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# Advertising-Supported Media and the Future of Traditional Journalism

Workshop on How Journalism Will Survive the Internet Age  
Federal Trade Commission | December 1, 2009



# The Bottom Line



*The newspaper biz as a combined supplier of journalism and ad intermediary **will continue to shrivel** as will traditional journalism itself.*

**Traditional journalism refers to hiring editors, reporters, photographers to collect and write news. It is this labor-intensive process for generating content that is under challenge.**

# Overview of Analysis



Growth of web has **increased** supply of content and ad space, **diverted** viewers and advertisers from newspapers, and **reduced** ad prices.



More web apps + internet-connected mobile devices will **increase** supply of content /space and **further divert** viewers and reduce ad prices.



Traditional journalism **will decline** because advertisers have other options to attract viewers and viewers **will decrease consumption** if they have to pay.



Newspapers as advertising intermediaries **will decline** because more efficient Web-based technologies for connecting viewers and advertisers.



New models for supplying news and information **will emerge.**



# Basic Economics of Ad-Supported Media

# Basics of Supply and Demand

**Supply of advertising = space x viewers =**

- Space has physical and time dimensions
  - Viewers are heterogeneous based on expected sales
- Supply aka “advertising inventory”

**Demand for advertising**

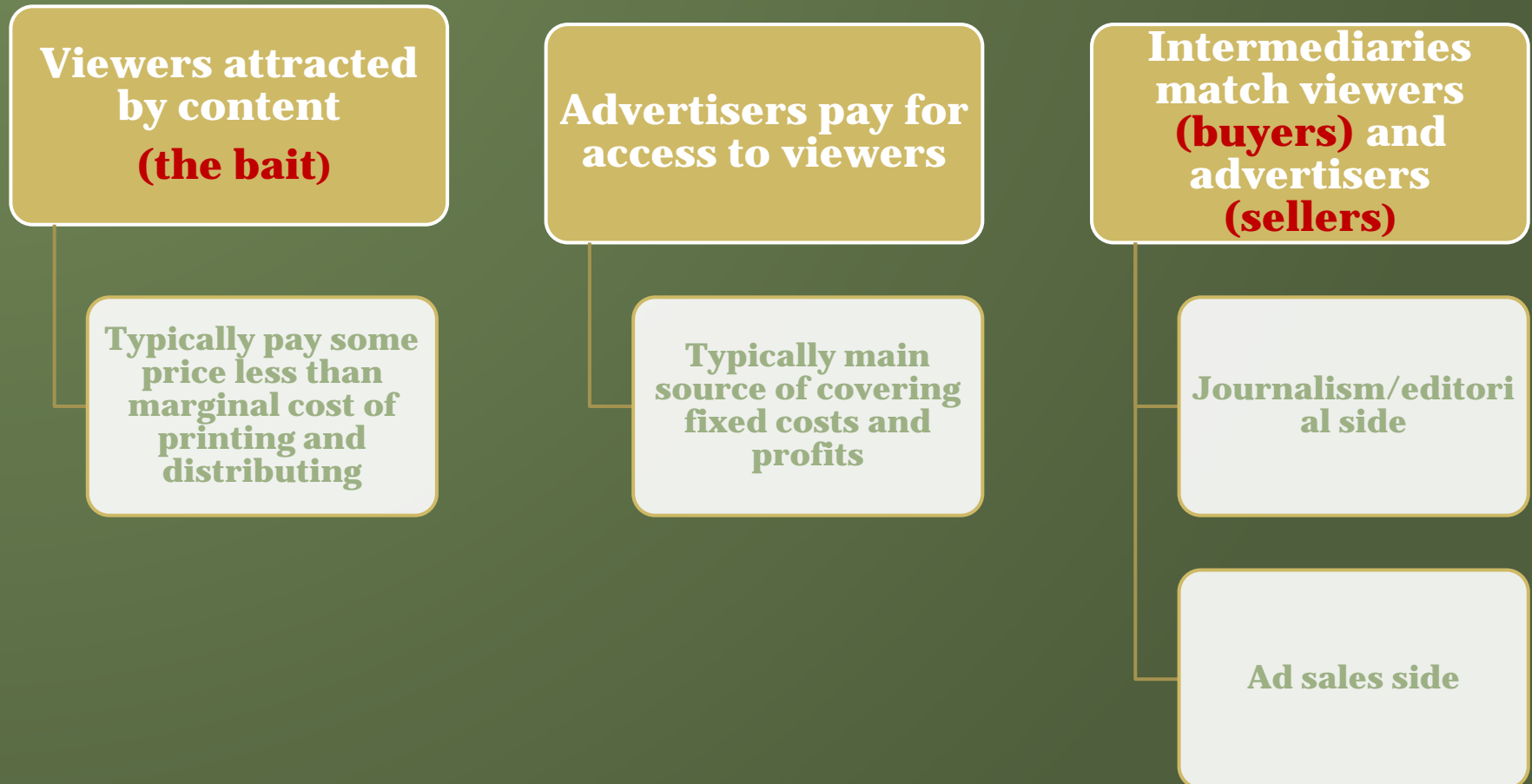
- Depends on likely return from selling more to consumers
- Depends on cost of alternative methods of reaching consumers

