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Emerging Economies of Community News

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Emerging Economies of Community News

It is easy to oversimplify what is happening in online news. Breathless headlines — from the \$315 million sale of [The Huffington Post](#) to [AOL](#), [Patch](#)'s march to 1,000 plus local sites, to the early dismantling of TBD.com in Washington, D.C. — tend to obscure other important efforts, especially on the local front.

Commitment and a sense of community far outdistance celebrity or cash in the emerging news ecosystem. But increased learning about what doesn't work and sophistication about what might work offers a promise that more local news sites will stay alive and grow.

To be sure, many local news startups have failed. That has led to fears that there is no business model for local news online.

I see growing evidence, however, that those fears may be proved false. In any field, most experiments do fail, and in the dynamic online news space, it's pretty much all experimentation right now. Failed news experiments have taught us a few things about what doesn't work: Armies of citizen contributors will not replace all journalists, for example. Journalism savvy does not translate into business savvy. Grants are not a stable or enduring funding model.

Instead, my work studying the emerging landscape and my ongoing survey of new sites suggests two other trends. First, local sites are beginning to learn the importance of focusing as much on financial sustainability and revenues as on news creation. Second, they are learning, much as traditional news organizations are, that they need multiple revenue streams, not just one or two, to sustain themselves.

Armed with that learning, we are seeing more promising and sophisticated experiments in community news. And they seem to be coming from people who embrace business entrepreneurship and digital innovation, perhaps more than from people who focus on content and dream that their next grant is just around the corner.

Not everyone is there. Ask [Tom O'Malia](#), professor of clinical entrepreneurship at the USC Marshall School of Business, what he sees in journalists who arrive at [Knight Digital Media Center's News Entrepreneur Boot Camp](#) to learn how to start a new site. O'Malia responds: "They have not yet recognized the difference between what they do, the product, and the value — the benefit — of what they do."

The first, the product – what we have always called journalism – is what we have been spoiled into believing it is a public good so compelling that people are bound to open their wallets for it despite abundant evidence to the contrary. The latter – discovering and providing what customers value – is the challenging path to actually making money in news.

Ask Eric Newton, vice president of the journalism program at the [John S. and James L. Knight Foundation](#), about making money in news. Newton describes two models.

The first model relies almost exclusively on grants and spends nearly all that money on editorial content.

The landscape is littered with failed examples of this model and this is a key learning from recent years.

In contrast, Newton says, a newer model has multiple sources of revenue and spends substantial amounts of money on items such as technology, sales and marketing as well as editorial content.

This is the model that holds promise for a sustainable flow of news and information in many communities.

Newton is reflecting ideas from an in-depth study of large nonprofit sites commissioned by the Knight Foundation, which has been driving much of the innovation in local news and information. (The study, [by Community Wealth Ventures](#), will be published soon.)

A draft of the study points to the challenges that journalism-focused organizations face. Among key findings are two things that online local news sites must do to succeed:

- **Define target audiences.** Organizations have not clearly defined their target markets and do not regularly conduct research about the needs of those audiences. Similarly, they do not consistently have ways to measure their impact. Doing so, the report suggests, will be key to sustainability. “Increasing market information presents significant opportunities for enhancing sustainability as well as spurring adaptation and innovation,” it says.
- **Diversify expense and revenue models.** Most organizations focus their spending on developing content, leaving limited resources for business development, marketing and IT. “Ensuring that the business side of the organization received a balanced portion of resources will enable the organizations to achieve critical goals such as reading wider audience and establishing new sources of revenue,” the report found.

John Thornton, chairman of the Texas Tribune, also recognizes that news organizations need multiple revenue sources. Thornton, a venture capitalist, calls this “revenue promiscuity.”

For the nonprofit Tribune, which covers state government and politics, Thornton foresees three major sources of revenue:

“Our intermediate-term goal is a \$3 million annual budget, split roughly equally between membership, corporate support, and specialty pubs [publications]. We’re a long way from that, but are making progress—and note that we’re not assuming any foundation support at all,” Thornton wrote last year.

