



What happens when control of the message passes from media to its customers? This is no longer an academic question as technology empowers consumers and advertisers to bypass traditional media gatekeepers.

Television is feeling this in spades as digital video recorders disaggregate audiences and allow viewers to easily skip commercials. Advertisers have been forced to find alternatives to the traditional 30-second spot. The music industry has also been impacted dramatically, as it seeks a new business model to support the unbundling of its traditional packages and bypass of traditional retail channels.

But, what about newspapers? Emerging technology and shifting consumer media habits have given rise to new forms of information providers and media platforms. Advertisers, meanwhile, seeking more efficiency and better measurement, are finding more effective ways to reach their best customers, even in local markets.

As noted blogger and former San Jose Mercury News technology columnist Dan Gillmor framed it: "This is all about decentralization. Traditionally centralized news-gathering and distribution is being augmented (and in some cases will be replaced) by what's happening at the edges of increasingly ubiquitous networks. People are combining powerful technological tools and innovative ideas, fundamentally altering the nature of journalism in this new century."¹

In January, NAA's Board Committee on Industry Development gathered in Miami to explore media disintermediation—consumers' and advertisers' ability to bypass traditional media, including newspapers, to fulfill information needs

or reach their best prospects. The committee brainstormed on strategies to re-engage customers across media platforms. Future position papers will explore strategies for news and information and for marketing. This report focuses on why disintermediation is accelerating.

News Consumers

Topix.Net. OhMyNews. MyYahoo! Slashdot.org. Wikipedia. Gawker Media. Americablog. NetNewsWire. Wonkette.com. These sites may not be familiar to most publishers, but they should be. They are popular forms of news and information sites that have grown outside the auspices of traditional media, and, in many cases are driven by a re-definition of community.

While the audiences for these products are still relatively small, it is likely that they will become mainstream. For many 18-24 year olds, they already are.

Two basic forms of alternative media are emerging.

Aggregators: Sites like Google News, Drudge Report and Topix.net are aggregating news produced by traditional media and repackaging it, usually according to a specific topic, geography or perspective. And the aggregators are dominating news on the Web: According to Nielsen//Netratings, Yahoo! News is the Web's largest news site with more than 23 million unique visitors, increasing 24 percent year over year; Google News' unique audience, meanwhile, increased more than 90 percent from 4.1 million in January 2004 to 7.8 million in 2005.

Another growing form of aggregation is RSS, a technology that allows consumers themselves to easily aggregate content from a variety of sources--some

New Media Factoids

- Drudge Report leads all current event and news sites in sessions per person over a 30-day period (19.6 vs. 6.4 for the NYTimes.com) and has more than 3 million unique visitors each month. (Nielsen//Netratings)
- 44% of Internet users have created on the Web, including adding photos, text, videos to Web sites. On a typical day, 5 million people post or share some kind of material on the Web. (Pew Internet and American Life Project)
- Blog readership increased 58% in 2004. Between 2% and 7% of adult Internet users have created blogs and 11% have read blogs from other users. (Pew)
- About 46% of all Internet users have sent instant messages and about 11% send IMs daily. (Pew)
- Local online advertising delivered to potential buyers in the process of making a purchasing decision will increase 54% by 2009, compared to local Yellow Pages which is expected to grow by only 1.2%. (The Kelsey Group)
- 25% of online buyers search for merchants "near my home or work." (The Kelsey Group)
- Spending on paid search is expected to double to \$5.5 billion by 2009. (Jupiter Research)
- 84% of U.S. Internet users have used search engines and, on any given day, more than half those using the Internet use search engines. (Pew)

traditional, some not—most chosen for their particular relevancy to the user. Although only five percent of Internet users currently use RSS readers, the technology's impact is growing. In October, Yahoo! revamped its customizable MyYahoo! pages using RSS as an underlying technology.²

Participatory Communities:

Ubiquitous broadband networks, wireless capabilities and new web-publishing tools have driven the emergence of consumer-generated news, information and opinion. Web logs, or blogs, and message boards are the most visible form of this phenomenon. Incredibly, more than 23,000 new blogs and 400,000 new posts are created every day, according to blog search-engine Technorati. While they do provide tools for self-expression, perhaps their real value is connecting communities of consumers who share similar beliefs and interests.

In addition, communication platforms such as e-mail, instant messaging and short message services (SMS), are accelerating the flow of unfiltered information and ideas from consumer to consumer.