**Price of advertising**

- Often based on “cost per thousand viewers” or the cost for some action like a click-thru

# The Ad-Supported Media Business

Journalism is the bait for securing viewers for advertisers



# The Traditional Journalism Business

**Traditional journalism mainly funded indirectly by advertisers**



**Mainly an input  
into production of  
viewers for  
advertisers**

**Quantity demanded  
of journalism today  
reflects prices that  
are between free  
and low**

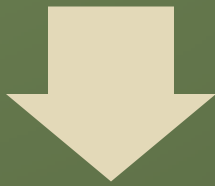
# What's Happened to Newspapers?



# Increased Supply of Ad Space

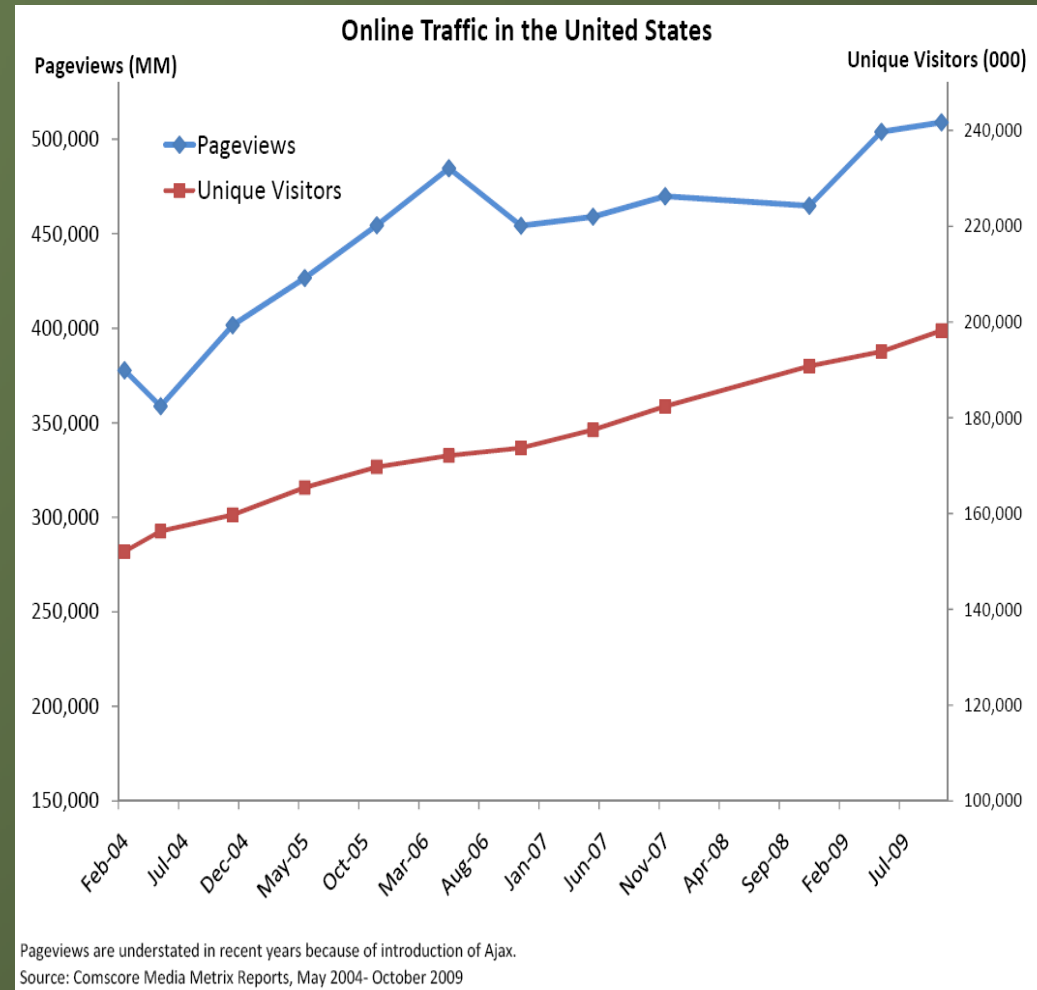
## Significant **increase** in advertising inventory

