



# How the coming newspaper industry collapse will reinvigorate journalism

*By Paul Gillin*  
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The near-total collapse of the American newspaper industry as we know it is inevitable. Anything newspapers could have done to stop it should have been done years ago. ([Slate recently wrote](#) that newspapers saw this coming in the mid-'70s.) All the social, demographic and economic trends are lined up against the industry. Over the next decade, there will be agonizing rounds of layoffs, consolidation and bankruptcies. It will be painful to watch, but it will be a necessary process for the industry to reinvent itself.

In this essay, I'll outline the reasons I believe this and propose a new and very different model of publishing and journalism that will take hold as this cycle plays out. This will be a very exciting evolution, but it will be very painful, too.

### A broken business model

First, some background and assumptions. The business model of metropolitan daily newspapers was developed over 150 years ago to support a delivery method that is becoming irrelevant. Huge staffs of people were needed to create content, turn it into type, print it on paper and distribute it on a timely basis. It was very expensive, but it was necessary because there was no alternative way to deliver information on a daily basis.

Large editorial staffs were needed to create proprietary content. A few alternate sources of content were available, such as news wires, but there was almost nothing at the local level. In any case, running wire copy didn't differentiate a newspaper from its competition, so staffs of salaried reporters were needed to turn up original news. At some newspapers, these staffs could run to several hundred people.

Newspapers had to maintain large circulation operations and massive subscriber lists in order to justify their ad rates. Circulation is expensive. While renewal rates for daily papers have always been high, it's costly to acquire new subscribers through advertising and direct mail. For most papers, the cost of circulation didn't come close to matching the small revenue it generated. Circulation revenue at newspapers has also been falling in recent years due to price cuts and competition, further squeezing margins.

Capital costs inherent in buildings, presses, paper, ink and people to run all those machines were astronomical. Labor unions added to those costs. In some cases, the unions have succeeded in preserving jobs that were automated out of existence years ago. People go to work and literally have nothing to do.

Add it all up and a metropolitan daily newspaper must employ several hundred people to produce the product. Newspaper advertising is very expensive because of the large fixed costs. The [Chicago Tribune](#), for example, charges \$755 per column inch in the daily paper (\$1,135 on Sunday). That business works as long as advertisers are willing to pay for it and for many years they have. That's because

newspapers were one of the most effective means for businesses to reach consumers in certain geographies.

The upside, though, is that newspaper model has traditionally been profitable and predictable. Once a newspaper achieved dominance in its market, it was practically unassailable. As consolidation reduced the total number of daily newspapers (there are about 1,500 in the U.S. today), competitive pressure eased and the winning papers were able to drive their ad rates higher. Until the mid-1990s, this was a pretty nice state of affairs. Even the Internet didn't put much pressure on newspapers, at least during its first decade.

That is all about to come to an end. The business model of metropolitan daily newspapers is poised for a collapse that will be stunning in its speed and scope. The cause is Web 2.0 and the vastly superior economics of that emerging business.

### A new model

A recent [story in \*Business 2.0\* magazine](#) revealed the income of some popular bloggers. Read this article if you want to understand the emerging economics of blogosphere. This new medium is far more cost-efficient than the ones it will replace.

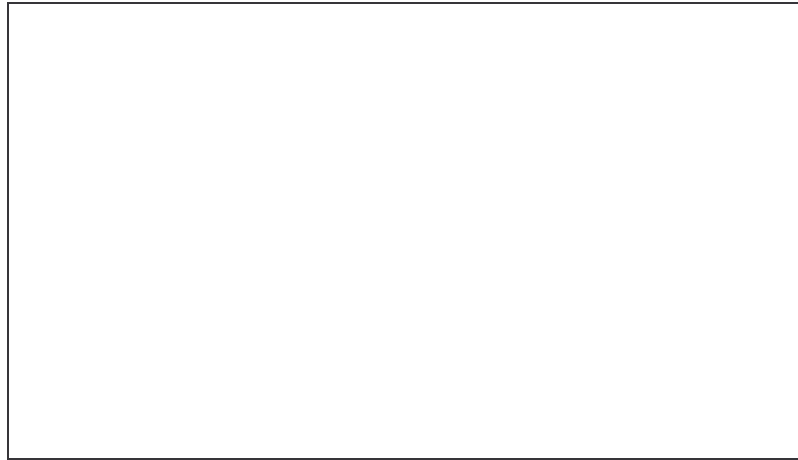
"Blogs today benefit from what might be termed uneconomies of scale," the *Business 2.0* article says. "They are so cheap to create and operate that a lone blogger or a small team can, with the ever-expanding reach of the Internet, amass vast audiences and generate levels of profit on a per-employee basis that traditional media companies can only fantasize about."

