# Free vs. fee: Push is under way to collect for Internet content

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The axiom about free lunches got tossed out by the Internet. Web downloads have delivered all manner of no-pay music, news, movies and software. Years of trying to put them behind a cash register have mostly failed.

Now though, a new push is on to collect online cover charges to pay the musicians, journalists, actors and code writers who make the content.

Notably, The New York Times this spring started charging people who want unfettered access to its work online. It has erected a "paywall" - costing $1.88 to $4.38 a week, depending on how many devices you want to read it on - and limited nonsubscribers to viewing 20 articles a month.

It's hardly the only daily newspaper to try. From Manhattan, Kan., to Santa Barbara, Calif., from Long Island's Newsday to Little Rock's ArkansasOnline, dailies as early as 2001 have asked from $4 to $35 for monthly online subscriptions. Just none with the wide reach of The Times.

The Old Grey Lady is making a digital-age gamble: That money from online subscriptions from a smaller audience will offset the lesser amounts of money made from online ads.

How well The Times' experiment fares may signal whether other companies can move beyond advertising as a source of online income.

Success depends on an endless number of variables, including whether the content is consumed on a desktop computer or a smartphone, found on iTunes or the Android Market, produced by a blue-chip brand or a startup.

Which companies can profitably erect virtual tollbooths, many analysts think, will turn on the long-vexing problem of how easy it is to find similar content for free and on making the payments hassle-free.

"You get to this peculiar psychology of why people will pay you," said Ken Doctor, a media analyst at Outsell Inc. and author of "Newsonomics: Twelve New Trends That Will Shape the News You Get."

"We're still figuring out what the answer is."

By April, The Times was reporting 100,000 digital subscribers (lured partly by a 99-cent introductory offer for the first month). Analysts think it will need five or 10 times that number to make the paywall pay off.

Visits to The Times' website dropped as much as 15 percent and page views fell as much as 30 percent after it throttled access for freeloaders in March.

Both loathed and esteemed, The Times' brand stands alone for news. Success in charging for access - a question that may take years to satisfy - doesn't necessarily mean that less prominent media will have the same brand power to sell online subscriptions.

Analysts are decidedly split on the way to profitability.

Well-regarded news organizations might be able to persuade readers that their content is more than a commodity that's free across the Web and persuade them to pay, said Steve Outing, a media analyst and director of the University of Colorado's Digital Media Test Kitchen. Or, he said, they might not: "The jury's still out."

He sees entertainment media stumbling by not giving more options to buy their stuff a la carte. Outing thinks cable networks that don't let people pay for downloads of their shows, for instance, could be losing revenue and making the download of pirated material all the more inviting.

"You look back to what happened to the music industry in the early days of the Internet, and it's pretty catastrophic," he said. "Part of it's because they waited so long to take advantage of the digital media world and fought against it."

Others, like Amy Gahran, a founder of news startup Oakland Local in California, said the subscriptions and paywalls showed a lack of imagination. She said advertising sold specifically for Web pages - not as extras tacked on with print sales - or advertising targeted specifically for cellphones could bring in more money. Paywalls, she said, will chase away more advertising dollars than they will draw in subscriptions.

"Paywalls are stupid to the point of being suicidal," Gahran said. "That's only going to work where you have highly specialized information that's not available anywhere else. General news content - I don't care how good it is - is still a commodity."

Finding success in charging for what the Internet seems to make free won't be easy.

Songs especially, and movies increasingly, have become favored targets of digital pirates. Legal or not, the free and easy is more alluring to people online than the things they must pay for.

The same extends beyond the world of file-swapping and downloads. The Times, for instance, is far from the only source on wars and business and the arts.

At the same time, Web aggregators from the Drudge Report to Huffington Post to Google News have emerged as power repackagers of the work of other organizations - in ways that sometimes divert Internet traffic, and advertising potential, from the original source.

"The New York Times party used to be free," comic Seth Meyers joked at the White House Correspondents Dinner last month, "but tonight apparently there's a cover. So, like everyone else, I'll probably just go to the Huffington Post party.

"And the Huffington Post party is asking people to go to other parties first and just steal food and drinks and bring it from there."

Arianna Huffington, who created the website and sold it to AOL this spring for $315 million, contends that her aggregation draws traffic only because it's paired with original material (albeit much of it from volunteer writers). The websites that Huffington Post borrows from, she has said, gain extra traffic from links on her website.