- Vast increase in space (marginal cost of “space”=0) on web
- Significant increase in “page views” (increased by at least 40% since 2004) and unique visitors (increased by 67% since 2004); page views understated because of introduction of Ajax technologies.



## Much of inventory **closely substitutable** for newspapers

- For advertisers online classifieds very close substitutes
- Display “online” looks like “offline”
- Online “engagement” may be less so advertisers don’t value as much.



# Lower Demand for Offline Content

Increased supply of online content **reduced demand for offline** ad-supported media; time spent reading newspapers down 17% 2004-2009.

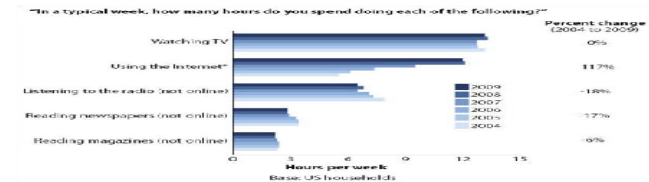


Online content **closely substitutable for newspaper content**; all wire services available online and lots of news-oriented material.



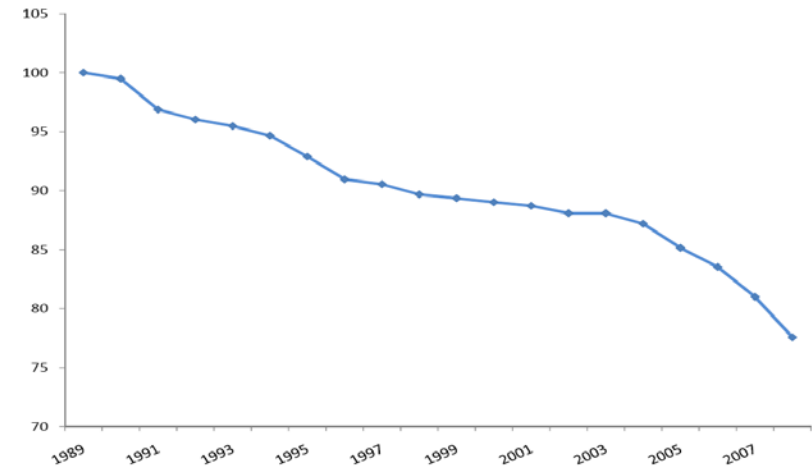
**Reduction in viewers offline; accelerated decline beginning around 2004.**

Between 2004 and 2009 Time Spent Online Has More than Doubled



Source: Forrester via North American Technographics Benchmark Surveys; from CNET News, July 28, 2009.