Take the [Fark.com](#) example. The site generates 40 million page views a month with a staff of one full-time person and two contractors. Its only real operating costs are bandwidth charges. It produces almost no original content and has no capital costs. Members contribute their own content, so no editors are needed. The site almost runs itself. Yet this could approach \$10 million in revenue before long.

Another example is [Craigslist.org](#). It's is the fifth most popular site on the Internet, with global reach and an estimated four *billion* page views a month. It is absolutely killing the newspaper classified ad business. One study report estimated that Craigslist costs San Francisco newspapers \$50 million in revenue each year. The entire staff is 23 people, all part-time. [Google Blogscoped](#), which is the best

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Digg.com, with less than 20 employees, has more Web traffic than *The New York Times*, according to Alexa.com. Other popular mainstream publications are even farther behind.

independent source of information about Google, is run by one person in his spare time. It's averaging four million page views a month. [Gizmodo](#) grew to become one of the top five blogs on the Internet with only a single contributor. [Digg.com](#), which is barely two years old, is already among the top 25 sites on the Web. Its traffic outstrips all the largest media sites. It has a staff of 15.

## Outsourcing everything

None of these sites is making piles of money yet, but that's only a matter of time. Michael Arrington is pulling in \$60,000 a month writing [TechCrunch](#). [BoingBoing.net](#) is on target to gross more than \$1 million. [Fark.com](#) founder Drew Curtis says he's on track to soon log sales of \$600,000 to \$800,000 *per month*.

Companies like John Battelle's [Federated Media](#) and Nick Denton's [Gawker Media](#) are figuring out the business side. And it's not like these blogs have to make a lot of money to keep going. [Adrants.com](#) generates over \$100,000 a year in advertising and that's plenty to keep Steve Hall plugging away at his one-man operation. He's got almost no costs and he's getting paid to do something he's passionate about.

How do these new media outlets keep their overhead so low? They outsource everything.

- Editorial content is outsourced to an army of individual enthusiasts and bloggers who find interesting information on the Web and feed it to the site operators. Editorial expenses, which account for about a third of the operating costs of a daily newspaper, are practically zero.
- Circulation is outsourced to Google and links from other sites. In fact, there really is no concept of circulation in these new media because there's no way

to “own” the reader. This is a very different model from conventional publishing, which relies heavily on subscriber lists to validate advertising rates. The Web approach is much less controllable but also much cheaper.

- Production is outsourced to [Typepad](#), [Blogger](#) or any number of other hosted services at minimal cost. There’s no need for designers because everything is templated. Some sites practically run themselves. Bandwidth costs can be steep for popular properties, but that’s true for newspaper Web sites as well.
- Sales is outsourced to Google Adwords, Federated Media or other sales agents. This may change in time, but for now, most Web 2.0 companies can’t be bothered with a captive sales force.

Marketing and promotion aren’t even done. In the new Web, your marketing is your content. People either link to you or they don’t. This creates a lot of pressure on the site operators to be fresh and innovative, but that’s not a bad thing.

This model is so compelling that it will almost completely upend the existing mainstream media model.

## Newspaper death spiral

New competition from Web 2.0 companies along with continuing demographic shifts are about to send metropolitan daily newspapers into a spiral of decline from which few will emerge intact. Why now? People have been wrongly forecasting the death of newspapers for years. Why is this time different?

