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**Funding digital journalism:  
The challenges of consumers and the economic value of news**

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The business of journalism is an uncomfortable subject for many journalists and one they prefer to disregard whenever possible. Because the news industry enjoyed a rising tide of funding as advertising expenditures increased decade-by-decade during in the twentieth century, the question of how journalism could be funded did not arise and most journalists ignored business aspects of news provision. The swelling revenue from advertising allowed journalists disregard the fact that the news they produced was also being sold to consumers in a market transaction, but that its price was well below the cost of gathering, preparing, copying, and distributing the news. Considered in revenue terms, the primary business of newspapers publishing in the twentieth century was advertising not news.

The movement of news to digital platforms, however, is forcing journalists to pay greater attention to the business of news and to wrestle with issues involving economics of journalism, the commercial value of news, how news audiences behave, what prices consumers will pay, how payment will be structured, and what opportunities exist for non-market funding.

This chapter addresses issues involving the funding of digital journalism. To understand that issue, it is important for readers to distinguish between the terms funding model and business model. They are often erroneously used synonymously by many in journalism, but represent distinct concept and issues. The term *funding model* refers to how an enterprise makes money, but this is only one part of the firm's broader *business model* that specifies the firm's business logic, value proposition, value configuration, processes and relationships, and customer interactions (Picard, 2011a). Those issues are crucial for making the funding model successful. This chapter will use the term funding to refer to income/revenue received and funding model for the revenue configuration that makes it possible.

**How digital operation alters the economics of journalism**

The need for funding is directly linked to the costs of producing and distributing news and how the shift to digital operation affects those costs is important.

Digital journalism alters the cost structures that exist when journalism is practised in print (Picard, 2011b). Digital operations do so by ending costs that previously existed for making newspaper copies and delivering them. In physical production (print), profitable operation is pursued by managing variable costs. This requires seeking efficiency in the unit costs of producing copies through economies of scale and reducing transaction costs. The environment provides significant advantages to newspapers with larger numbers of customers. In digital operations, however, serving additional digital copies has little cost effect and competitors tend to operate with relatively similar cost structures regardless of the number of customers. Costs are primarily affected by the

scale and scope of content provided rather than scale and scope of copying and distribution costs. In this environment managing fixed costs becomes the challenge.

Although digital journalism reduces the cost of production and distribution, it does not equally reduce the costs for gathering and processing news and news organisations have threshold level production and distribution costs that must be borne regardless whether they serve smaller or larger digital audiences.

In the past, legacy news providers benefited from monopolistic structures created by their production and distribution cost structures, temporal constraints, and distribution distance barriers and by mass audiences that were created to attract advertiser revenues. Digital media cost structures and features overcame those barriers, however, allowing smaller audiences to become economically efficient and many sizes of enterprises to compete effectively because disadvantages created by varying production and distribution economies of scale no longer affect them.

The digital shift, however, has had a significant effect on revenue, however, by dramatically reducing advertising funding that provided the bulk of income for print operations. Digital operations have created a near endless supply of advertising opportunities that lower the prices advertisers pay for reaching digital audiences and do not carry the types of retail advertising that existed in print. Consequently, advertisers spend less in digital than they did for print and news providers are unable to obtain the levels of revenue from digital that they received from print.

### **Journalism has never been a commercially viable product**

Answering questions about how to fund digital journalism in the twenty-first century requires reflecting upon how journalism has been financed in the past. Historically, the gathering, production, and distribution of news was never a stand-alone, self-financing commercial activity. It has always relied on subsidy funding from other profitable activities that benefited from the news activities.

Four clear financing models are visible over the centuries. News was initially paid for emperors and monarchs in an imperial finance model during ancient times and that model evolved into a commercial elite finance model during the Middle Ages, in which large international traders paid for news. The rise of merchant classes led to a social elite financing model in the eighteenth and nineteenth centuries, which then transformed into the mass media financing model base of the nineteenth and twentieth centuries (Picard, 2013). The latter model was based on mass produced news that required enterprises to keep content prices low and filling papers with content to attract large audiences—including many readers more interested in sports, entertainment, cooking, and other topic rather than news. These audiences were then sold to advertisers who provided the bulk of newspaper revenue (Picard, 2011a).