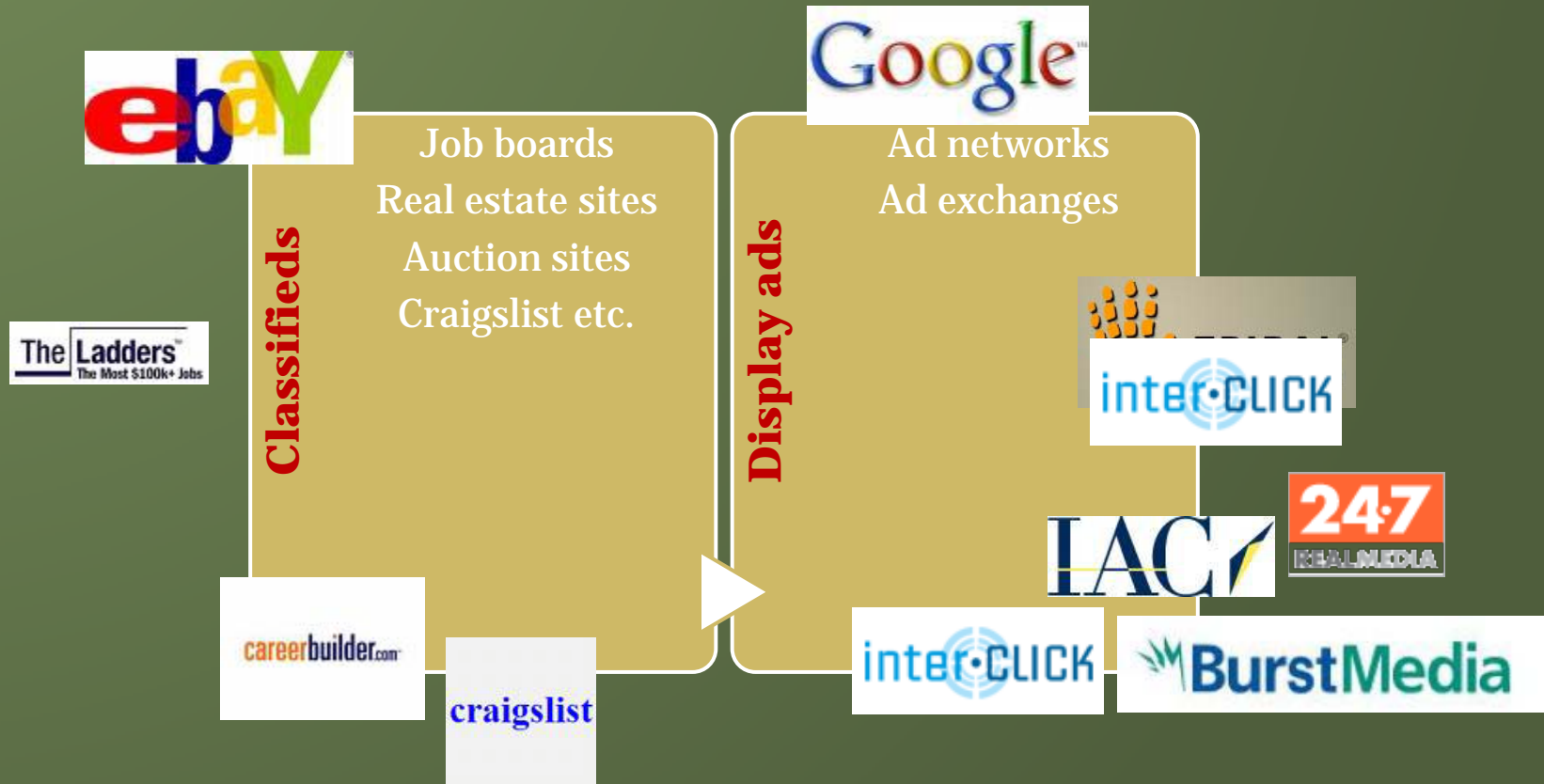
Total Daily Newspaper Circulation



All figures are indexed to 1989 base year.