Thornton, like other publishers, sees grant funding as something to help get sites started, not an ongoing operating subsidy: “[N]ot only will philanthropy alone not save journalism, it can’t likely support even the majority of our modest efforts. We need to run our businesses like businesses, even if our goal is public service rather than profitability.”

Another of the more robust new sites, MinnPost also has aggressively pursued multiple revenue sources. The site reported a small surplus in 2010 on spending of \$1.26 million. Revenue increased 18 percent in 2010, with steady growth in advertising and sponsorships. Other sources are individual and corporate donors and an annual MinnRoast fundraiser.

Voice of San Diego projects a 2011 budget of \$1.2 million that includes hefty amounts from advertising and corporate sponsorships, major gifts from individuals and foundation grants, and smaller ones from membership donations and from selling news content for publication by other news outlets.

In addition to these larger sites, we have seen a proliferation of smaller community and neighborhood news sites in recent years. Often for-profit enterprises, these sites operate on a fraction of the funding of the big nonprofits.

Most of them report revenues of \$100,000 a year or less, according to a survey I am conducting with support from The Patterson Foundation. Of about 30 sites in this category that have reported so far, a third post revenue of under \$10,000, a third post revenue of \$80,000 or more, and the rest are scattered in between.

This is not big money. But it may prove sustainable in some communities, just as volunteer models have flourished in some places and faded away in others.

Ask Howard Owens, publisher of [The Batavian](#) in upstate New York, about the idea that there is no business model for local news. Owens scoffs. With good reason.

Owens reports revenue in the \$100,000-to-\$150,000 range for 2010 from advertising alone on the site he has operated with his wife, Billie, for two years. This year, Owens expects to add different revenue streams and is [hiring](#) part-time staff to help him do that.

Owens' own experience is in business and sales as well as in journalism. "That ingrained in me what a lot of journalists miss – if you're not focused on how to make money, you're not going to make money," he said.

Like The Batavian, many other small sites rely mostly on local advertising, including [BaristaNet](#), [MyEdmondsNews](#), [Newcastle Now](#), and [West Seattle Blog](#).

But, depending on their community and their mission, other small online publishers are finding revenue options in addition to local advertising.

[Next Door Media](#), for example, has built a network of neighborhood sites in Seattle that achieves economies on the tech side and enables the network to sell more eyeballs to advertisers. By contrast, Owens at The Batavian eschews participation in an advertising network because it is contrary to his strategy of supporting his highly local advertisers.

While some see advertising networks as the next big thing for small sites, digital consultant [Rusty Coats](#) cautions that networks are not likely to scale across disparate independent sites with different publishing platforms and advertising formats. Building a new network like Next Door or Patch.com may work, but uniting disparate established sites is a different matter.

Other sites, like the [Sacramento Press](#) and [Oakland Local](#), seek revenue in providing services such as training or Web development to local businesses, community organizations and even to other online news publishers.

[Ben Ilfeld](#), publisher of the Sacramento Press, says two thirds of its site revenue comes from helping local businesses use social media and the other third comes from advertising. "We had a very successful experiment with social media consulting and it has become our No. 1 source of revenue," he said. "We had a terrible time selling sponsorships to local events and we stopped. Just like our tech mentality the key is to try a lot and fail fast." (In this regard, these small local sites are operating in the same way locally that some large media companies on a national level,

such as [Hearst](#), which is building on its knowledge of advertising to move into social media and online consulting .)

In short, if the new media ecosystem three years ago involved largely using nonprofit startup money to do experiments in content, today we are seeing experiments in new revenue as well. Here is a sampling of funding combinations that publishers have reported in my ongoing survey:

[Corona del Mar Today](#): Syndicating content to local newspapers, advertising.

[SF Public Press](#): Business services, events, donations, grants, membership, syndication.

[Oswego County Today](#): Local and national advertising, sponsorships, web development and hosting.

[Gapers Block](#): Local and national advertising, merchandise, grants.