The elements of the model came about because it was recognised that a limited number of people would pay for news and the level they willing to pay was relatively low—facts that have always made journalists uncomfortable. The challenge of most people being unwilling to pay for news was outlined by Walter Lippman in 1922:

Nobody thinks for a moment that he ought to pay for his newspaper.... He will pay a nominal price when it suits him, will stop paying whenever it suits him, will turn to another paper when that suits him....It is not a business pure and simple, partly because the product is regularly sold below cost..... The citizen will pay for his telephone, his railroad rides, his motor car, his entertainment. But he does not pay openly for his news....he will pay indirectly for the advertisements of other people, because that payment, being concealed in the price of commodities is part of an invisible environment that he does not effectively comprehend....The public pays for the press, but only when the payment is concealed (Lippmann, 1922).

Funding digital journalism is confronting this unwillingness to pay again, especially because the overall funding of all digital media relies primarily on market funding and digital media provide maximum advantages to branded content providers that can generate large numbers of unique users and views of their digital pages.

### **What do we know about digital news consumers?**

The behaviour of digital news consumers is critical for establishing effective funding models for digital journalism.

The fundamental principles of the market assert that sellers need to provide consumers products and services consumers want and that sellers can only be successful if their offerings deliver greater value than their competitors. Aligning producers and consumers is central to commercial success, but studies have shown that journalists and news consumers differ significantly about what news is of interest (Boczkowski & Peer, 2011; Lee & Chyi, 2014), in good part because journalists perceive their efforts as servicing non-market functions. This creates a challenge in digital operations because the ability to finance news operations by other than market transaction between producer and consumer is more limited than in print and broadcasting

Our understanding of patterns of behaviour of digital news users has increased significantly in recent years and is important in developing and assessing funding models.

It is clear that news consumers are using multiple devices to access digital news ((Chyi & Chadha, 2012; Reuters Digital News Report, 2015), but that mobile is rapidly becoming the central platform for news distribution. Mobile use is creating additional consumption among those who do not use legacy news sources (Dimmick, Feaster, & Hoplamazian, 2010; Reuters Digital News Report, 2015), that news publishers viewing mobile as primarily as complementary content distribution risks displacement (Nel & Westlund, 2012), but that digital and mobile news can have displacing and complementary effects that are influenced by user ages (Westlund & Färdigh, 2015).

This is occurring because mobile news has relative advantage, utility, and ease of use (Chan-Olmsted, Rim, & Zerba, 2013), that accessibility and information-seeking motives influences mobile news consumption (Shim, You, Lee, & Go, 2015), and that the degree of press freedom of established media influences demand for mobile news (Wei, Lo, Xu, Chen, & Zhang, 2014). A study examining the interplay among demographics, online news use, format preference, and its effect on consumers' paying intent for news suggests that consumers do not always use what they prefer and that they are not always willing to pay for what they use (Chyi & Lee, 2013).

Willingness to pay for news remains a challenge in digital news. An early survey conducted in 2002 reported that 70% of Internet users could not understand why anyone would pay for online content (Jupiter Media Metrix, 2003). A 2010 survey documented Internet users' unenthusiastic response to paying for newspaper content on the web; in fact 60% of online users reported they were willing to pay zero dollars for their favourite newspaper online (Chyi, 2012). Willingness to pay rises somewhat when apps and tablets are involved but are highly influenced by local market conditions (Picard, 2014).

Contemporary research reveals that payment for digital news currently tops out at about 15% of digital users. 6% of digital users pay for news in the UK, 7% in Germany, 10% in the US, 11% in Australia, and 14% in Finland, for example (Reuters Institute, 2015).

This indicates that a small number of users will pay for regular access to a steady stream of well-curated news and information; most will not. Most consumers are content with the basic material available free from broadcast and cable channels, digital aggregators and other digital sources. Increasingly many do not seek news, but are willing to rely on news reaching them through social media and serendipitous exposure.

The research indicates that if digital news providers want to rely on consumers who want regular, curated news and information to pay most of the costs of gathering, producing, and disseminating the content will have to accept a smaller number of users paying a higher price or reduce the price by undertaking other activities that produce revenue. News providers that are targeting the largest group of consumers—those unwilling to pay, who seek news less frequently or use it when it is shared with them or discovered in another way—will need to rely on strategies that bring extremely large number of consumers into regular contact with their content on multiple platforms so they can provide advertisers access to individual consumers and aggregated audiences

Constructing a strategy to achieve desired income involves trade-offs between sales revenue and traffic-driven ad revenue. Paid content drives content sales revenue and free content drives traffic and increases advertising sales. Producing the highest possible revenue for a news enterprise may result from content sales, advertising sales or a combination of the two.