Source: Newspaper Association of America, Total Paid Circulation, <http://www.naa.org/TrendsandNumbers/Total-Paid-Circulation.aspx>

# Increased Competition with Web-Based Intermediaries for Matching People and Advertisers



# The Economic Consequences

## Advertising revenue declines **because**

- Lower realized prices
- Fewer viewers=less inventory
- Advertisers substitute for online



## Subscription revenue declines **because**

- Free stuff available online; newspapers trim content to cut costs.



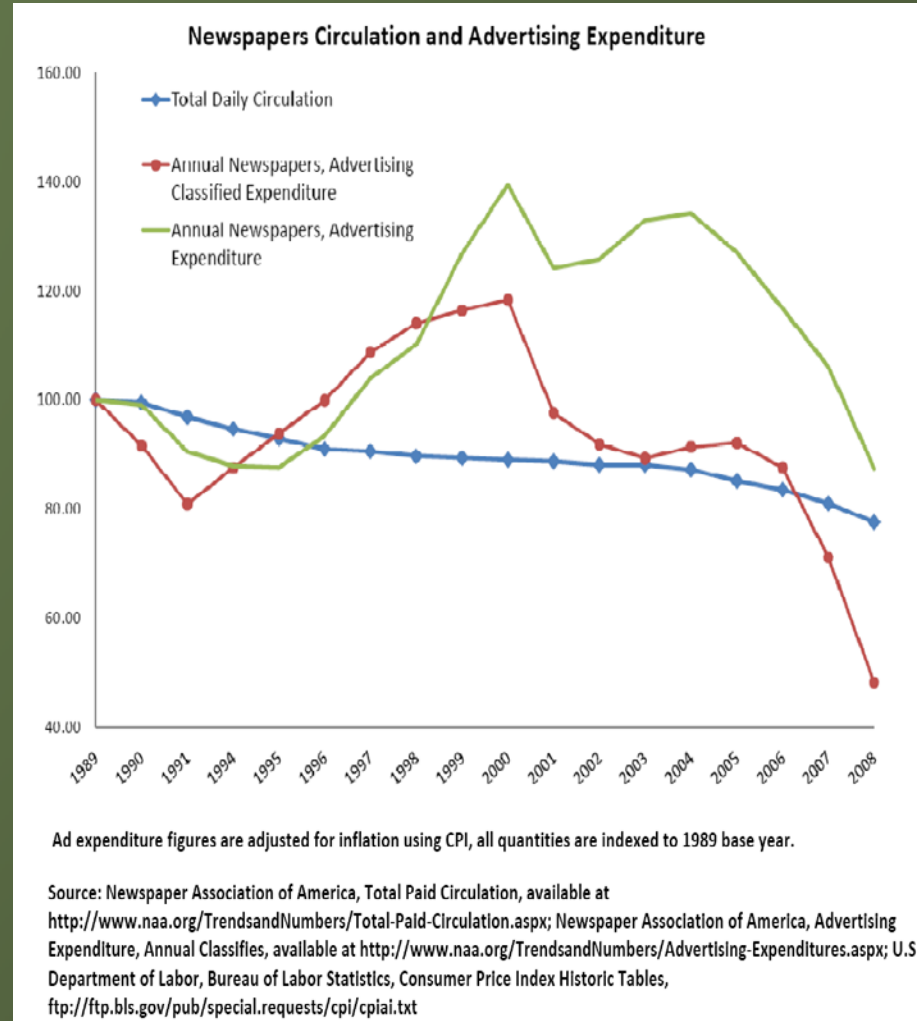
## Downward spiral **because**

- Fewer viewers → less advertising → less journalism ⇒ fewer viewers →



## Move to online can't make up for this

- Online ad prices too low so moving eyeballs off to online sharply reduces revenue. Online readers spend much less time with paper (68 seconds vs. 16 minutes for NYTimes) and are less engaged.