The first decade of the consumer Internet was very different from that which we’re now entering. Web 1.0 was the display Internet. It was a decade when organizations put their brochures online and users got comfortable with the *idea* of a global network. Search tools were rudimentary, Web content was difficult to create and interactivity was limited. The brands that dominated the pre-Web days were able to extend their brands online. While a few important new sources of information did emerge, media giants like CNN, *The New York Times*, *The Washington Post* and the Associated Press continued to dominate online media. There was little threat to their underlying businesses.

That’s all changed. It’s now easy for individuals to create Web content. Computing power, storage and bandwidth costs are declining rapidly. The open-source software movement has dropped the price of software to near zero. Search engines have become a more effective marketing channel than e-mail. Google AdSense and affiliate marketing networks can generate income for Web site operators, even at low traffic levels. Today, a small group of people with a few thousand dollars and a good idea can build a self-sustaining Web franchise in a matter of months. You couldn’t have done that five years ago.

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Layered on top of that is a demographic shift that is about to move a large new group of Web-savvy consumers into the economic mainstream. This new generation simply doesn't have the loyalty to established media that their parents do. And they don't read newspapers at all.

## **The spiral begins**

So here's where the spiral begins. Newspapers' profitable classified advertising business will be all but gone in 10 years, a victim of the vastly superior results and economics of search-driven online advertising. Display advertising will be under intense pressure from alternative media, including not just Web sites but an emerging class of small print publications and supermarket advertisers that serve local audiences (print publishing is getting cheaper, too). The department stores and cell phone companies that sustain newspapers' display advertising business will apply intense pressure on papers to bring down their prices.

Newspapers will be forced to lay off staff in order to maintain margins. Cuts in services will lead to cuts in editorial coverage, making papers less relevant to subscribers. As circulation declines, advertising rates will have to come down to remain competitive. This will put more pressure on margins, leading to more layoffs, more cost cuts, more circulation declines and more pressure on margins. Once this spiral begins, it will accelerate with breathtaking speed. [And it has already begun.](#)

Experience has shown us again and again that business models based on vertically integrated, proprietary products quickly collapse when confronted with competition that is open, standardized and much less expensive. It's happened in consumer electronics, telecommunications, computers and household appliances and there's no reason it won't happen in media. Advertisers will rebel at having to pay newspapers' high fixed costs when they can get the same audience through other channels at a fraction of the cost.

History has also demonstrated that business models based on scarcity collapse in the face of abundance. The whole newspaper model is predicated on the idea that timely, local information is hard to come by. Newspapers built very expensive infrastructures to deliver that information in the days of print. But information is now cheap and abundant. As the body of information grows and people become more comfortable with the tools to access it, the newspaper value proposition withers away.

The sole advantage that newspapers still have is their reach in local markets. Small businesses that sell aluminum siding, flowers and cleaning services have few alternatives to newspapers for their ad dollars. But that, too, is changing. The declining cost of electronic composition and offset printing is leading to a resurgence of local newspapers, and Web 2.0 technology is making it cheap for

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citizens to launch their own community Web sites. Search engine makers are figuring out how to provide value in local search. These forces are converging to attack newspapers' last refuge.

In 10 years, probably a third of metropolitan daily print newspapers will be gone. Some will go entirely online, while others will merge with regional competitors. What will replace them? And what will the new journalism look like?

## REBIRTH

What emerges from the rubble of the newspaper industry will be a fresh, vibrant and very different kind of journalism. It will make a lot of traditionalists uncomfortable. It will force us to re-examine our assumptions about everything from readership to libel law. But it will ultimately be an evolution of the profession into something that is richer, more inclusive and much more dynamic than anything we have ever known.

Print newspapers are modeled on assumptions that were defined by physical constraints, but which are outmoded and irrelevant online. Basically, information is scarce and publishing is archival. In most metropolitan areas, the newspaper has been the principal or only source of news for many years. This required editors and publishers to take a very serious view of everything they set into type. Layout, headline selection, story lengths, story placement and design were critical considerations in a space-constrained world. The importance of a story was reflected by its location in the paper or on a page, the weight of the headline and the number of column inches dedicated to it.