Essentially, consumers—particularly young consumers—dissatisfied with dispassionate, disconnected media sources are assembling their own information packages, becoming more active participants in the exchange of news and ideas. As AP President and CEO Tom Curley described it at a recent Online News Association conference, "the news as 'lecture' is giving way to the news as 'conversation.'"

Curley explained to the group that advanced networks and new technologies "have begun to unlock content from any vessel we try to put it in...Discrete pieces of content—stories, photos and video clips—all categorized and branded, will be disassembled from whatever presentation you create and magically re-assembled on the PC desktop, the mobile

device or TV set top box, for consumption on demand."³

While older generations may prefer more passive media, can we expect that kids growing up with instant messaging, TiVo, interactive games, iPods and blogs to be satisfied with media over which they have no control?

This trend has profound business implications for newspapers (for an excellent analysis of the journalistic and societal implications, see The Media Center at API's report, "We Media: How Audiences are Shaping the Future of News and Information."). On the one hand, these new technologies are giving rise to new generations of engaged news and information users. On the other, newspapers ability to aggregate consumers and sell that aggregation to advertisers may be challenged. Going forward, newspapers will have to engage consumers in traditional and non-traditional ways, across a variety of media and communication platforms.

Advertisers

Consumers' control of and participation in media extends beyond news and information to advertising as well, where they can filter out messages that are not relevant to them at any given time and create their own marketplaces of goods and services.

Further, advertisers are finding ways of reaching prospects outside of traditional media properties. OMD Worldwide President and CEO Joe Uva, at a recent interactive advertising conference, said advertisers are segmenting customers and aggregating audiences to refine their mass markets into relevant subsets. By doing so, they can focus on and cultivate relationships with different groups and different, more relevant platforms.⁴ Can newspapers, consequently, segment their own audiences across platforms and deliver those "relevant subsets" to advertisers?

As with the news side, new media players are either aggregating advertising inventory across a variety of platforms and sites or providing advertisers or consumers with tools to create their own marketplaces.

"Online Search" has become the 800-pound gorilla in the world of audience aggregation. Industry leaders such as Google and Yahoo!, based on consumers' specific search terms, provide an environment where advertisers can target by geography, demographic characteristics and special interests with messages of particular relevance to customers' current frame of mind.

All of the major search companies have a "local"-focused product and include enhanced services such as local store information and mapping. AOL, for example, recently launched AOL Local Search which aggregates information listings and content from AOL Yellow Pages, CityGuide, Moviefone, MapQuest, and other AOL properties. The product offers search on sales at local retailers and the ability to make restaurant reservations, buy discounted dining certificates and order movie tickets. AOL also announced that they are partnering with Topix.net to provide community and neighborhood news.

The search companies have pioneered a new business model for direct response advertising—cost-per-action (CPA)—that has revolutionized Web advertising. Advertisers are now bidding for ad space—paying only what they think is reasonable—and paying only when a user clicks on the ad, provides a lead or makes a transaction. The entire process is automated, from creative development to insertion order to ad tracking to final payments.

In addition, companies such as DRIVEpm, Adteractive and Fastclick are serving as virtual media buyers, offering

ad inventory across hundreds or thousands of Web sites, usually on a CPA basis. Aggregators are also emerging to offer advertisers targeted audiences across user-controlled sites such as blogs, RSS feeds and message boards.

Newspapers and other traditional media are also facing competition from targeted sites that focus on delivering qualified customers directly to advertisers. HouseValues, for example, which went public last year with a market cap of \$352 million, sells leads generated from its Web sites directly to real estate agents. TripAdvisor, one of a stable of lead-generation companies held by Barry Dillers' IAC/InterActive Corp., provides contextual advertising opportunities to companies at the point that travelers are researching a specific trip (and reports sustained click-through rates for marketers of more than 10 percent).

New players are not just looking at disintermediating traditional classified or ROP advertisers. Companies such as Coolsavings.com and ShopLocal.com (owned by Knight Ridder, Gannett and Tribune) are extending the value provided by free standing inserts onto the Web.

Other companies are providing consumers and advertisers tools to impact buying decisions. eBay is the most notable, and perhaps most successful, example of a marketplace that emerged outside of traditional media by providing tools to buy and sell merchandise. Craig's List, like eBay (which now owns 25% of Craig's List), has succeeded by transforming a simple marketplace into a community, particularly for young adults.

Amazon.com, the Internet's largest retailer, is leveraging its audience and technology base to become a media company in its own right. In addition to selling merchandise directly, Amazon will connect buyers with other sellers in

exchange for transaction fees, accept targeted advertising on its pages through an affiliation with Google, and provide storefronts for thousands of small and large retailers across the country.