# The Big Question for Newspapers

Are newspapers like typewriters (kaput!) or like bicycles (smaller than it might have been but vibrant)?

Does this downward spiral result in **collapse**?



Does it result in **a new equilibrium** with different mix of subscription and advertising revenue and journalism; less print and more online?

**49** newspapers have closed in last 5 years including some major ones; others are distressed.

Total circulation has declined by **11 percent** in last 5 years.

Advertising revenue has declined by **26 percent** in last 5 years .

# Consequences for Traditional Journalism

If downward spiral continues then traditional journalism wanes.



If demand for traditional journalism is reasonably elastic then demand sharply lower even under subscription model.



**Either way: difficult to see how traditional journalism won't shrink considerably. Still might have a soft landing like bicycles.**

# The Coming Deluge of Ad Space

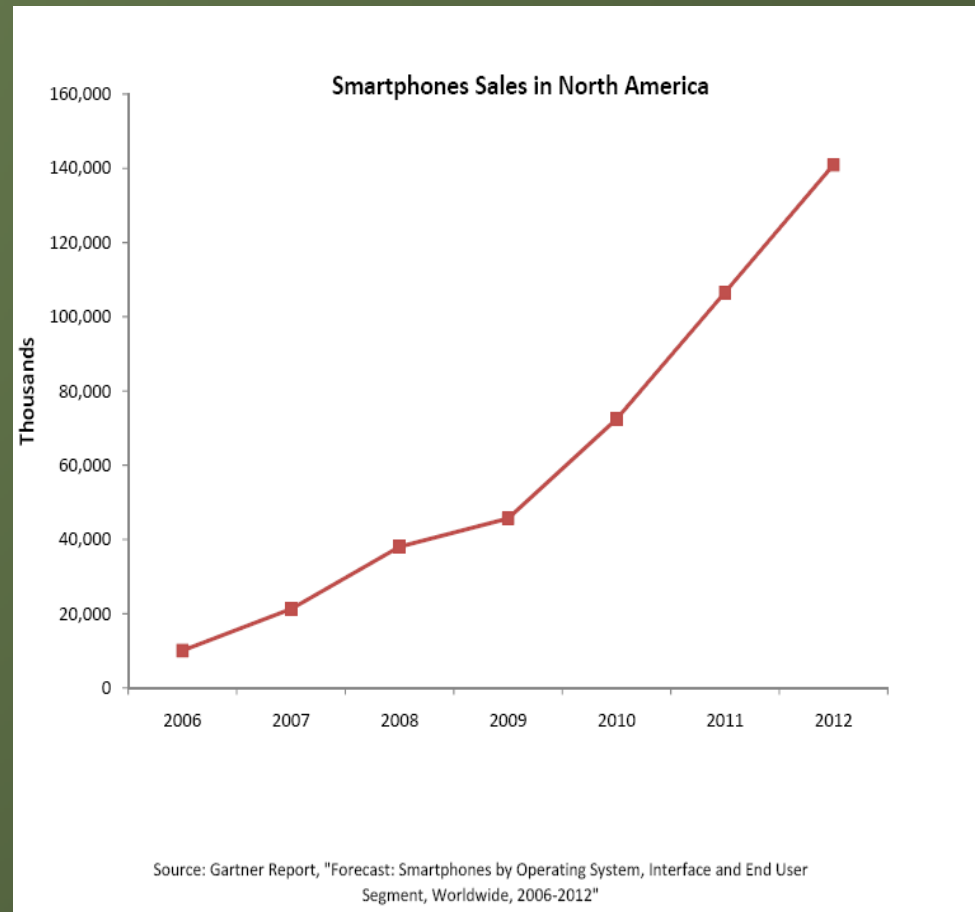
# Vast Expansion of Ad Inventory on Mobile Devices