What we know about payments today is that willingness to pay is affected by the digital platform used and the extent to which free competitors providing similar news are available. Paid apps for mobile and tablets gain better consumer acceptance than general online payments and news organisations operating in larger markets have advantages in gaining acceptance from sufficiently large numbers of consumers to make pay systems a success. Market leaders—especially large legacy media news providers have brand and content advantages in moving to payment.

### **What methods for content payment are in place?**

Providing paid content to consumers requires news organisations to select a content payment model and create an access structure to obtain payment. The choices of payment model are unique to individual news providers dependent on market structures, consumer demand, marketing strategies, and payment infrastructures available to them.

A widely used approach is the *freemium model* in which some content is provided free and some requires payment. This is a classic up-selling strategy, but requires high quality, attractive content for the paying. The freemium model permits use of different prices for differential access to content. News organisations using this model provide some content free to support brand maintenance and to help market their paid access plans. The free content tends to be less exclusive than paid content and sometimes is an abbreviated version of the paid content. The model generates traffic for ad revenue on both free and the paid content because both carry advertising. Using this model requires managers to identify content that is kept for paid customers and to decide how long it may be kept from those who do not pay.

Another widely used approach employs the *metered model*, a form of the freemium model that limits free access to number of articles and multimedia presentations to encourage making a switch to regularly paying for greater content. It requires monitoring use by individual consumers, asking for payment at certain levels of use, and then blocking access if they do not pay. This practice of course reduces traffic to the news organisation's platforms that generate advertising revenue. In the past many publishers employed metering techniques that allowed consumers to view 10-15 free articles or multimedia presentations monthly. But many have now reduced that number to 5 articles per month. The metered model supports brand maintenance and marketing for paid access.

Another strategy used by some news providers is to operate separate free and paid sites as different brands with the paid edition including premium content, more stories, in-depth articles, columnists, and archives.

There is clear evidence that paywalls that keep non-paying customers from content reduce website traffic between 85 to 95 percent and that metered systems reduce traffic 5 to 15 percent.

Digital operations make a variety of purchased access options possible: single article, 1-day access, 1-week access, monthly subscription, quarterly subscription, annual subscription. They are not equally beneficial for news organisations, however, because digital payment systems create transaction cost challenges. The costs of managing transactions, accounting and auditing, and conveying funds for digital purchases can incur expenses that are higher than the actual cost of the content purchased. In addition, the number of customers a firm attracts matters because cost inefficiencies exist and develop when serving news organisations that have fewer transactions, making them more expensive to serve.

These issues arise when deciding how payments for content will be accepted. Cash and cheque payments incur high costs for handling and accounting and high fees from banks and other financial intermediaries. These may generate costs between £1.50 to £10 per item. Debit cards/credit cards are more cost effective, but involve costs assessed by credit card processors and banks that make them undesirable for payments for small transactions. Prepaid accounts lower costs because all activity is electronic and automatic and can be managed internally or externally by non-bank intermediaries. Nevertheless internal processing costs of .20p to .30p per transaction are common in such systems.

Some news organisations with larger numbers of customers and sales transactions may be able to manage the costs effectively and operate pay systems on their own, but other firms may need to take part in cooperative pay systems that overcome transaction cost challenges by collectively creating economies of scale and lowering transaction costs.

Two general payment patterns are emerging worldwide: one based on subscription and the other on single access or micro purchases. The subscription approach has its strongest use in countries such as Denmark, Germany, Japan and the United States. Purchasing limited time access to content or making micro purchases is highest in countries such as Brazil, Italy, Spain, and the United Kingdom. These patterns align with the national traditions of how print newspapers have conventionally been purchased.

### **Non-market funding models are working for some news providers**

Commercial news provision is not the only way news can be provided in the digital age, because digital technologies make it possible for many different types of organisations to engage in news and information provision.

Not-for-profit operating models are being pursued by many digital news organisations, relying on a variety of non-market funding models and mix sources of funding (Sirkkunen and Clare Cook, 2012; Knight Foundation, 2013).

Foundations, particularly in the United States, have stepped in to help establish and support digital not-for-profit news providers and providing funding for specific types of coverage in both not-for-profit and for-profit news providers (Westphal, 2008). Most foundations supporting journalism were established by wealthy individuals who support community improvement or fund activities in specialty areas involving education, health care, and energy. Although though there is interest in promoting more foundation funding of local news start-ups in the United Kingdom, few foundations have moved into that role and support from public organisations is being encouraged (Carnegie UK Trust, 2014).

