Online news fees: financial salvation or suicide?

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The Arkansas Democrat-Gazette is a rarity among large U.S. newspapers - it's selling more weekday copies than a decade ago. In Idaho, the Post Register's circulation has remained stable, while many other print publications have lost readers to the Internet. How can this be?

The executives behind the Arkansas and Idaho newspapers believe it's because they've been giving free access to their Web sites only to people who subscribe to the printed edition. Everyone else has to pay to read the Democrat-Gazette and the Post Register online. Meanwhile, most publishers have been giving away their stories and photos to all comers on the Internet.

"To me, an online subscription is just the commonsense thing to do," says Roger Plothow, editor and publisher of the Post Register in Idaho Falls, Idaho. "To just give it all away on a Web site is completely and blindly idiotic."

The blunt logic is starting to resonate with many newspaper publishers, who are preparing to erect toll booths on parts, if not all, of their Web sites. They hope the switch brings in more online revenue and gives print subscribers another reason to keep buying the newspaper.

If it works, it would provide a sorely needed boost for an industry that has seen $11.6 billion, or nearly one-fourth, of its annual advertising revenue dry up during the past three years. But the strategy brings enormous risks. Ending free access to news could drive many online readers away and discourage online advertising at a time when more marketing budgets are shifting to the Internet.

Running free Web sites certainly isn't the only reason newspapers are suffering. The allure of less expensive advertising options offered by Google Inc. and other Internet companies already were hammering newspapers before the recession exacerbated the pain.

But the abundance of news on the Internet hasn't helped print editions containing virtually the same content that's often available online a day earlier. As a result, 28 percent of newspaper executives responding to a recent survey by the Associated Press Managing Editors, a group of newspaper executives, said their publications are considering online fees.

Newsday's owner, Cablevision Systems Corp., plans to charge for online access to the Long Island, N.Y., publication beginning this summer. MediaNews Group, which owns The Denver Post and 53 other daily newspapers, has decided to charge for the online version of its print editions but hasn't said when. Having already killed the print edition of the Seattle Post-Intelligencer, Hearst Corp. is assessing whether online fees could help save its 15 remaining daily newspapers, including the San Francisco Chronicle and the Houston Chronicle.

And a startup called Journalism Online is setting up a system that will sell a monthly subscription to material from multiple newspaper Web sites, beginning this fall. The participating newspapers will get slices of the revenue.

"Online fees will give people one less reason to stop subscribing to the newspaper" in the print format, said Steven Brill, Journalism Online's co-CEO. "Fewer people will be saying, `Why am I buying this thing when I can get it free online?'"

Even though print ads aren't attracting as many dollars as they once did, they still sell for about 10 times the price of online ads. Consequently, Internet subscriptions could help some newspapers even if the fees serve mainly to keep print circulation stable.

Former newspaper editor Alan Mutter, now an industry consultant and blogger, calls decisions during the 1990s to make most newspaper Web sites free the industry's "original sin." But gaining penance won't be easy.

At this point, whether newspapers charge for their online content or not, free news is likely to remain a staple at major Web sites such as Yahoo, MSN and AOL that pay for the right to post stories from The Associated Press and other sources. Bloggers and citizen journalists are likely to keep posting their own takes on the news on free Web sites. Those free summaries may be enough for readers unwilling to pay for the original stories.

"If you do the math, there isn't going to be enough money to support newspapers no matter what they do," said Chris Tolles, chief executive of Topix, a Web site that shows snippets of free online stories from newspapers across the United States.

A recent study that the Newspaper Association of America conducted with media consultants supported the idea that online newspaper fees threaten to do more harm than good. The reason: The subscriptions probably won't generate enough additional revenue to justify driving away the majority of Internet readers who won't be willing to ante up.

The study concluded newspapers with circulations of about 50,000 probably wouldn't pick up much more than $1 million in annual revenue from online subscriptions. That estimate is based on the assumption that a newspaper attracting about 250,000 monthly visitors to a free Web site would be able to get just 2 percent of them - 5,000 people - to pay $17 per month.

Meanwhile, that newspaper would likely see its online advertising revenue plummet. Although the study didn't attempt to quantify how much advertising might be sold under this scenario, a Web site drawing substantially fewer visitors figures to be a less compelling marketing magnet. Online ad rates tend to be tied to the size of an audience, although a paying readership can be more attractive to certain advertisers.