**Number of internet-connected mobile phones (many with great screens) will increase**

from 144 million in 2008 to estimated 619 million in 2012

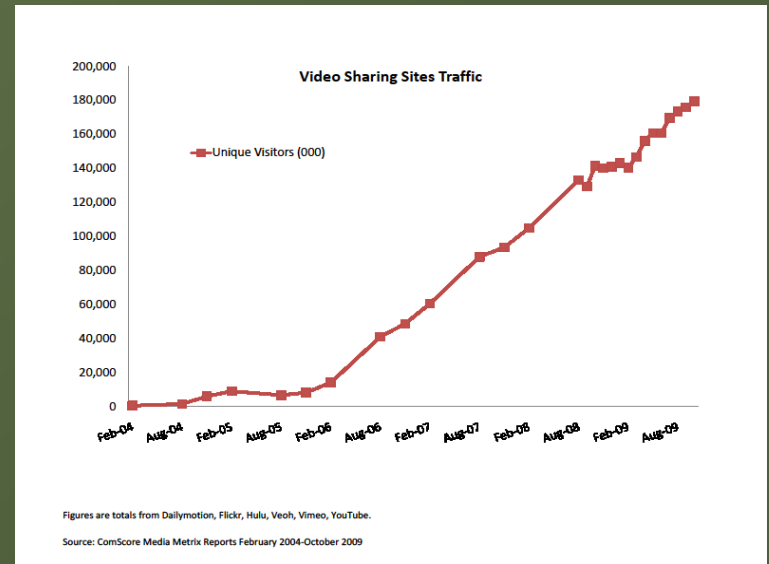
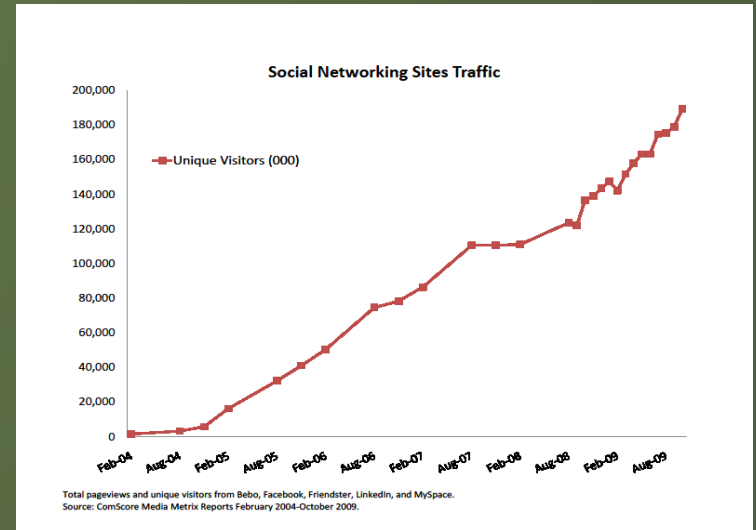
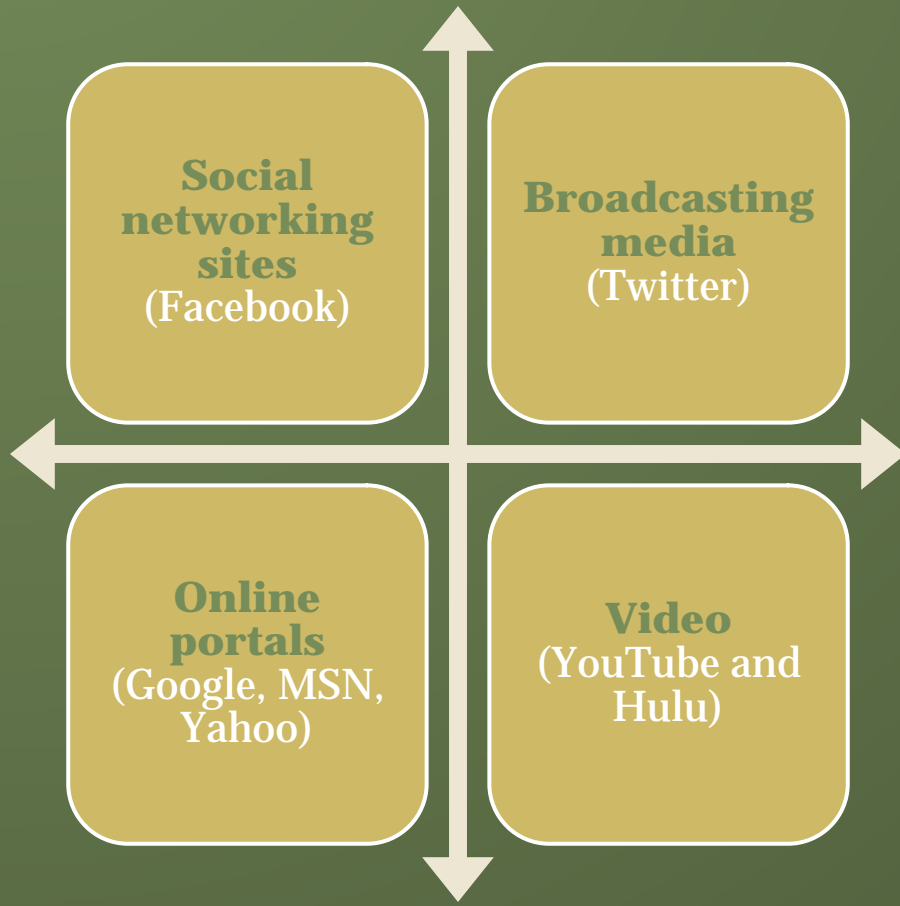
**Increase in amount of time people spend online on mobile**