Consumers are also getting into the act. Amazon provides tools for consumers to impact merchandise sales through personal reviews of available products. A new social networking site, Yub.com, allows users to refer friends or other network members to a product or specific retailer and collect a fee or commission based on actual sales.

It may be too early to tell how some of these companies and technologies will play out. What is clear, however, is that control is passing from centralized media companies to their customers across a variety of channels, and with it, established business models are coming undone. Newspapers and other traditional local media are no longer the only conduits to mass or segmented audiences in their own markets. New models have emerged which may prove just as effective, and more efficient, than the old ones.

Newspaper Industry Strategic Imperatives

In 2004, NAA's Board Committee on Industry Development recommended seven strategic imperatives in response to changing market dynamics. They included:

1) Embrace "Local" as Our Unique Value Proposition

Newspapers will have to focus resources on building the most comprehensive database of local information and provide micro-level coverage of the community. In addition, newspapers will have to attract more locally-based advertisers and service providers.

2) Make Customer Insight a Competitive Advantage

Newspapers need to invest aggressively in the systems and data to intimately know their customers and own the connection to local consumers. Integrating household data, circulation and classified histories and online registration data are a given.

3) Develop a Web-Centric Approach to Classifieds

The newspaper industry can aggressively grow its classified franchise by positioning the Internet as the core platform to accept, store, manipulate and disseminate classified advertising.

4) Provide Efficiencies for Readers and Advertisers

Newspapers should serve an integral role in helping advertisers close the sale more effectively and assisting readers in making smart choices and better use of their time.

5) Demonstrate and Improve Advertisers' Return on Investment

Newspapers need to help advertisers cut through message clutter and justify their media spending by offering a variety of measurable, advertising options across media platforms and providing proof of increased sales or brand awareness.

6) Reinvent Pricing Strategies

Newspapers should reevaluate their pricing strategies relative to how they provide value in print and online, including category pricing, cost-per-action models and premium targeting.

7) Invest in the "Right" People and the Quality of the Organization

Newspapers must begin investing in people-management best practices to foster cultures that result in innovation, risk taking and customer focus.

(For more on these imperatives, see "**Building New Business Models**" at www.naa.org/horizon).

In addition, the BCID in January suggested newspapers take the following actions.

For news consumers:

- Encourage the development of and support for user-generated content in print and online
- Focus energy on re-building trust and credibility
- Transform from a "cool" detached medium to a "warm," passionate medium for which users feel a genuine connection
- Invest in sophisticated search technology that links users to comprehensive local content—editorial and advertising
- Be an aggressive advocate for the community
- Nurture more than just geographic communities.

For advertisers:

- Adapt an "outside-in" mindset with customers and more market-based strategic thinking
- Be willing to invest in new or enhanced products and services to meet advertisers' needs
- Be prepared to segment and deliver a variety of audiences based on geography, demographics and interests
- Provide customers with more self-service tools and enhanced interactivity for their messages
- Consider "category brand" managers to serve specific advertiser sectors
- Hire people who have a "seller's heart" but a "marketer's mind."

Ultimately, newspapers will have to embrace the technologies, services and media culture that threatens its traditional gatekeeper role. Newspaper executives must break free of mindsets intent on preserving entrenched business practices and models. Companies should leverage their considerable cash flow to invest in

non-traditional services that will enhance the value we provide to consumers and advertisers, even if it means risking traditional revenue streams.

As editors of Strategy & Innovation newsletter recommend: "Incumbents that want to thrive in the next generation need to figure out how to embrace the democratizing forces of disruption. Rather than continue to use traditional approaches, they need to create business models that will take advantage of prevailing trends."⁵

More on Disintermediation

More on the rise of non-traditional media forms, and links to related material, is available at www.naa.org/horizon. In future position papers, the Horizon Watching Initiative will focus more deeply on newspaper strategies to address both news consumer and advertiser bypass.

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¹Shane Bowman and Chris Willis We Media, (The Media Center at the American Press Institute, 2005) vi

²Paul Fest, "RSS Feeds Attract Venture Dollars," CNet News.com, Feb. 2, 2005

³Tom Curley, Online News Association conference, Nov. 12, 2004

⁴Mario Sgambelluri, "Convergence in a Fracturing Media World," iMedia Connection, Feb. 9, 2005

⁵"Democratizing Media, Part I: The Threat," Innovator's Insights #32, March 7, 2005



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