Even where foundation funding is more widely available, however, it is not expected to become a long-term funding solution because donors typically do not like to provide continuing operational support and tend to change their funding emphases over the years (Shaver, 2010; Levy and Picard, 2011; Picard, 2014).

Patronage has long been a funding model for activities that are not commercially viable. Nobility, aristocracy, and wealthy individuals have funded cultural and other endeavours in areas that interested them and brought them attention. Mozart, for example, relied on funding from Austrian Count Franz von Walsegg to compose his Requiem Mass in D Minor and the Earl of Southampton was a regular patron of Shakespeare's poetry.

Not-for-profit digital journalism enterprises are relying heavily on patronage for startup and operating funds. ProPublica, the leading digital investigative journalism news organisation in the US, was established with and receives annual support from the patronage of Herbert and Marion Sandler, whose wealth came from financial services. The Voice of San Diego, a digital news provider

of in-depth local news coverage and investigative journalism, receives its largest funding as patronage of a retired venture capitalist who now engages in philanthropy. In the UK, the Bureau of Investigative Journalism operates with the patronage of David and Elaine Potter, whose wealth derived from the software industry. There are also many individuals who provide lesser patronage donations to established not-for-profit journalism enterprises.

A number of news enterprises offer memberships and seek small gifts from those who consume their services. Best known for using this model are public radio and television stations in the United States, but digital media such as Texas Tribune and MinnPost use memberships as one of the revenue streams. Although it is a form of patronage it represents, at best, “poor man’s patronage” because the average gifts are small and come from persons without significant wealth.

Mixed funding is becoming the norm for not-for-profit news providers and they are increasing reliance on multiple sources of funding (Knight, 2013). They obtain foundation grants, patronage donations, pursue memberships, develop revenue from events, have some advertising income, and providing commercial services within their expertise such as developing advertising campaigns and providing web hosting and web design services for small firms.

Some digital news providers that require payment are trying to bundle the payment with payments made for other services, including premium credit cards, bank accounts, and pay television subscriptions. Such firms are sometimes willing to do so because it allows them to provide something extra as an incentive to pay their prices.

### **Some observations**

Funding commercial and not-for-profit journalism is both possible and sustainable in the digital realm, but it will have different sources and level compared to journalism of the late twentieth century. News enterprises will be smarter and more aggressive in seeking revenue because it will not “walk through the door” in the hands of advertisers as it previously did.

Large commercial firms are making significant progress in obtaining digital funding. Digital revenues, for example, now account for 40% of the revenue of The Guardian and Observer (Jackson, 2015). Not all news organisations will be equally successful, however, because there is limited space in the national and international advertising and subscription markets for news providers. The market structures and advertising dynamics are making it difficult for more than 3 to 4 news providers to obtain significant revenues in their national market and the global market.

Other news providers are struggling to find revenue in the market. Online advertising produces only 10-15 percent of the price print advertising previously delivered and mobile advertising can barely produce 2 percent of that price. These weaknesses in advertising funding are forcing news organizations to rely heavily on a mix of funding, with different providers pursuing varying strategies that produce dissimilar reliance on various forms of funding.

Digital native news providers are struggling overall for revenue and, for the most part, remain small and typically serve niche topics or locales (Sirkkunen and Cook, 2012; Bruno, Nicola and Rasmus

Nielsen (2012). The choices of organisational structures and funding are influenced by the backgrounds of those starting digital news organisations and this can reduce their effectiveness as business enterprises (Naldi and Picard, 2012).

A few digital native news providers are growing rapidly and producing significant revenue. In the US, for example, Vox Media and BuzzFeed have become so successful that employees are attempting to unionize to better share in the wealth they are producing. Although producing and distributing news and journalism, the two are targeting more general audiences rather than serious news consumers. A few other commercial successes are evident—Mediapart in France, for example, that are intent on providing high quality news in the digital environment.

Funding digital journalism requires news enterprise to reduce their reliance on advertising funding, develop better insight into consumers and their willingness to pay for digital journalism, gain clearer understanding of the economic value of news, and to consider multiple ways for financing digital operation. Pursuing the multiple methods will not be simple, however, because it requires firms to develop internal structures and obtain knowledgeable personnel to support those functions--making news organisations look very different than they have in the past.

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