[Davidson News](#): Local advertising, business services, memberships.

[New West](#): Local and national advertising, events, sponsorships.

These new models – large and small – raise all kinds of questions about journalism. In such a dynamic environment, it is very hard to know what will stick and be useful even a year or two out.

It is also important to note that these newcomers join traditional media that are transforming their work in local news – the Journal Register Company, for example, in the private sphere, and National Public Radio in the public sphere.

Patch.com poses one set of questions. The AOL network of 800 and growing local news sites casts a large shadow on the local news landscape. What exactly is its revenue model: local ad networks and business directories? Will it drive fledgling local independent sites to ground in some communities only then to fold up itself? Will community support carry the independent startups through?

The landscape also poses question about journalism education and whether it is preparing students to work in these more entrepreneurial environments. Traditionalists may sniff that their job is to teach journalism. But if the real job of journalism schools is to help journalism survive, then entrepreneurship, business literacy and community engagement must be as much a part of

the curriculum as multimedia and digital literacy. New York University's [Studio 20](#) is one experimental effort to give students a more holistic education about local online journalism.

Another question: What role will foundations play? [Surveys](#) last year of local foundations found that half were making media and journalism grants and nearly 60 percent believed such funding would increase in the coming years.

Many foundations are [funding](#) existing media or creating new projects themselves. The [Patterson Foundation](#) is helping to continue my work in organizing Block by Block, which identifies promising community news sites and connects publishers with one another. Patterson will help to build connective tissue and resources that support innovation rather than funding a particular site or individual effort.

Still, foundations are not the entire solution – or even the majority of it. “Even if all the country’s foundations dedicated all their money to news, which they would never do, it wouldn’t produce nearly as much money as the commercial sector has traditionally generated for news,” says Vivian Vahlberg, who manages [Community News Matters](#) for [The Chicago Community Trust](#).

I think another big question about community news outlets is whether they can create new models for community engagement and impact that will drive funding.

Are emerging models more dependent on community than traditional organizations, and thus more motivated to engage? Will sites develop relationships with their users that they can monetize without straining community bonds?

The [St. Louis Beacon](#) represents one highly ambitious test case. The three-year-old nonprofit site sees a future in developing community relationships that it can then leverage for revenue.

“We think of ourselves not as an online newspaper but as an engine of engagement,” says editor and founder Margaret Wolf Freivogel. “Our job is not just to toss information at people but to figure out how we can serve them better. That means meeting them where they are and in whatever way they find convenient.”

“The community conversation is just as important to our mission as our journalism,” says Nicole Hollway, general manager of the Beacon. “We really see it as crucial to our success not to just deliver information, but also hearing information and helping people with the information they need to make their community better.”

The mission shapes not only the content of the Beacon Web site but also extends to social media, community partnerships and organizing and facilitating regular meetings where residents can talk with one another about issues such as race, class and housing disparities – issues that people usually only talk to friends or co-workers about.

“Meeting new people in respectful, intelligent conversation about touchy subjects is valued and gives them hope for the future of St. Louis,” Hollway said.

It’s tough to put a value on those exchanges. But Hollway believes that if the Beacon can develop close, trusted relationships in the community, it can offer the benefit of those relationships to advertisers and sponsors.

“My long-term vision for the Beacon is that through content and conversation we can be expert in high-touch communication, in how to reach people and have an interaction with them,” Hollway says. “We will know them well.”

The Beacon, in other words, is creating a model that reconnects journalism with community and serves significant purpose of improving public consideration of civic issues. This effort could lead to a revenue source that does not now exist.

As we enter 2011, community media are experimenting with content and engagement as well as revenue, and the right combination of the three may be at the vanguard of the new economics of news.

Michele McLellan is a journalist and consultant who works on projects that help foster a healthy local news ecosystem. Her principal clients are the John S. and James L. Knight Foundation and Knight Digital Media Center at the University of Southern California. Her independent research into the emerging community news landscape is supported by The Patterson Foundation and the Reynolds Journalism Institute.