News organizations also allow ways around their paywalls. Include The Times in your Twitter feed or "like" it on Facebook - both absolutely free - and the links to the site you click on through those social networks don't count against your moocher's limit of 20 freebies a month.

Gary Pruitt, CEO of newspaper company The McClatchy Co., said recently that paywalls for niche products might make sense and that the chain was planning to launch a test paywall at one of its midsize papers. Still, he said, he doubts paywalls will be a game-changer.

McClatchy is a partner in McClatchy-Tribune News Service.

Handmark, a Kansas City-based mobile application maker, builds smartphone apps for several newspapers and magazines. Some are free and typically come with ads. And some the consumer must buy. CEO Paul Reddick says the very act of paying makes people value them more and use them more. And that, he said, could make advertising behind a paywall all the more valuable.

Any number of publications have succeeded, and failed, trying to collect upfront access fees.

Online magazine Slate.com - started as an arm of Microsoft and since sold to The Washington Post Co. - set up shop behind a paywall. After a year it joined the rest of the Web by making its articles available for free.

The Wall Street Journal has had solid success with its online subscription model. The key for that finance-focused publication, say analysts, is that readers think coverage from The Journal can help them make money.

Rupert Murdoch's News Corp. owns The Journal and has been leading the movement to stash its journalism behind paywalls and shutting off aggregators. In February, News Corp. launched The Daily, an iPad-only publication that sells for $1 a week or $40 a year. It lost $10 million in the first quarter of this year. About 800,000 users have downloaded The Daily app, but the company hasn't indicated how many of those people ultimately stayed beyond a free trial.

In March, The Dallas Morning News began to make some of its online content available only to subscribers.

Apple's iTunes store may have done more than any other model to coax people to pay for what they'd been getting for free.

Other digital music players existed before the iPod, just none quite as elegantly with the cool-kid aura of Apple. Consumers so adored the iPod that they literally bought into its system. They abandoned the piracy model popular first with Napster to give into iTunes' buck-a-song setup.

And that, say some analysts, could be the trick to getting people to pay. The iPad in particular is seen as a way newspapers and magazines might persuade readers to pay for news even though it's so ubiquitously free on Web pages.

But it won't, some say, be a simple repackaging for the iPad. Rather, the new products might have to be more elaborate.

"If you're charging people for this stuff, it has to be pretty good. Not just the sort of commodity news they can get anywhere," said Rick Edmonds, a media business analyst for Poynter Institute, a nonprofit journalism school.

It might be the kind of detailed, sophisticated news that can help a Wall Street trader make more money, such as analysis from Bloomberg News. Or, Edmonds said, it could be products like the Flipboard application for iPad that cleverly personalize the news. Or magazines will have to add animated graphics and interactive gimmicks that leave readers with the clear visual impression that they're getting something special for their money.

Often, the free stuff tempts people into the paid stuff. Consider Hulu, the streaming video service, an on-demand way to watch TV shows on a computer.

For free, you could watch the latest episode of "The Office" not long after Steve Carell makes his last appearance on the NBC hit. You just couldn't skip the commercials.

With Hulu Plus, you get fewer ads and more shows, and can use the service on gadgets such as the Xbox 360 and the iPad.

You could also watch the show on NBC.com, but services such as Hulu and Vudu offer menus from more than a single network, and sometimes without commercials.

Books have already made the jump to an electronic paid world. Sure, you can get the old classics for free on your Barnes & Noble Nook or your Amazon Kindle. But if you want to see a best-seller on your e-reader, the booksellers have shown you're still willing to pay.

In a report for Forrester Research, James McQuivey estimates that American adults who use the Internet pay an average of $81 a month on content. Most of that, he writes, is spent on "nonphysical media" - satellite radio subscriptions or watching movies. The biggest is paid TV, also known as your cable bill.

He says we've gotten over our need to own these things - to fill our bookcases with rows of CDs and DVDs. Rather, we let somebody else take care of the storage of much larger collections, letting us browse and pay with our subscriptions.

That said, for reading material, paper is still the money maker. Roughly a third of Americans have magazine and newspaper subscriptions. Only about 1 percent have an online newspaper subscription or magazine subscription, or pay to have that content delivered on mobile electronics.

Music was hit much harder by the digital age. It's also made a more dramatic transition. Just 18 percent of us regularly buy CDs. Yet 13 percent buy their songs from online stores such as Amazon and iTunes.

Satellite radio draws subscriptions from 7 percent of American adults, online music services draw payments from 2 percent, and streaming music services such as Pandora One get money from 1 percent.



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