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Paywalls

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ABSTRACT

This commentary explores the ramifications of declining newspaper revenues due to a growing percentage of readers who use the internet to access news content. The author explores the ramifications of the *New York Times, San Francisco Chronicle, Newsday* and *Popular Science* adopting a paywall. He also discusses *The Daily*, a newspaper which exists exclusively on the iPad. Another model discussed is that of Apple's iTunes and its potential for newspaper content distribution. Paywalls are put forward as a possible means of redress for this problem.

"The meeting" is being held in newspaper executive offices across Canada. In an industry that has been devastated by declining revenue, increased competition for advertising dollars, high costs, falling paid circulation and the steady, continuing erosion of single copy sales, can paying for access to Canadian newspaper websites be that far off?

"Paywalls" or "pay sponges" are an attempt by publishers to ensure any content that they produce generates some revenue for them. They are not new. Publications such as the *Wall Street Journal* erected paywalls years ago to ensure some of their expensive and costly content would not be on the internet for free. Most media properties did the exact opposite. As the internet took hold, they "shoveled" content — in most cases all of their publications' content — into websites and essentially gave away for free what they were asking people to pay for on other platforms such as magazines and newspapers.

Now the *New York Times*, the grandfather of all media companies and one of the most influential and important newspapers in the world, has

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announced it will no longer give out content for free. They introduced "digital subscriptions" which *Times* publisher Arthur Sulzberger Jr., in an open letter to readers, called a "significant transition" for the media giant. The plan, which is first being tested in Canada, means that if you are a regular subscriber to the newspaper you still have "full and free access to our news, information, opinion and the rest of our rich offerings on your computer, smartphone and tablet," Sulzberger wrote (2011, para. 3). If not, you are limited to reading 20 articles a month from the website. If you want any more, you have to pay.

Newspapers in Canada are reviewing the *Times* approach and so are other U.S. publications. The *San Francisco Chronicle* has confirmed it is considering a paywall but not the "metered approach" of the *Times*. The *Chronicle* will charge a flat fee of $9.95 a month versus the *Times'* charge of $15 to $35 a month depending on the type of subscription. The *Chronicle* is also working on an iPad app. Rupert Murdoch's News Corp, has already introduced an iPad app through which it charges users for access to content in the *The Daily*, an internet-only newspaper, exclusive to the iPad.

The big question in Canadian newspaper executive offices is: Will it work here? Last year, the American publication *Newsday* introduced a paywall and readership plummeted. Without "eyeballs" won't advertisers be right behind in terms of abandoning the publication? How long does it take for computer hackers to find their way over the wall? In the case of the *Times*, it took less than twelve hours and four lines of code to crack the wall, putting a two year project with a reported cost of $40 million in danger less than one day after the project was launched. "Unfortunately, the long-awaited service is destined for failure," noted Leslie Horn, a writer for *PC Magazine* (2011, para. 1).

It is not so much the ease of getting around the technology that will make the project fail but rather the weak approach the news organization has taken, since the *Times* paywall does not apply to social media sites like Facebook and Twitter. "The relaxed nature of the paywall is the very reason that it won't work," Horn notes. "It boils down to the old adage: You can't have your cake and eat it, too. In this case, the *Times* seems to want both the traffic and the advertising dollars from casual browsers as well as the subscription-driven revenue from more serious readers"(2011, para. 5).

One thing remains clear: media companies, and Canadian newspapers in particular, cannot continue to give away content for free. While most organizations have recovered from terrible earnings after the great crash, in almost all cases they have kept their profits high not by growing the business, but rather through cost containment. This is not a sustainable strategy. Unless newspapers can find a sustainable way to charge for online content, or discover methods to produce revenue from digitized content, they will have no other choice but to continue cutting staff, newspaper size, and other expenses to reduce costs. These cuts will ultimately have an impact on quality.

Is this where Apple comes in? The company that people either love or hate saved the music industry with its iTunes model of content management. The iTunes subscription model starts with a subscriber giving the company a credit card, which is kept on record. After that, any application or piece of music available through iTunes, much of which is actually free, is purchased from Apple. No need to sign up for additional free apps. Simple. Now the company is trying to do the same thing for newspapers and magazines. "Apple envisions a world in which people don't consume any kind of digital media without its help," Forrester Research analyst James McQuivey told *BBC News* (BBC, 2011). A decision to offer *Popular Science* through the Apple store for $14.95 a month through iTunes reportedly resulted in 8,000 new subscribers in three weeks.

Is a platform shift to a new product like the iPad the solution? Newspaper companies have been reluctant to buy into the Apple model. First, there's the revenue split. Apple wants 30 per cent of the revenues from every new subscriber. Imagine turning over the subscription base it took you years to build and giving another company 30 per cent of your revenues? Then there is the worry that your customers all of a sudden are no longer *your* customers, rather they belong to Apple. With the sales of tablets expected to hit 300 million by 2014 and most of them being iPads, the results are hundreds of millions of dollars for Apple.

"While some newsrooms are trying Apple's app subscription model, many others are waiting on the sidelines," John Sturm of the Newspaper Association of America told reporters. "Information has become so important for the way publishers market to their customers, get renewals and target advertising based on peoples' behaviour and interests. But once a subscriber signs on through the iTunes store, it becomes a sort of closed system." (May, 2011).

There is little doubt that media companies in Canada want to charge for content if they think they can get away with it. Which model they adopt will be determined by the successes and failures of the early distribution models being proposed by newspapers and integrated consumer electronics companies like Apple. Whether or how media companies choose to do it using paywalls just might depend on what happens with the *New York Times*' experiment.

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