Once a story was in print, it was permanent. This necessitated an almost obsessive attention to detail and fact-checking. All facts had to be assembled before the story was written. Often, multiple editors were assigned to review and challenge information in the article. If information wasn't verified, it wasn't published.

Structure was critical. Because stories were cut from the bottom, newspapers invented the "inverted pyramid" style of writing, in which more important information was placed higher in the story. Good information was omitted because there wasn't enough space.

## Online publishing changes all the rules

Of course, all that is irrelevant online, and the new journalism will be based on an entirely different set of assumptions. Any report may be quickly and easily updated and corrected. Search engine results and referral links are the principal drivers of readership. Layout is almost irrelevant to a Web site. Blogs have no hierarchy at all. Stories can be as long or as short as they need to be, or can even be composed of many links to other content. Stories may appear in many places at once and even in many forms, depending on how they are tagged. Readers are able to comment upon

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and contribute to articles. Graphics, audio and video illustrations are easily linked to text. If something is wrong, you can always go back and correct it.

In short, the online world challenges nearly every assumption of conventional newspapering. It will dictate a very different approach to journalism.

For one thing, the craft of journalism will evolve to include far more aggregation and organization than it has in the past. Editors will assemble their reports from a vast library of resources located across the Internet. Some information will come from paid staff writers, others from freelancers and still more from reports and opinions published by independent third parties and even competitors. Editors will still have a critical role, but their value will increasingly be in assembling and organizing information for readers who don't have the time to sort through the vast Web.

The craft of reporting will become faster and more iterative. Rumor, speculation and incomplete information will be published far more readily, on the assumption that errors can be corrected. Stories will, in essence, be built in real time and in full public view. Reporters will file copy directly to the Web, often without a review by an editor. Readers will be a central part of the process, correcting and commenting upon articles as they are taking shape. Reporting will become, in effect, a community process.

This new model will be very disruptive and very controversial. The idea that a news organization would publish information it did not know to be true flies in the face of all of our expectations. The concept of actively involving readers -- who have no formal relationship with the news organization -- in the reporting process will be too much for some editors to accept. There will be hand-wringing over fears of libel suits and other litigation. It is going to be an unholy brawl.

But this is where journalism will go, and it is happening now, every day, on blogs and community media sites across the world. There, authors knowingly publish information that is unverified and unreliable. They do so with the expectation that their readers will set them straight and that the truth will be arrived at through a process of publishing and correction. More than half a million blog posts are logged every day, yet there has not been a single successful libel suit resulting from any of them. Libel law, after all, is based on the expectation of archival permanence. Nothing is permanent online.

## The future is taking shape

New models are already being tested at community-journalism sites like [Backfence](#), [iBrattleboro.com](#), [Northwest Voice](#) and Korea's [OhMyNews.com](#). The *Washington Post* [recently reported](#) on a Gannett experiment to reinvent news journalism in Fort Myers, Fla. More will follow. Many more.

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Journalism will become much more local. As the cost of publishing falls to near zero and citizens become more comfortable with the tools of publishing, thousands of mini “newspapers” will form around different geographies and topics. Aggregation sites will emerge to sift through and organize the reports and conversations going on in these small communities. Many of these sites will involve human editors who understand the needs of their audience and monitor online activity on their behalf.

This will be nothing less than a complete rebirth of journalism around the concept that information is plentiful and cheap. Instead of 1,500 print newspapers, there will be perhaps five to 10 national “super-papers” and many thousands of regional and special interest community news sites. The process of getting there will be wrenching and controversial, but the new model will create a more dynamic and diverse information landscape than we have ever known. It will be incredibly exciting. I hope to be around for the ride.

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*About the Author:*

*Paul Gillin is a writer, content marketing consultant and author. His book, [The New Influencers: A Marketer’s Guide to Social Media](#), will be published by Quill Driver Books in the spring of 2007. His blog is at <http://www.paulgillin.com/>.*