Both the risks and lures of online fees have tugged at The New York Times. The newspaper initially charged for its Web site in 1996 only to stop the next year after attracting only 4,000 subscribers. It had more success under another program that attracted about 200,000 subscribers who paid to read the Times' most popular columnists online. Then the Times scrapped that approach after concluding it could make more money from selling online ads on a mostly free site.
But now, with its online ad revenue down 8 percent in the first quarter, the Times' parent company is once again considering whether it makes sense to introduce more online fees.

Brill, the founder of Court TV and American Lawyer magazine, is one of the biggest advocates for the idea. He believes fees generated by Journalism Online will be producing millions of dollars in new profits for participating newspapers by the second year of operation.

"I really don't see a downside to trying to do this," Brill said.

The Wall Street Journal has proved online subscriptions can work.

The News Corp. publication won't specify how much money it gets from online fees, but says its Web site has 1.08 million subscribers (most of whom also pay to receive the print edition as part of a package). That translates into annual revenue of more than $100 million from online fees, based on the Journal's starting annual rates of $103 for online only and $140 for the print edition with Web access.

The Journal's total circulation is nearly 2.1 million, second in the nation, up from 1.8 million a decade ago. The most recent figure included about 383,000 online-only subscribers - a number that the Audit Bureau of Circulations didn't break out 10 years ago.

The Journal has some advantages. It focuses on financial news - a niche that traditionally attracts an audience willing to pay for insightful information. That's particularly true if the fees can be claimed as a business expense, though the Journal believes most of its online subscribers don't rely on that, based on reader surveys. Perhaps just as importantly, the Journal never devalued its content by giving it away on the Internet - just like the Post Register in Idaho.

Plothow credits Internet subscriptions for keeping the Post Register's circulation level at about 23,000. About 6,200 of the newspaper's print subscribers also have requested and received access to the Web site at no additional charge. The Idaho newspaper has just 625 online-only subscribers, who pay $6 per month, half the price of home delivery of the newspaper.

At the Arkansas Democrat-Gazette, Publisher Walter Hussman Jr. decided in 2002 to start charging to read the publication's Web site. Weekday circulation averaged 180,314 during the six months ended in March, according to the ABC. That was down 1 percent from the previous year, but slightly above the Democrat-Gazette's weekday circulation at the same time a decade ago.

Just 3,400 people pay $4.95 per month for an online-only subscription to the Democrat-Gazette, but that doesn't worry Hussman.

"The only reason we do it is to keep people reading the print edition," he said. "If people can't read the paper for free online, it turns out a lot of them are actually willing to subscribe to it."

The Democrat-Gazette's modest circulation gains look more impressive compared with the alarming erosion at other large newspapers.

The Houston Chronicle, the largest daily newspaper in neighboring Texas, has seen its weekday circulation plunge nearly 22 percent, to 425,138, over the last 10 years. Scores of other newspapers have suffered declines ranging from a few percentage points to more than 30 percent. Industrywide, U.S. newspaper circulation fell by about 13 percent, or 7.4 million, from 1999 to 2008, according to Editor and Publisher.

While online fees are yielding returns in rural areas like Idaho and Arkansas, it will be more difficult to get them to work in larger markets, where more bloggers and small specialty sites offer free access to some of the community topics and information available in newspapers.

To justify online fees, newspapers likely will have to focus more on extraordinary content, a model that might look something like the subscription system that has been successful for premium TV channels such as HBO and Showtime.

To produce the equivalent of must-watch cable programs, newspapers likely will have to dig even deeper on investigative projects, mine niche subjects and assemble more multimedia packages that work well on the Web. It won't be easy, given that most newspapers have smaller staffs after a torrent of job cuts during the past two years.

Mutter, who writes a blog called "Reflections of a Newsosaur," doubts most publishers understand how to produce the "content niches" that will cause people to ante up.

"What I have seen and heard so far seems more like aspirations than well-conceived plans of action," Mutter said.

Yet it's not an impossible task, said Walter Isaacson, former managing editor of Time magazine and now chief executive of the Aspen Institute, a think tank.
Charging online fees "could create a discipline on journalism that produces more things of value," Isaacson said. "In that sense, this advertising crisis could have a silver lining. We could end up getting better journalism and a better business model out of it."

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