is available free online (by public news services). This is because people do not simply want news. They want stories they can identify with, they want news sites that enable them to show their colors.

This is true for small newspapers and news sites. And it could be also true for large ones, such as the Hungarian Origo and Index, if their content is different enough from others on the same media landscape.

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[41] Ibid.

In that sense, the age of mass media is over. It does not mean that all the big newspapers will go down. But there will be less of them, and those that remain, will be more individual and stronger at what they do best. The Atlantic Monthly, an American magazine, put this quite strongly years before the tablet revolution.

> The cultural sameness and conformity that prevailed after World War II—the era of *Father Knows Best* and Betty Crocker—have been replaced by a popular pursuit of difference and self-expression. In explaining why McDonald's has shifted a significant portion of its advertising into niches, an executive of the company told *BusinessWeek*, "From the consumer point of view, we've had a change from 'I want to be normal' to 'I want to be special.'" In a mass-media world it's hard to be special. But in the land of niches it's easy.[42]

So, if The Independent is quite special in its foreign reporting (and in its other sections) free BBC news is not really a competition. If The Times remains the brand it used to be, it will continue to attract digital subscribers, and if Guardian survives the next few years, it will surely be one of the world's papers of record, along with The New York Times. (How much chance do papers written in less used languages have to survive, with no chance of globalizing their audience on the Internet, would be the subject of another paper).

Surely, their biggest competitors will not be free general news. But rather – as Origo's editor-in-chief feels – smaller, more flexible and more specialised outlets that do better at what they are good at.

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[42] William Powers, "The Massless Media," *The Atlantic*, February 2005, http://www.theatlantic.com/magazine/archive/2005/01/the-massless-media/3668/.

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