Active users of mobile internet in US grew from 22.4 million in July 2006 to 40.4 in May 2008





# Continued Expansion of Ad Inventory on Web



# Implications

**Explosion of space will likely depress off-line and online ad prices thereby reducing demand for traditional journalism.**

**New space will suck even more advertisers and viewers from traditional media**

**Further depress advertising revenues**

**Further reduce demand for traditional journalism**

# Future of Traditional Journalism and Media

# Drastic Disruption for Traditional Journalism and Newspaper Business Models

Hard to see how the traditional journalism and print newspaper model could be sustained

## Traditional journalism **shrinks** a lot

- Diminished economic value for attracting viewers
- Little evidence to suggest that online models with no print cost would support traditional journalism
- Online advertising prices can't support traditional journalism cost it seems.



## Print newspaper business (maybe) **shrinks** to

- Scale driven properties that can average distribution and content costs down.
- Niche properties that provide valuable and chargeable content or rely on user-generated content.
- Moves primarily online.

# Public Policy Observations

**Don't underestimate the ability of innovation to serve consumer demand**

Policymakers should recognize **drastically changed economics** of media businesses; implications for antitrust, copyright, regulation.

Hard to see a market failure in the production of traditional journalism; **shouldn't subsidize production** of something consumer's don't value.

Expect entrepreneurs to develop **new ways of meeting consumer demand** for information and engaging in public discourse.

## Further Reading

- Evans, Online Advertising Industry: Economics, Evolution and Privacy, *Journal of Economic Perspectives*, Summer 2009
- Evans, Economics of the Online Advertising Industry, *Review of Network Economics*, September 2008
- Evans and Webster, Tomorrow's News Today: Five Strategies for Survival, *Ideas*, September 2007.
- Also see various blogs on [www.catalystcode.com](http://www.catalystcode.com)