

Eli Noam: Bad news for news

Eli Noam JULY 14 2005

Richard A. Epstein: Good news for niche players

Newspapers have been the central medium for politics, culture, and business since the 17th century, but this may be changing. Circulations have been drifting downwards. Last year alone, newspaper sales were down five per cent in the US, three per cent in Europe, and two per cent in Japan.

Newspaper publishers face economic problems common to many information industries: the fixed costs of creation are large, and the incremental costs of serving additional users are small. This leads to competition that results in prices so low they do not cover overall costs. Price deflation leads to firms collapsing and consolidating. Market power stabilizes or raises prices. And then, another wave of entry occurs, often through new technology, and a new cycle begins. In the process, the information industry is becoming among the most unstable of business sectors.

In the past these dynamics led to most American cities having only one newspaper, which could therefore charge fairly high prices for advertising and subscriptions to support their editorial costs. But now, another generation of technology undercuts this stability.

It is difficult to get readers to pay for news content that they can pick up for free from other providers. Rupert Murdoch observed that "The trends are against us...And at least four billion dollars a year is going into R&D to accelerate the process." If anything, this number is an understatement.

What then can newspapers do? Like other businesses in trouble, they must focus on their core competency, which usually is local information. Cutting costs by cutting local newsroom budgets is therefore myopic.

Second, they must actively plan for a paperless future. Today, the electronic presentation of text information is not particularly user-friendly and provide some protection. But such negative ergonomics are likely to pose only a temporary disadvantage. In time, luminous and light panels of multiple pages, comfortable in the hand, with clear text, bright pictures, magnification, sound and video, and connectivity to other users and information sources, will be superior to paper. Such transitions are gradual; but they are also inexorable. Managing the transition will not be easy. Online and print newspapers depend on each other symbiotically. Print needs online for the future. Online needs print for the present, to subsidise it financially and intellectually.

Third, they must customise. The traditional newspaper provides averaged-out content to a multiplicity of readers. What it needs to do is to serve the increasingly differentiated readers? particular mix of interests. Editors would continue to identify the major common stories. But readers would gain access to a wide choice of information and media types. Online editions make this possible.

Empowering users to customise their content in a meaningful way will require huge informational resources. Similarly, electronic publishing will be much more than print content without paper. The differentiation between text, picture, audio, and video will blur, and news sites will become multi-media.

Producing such rich news will be complex and expensive. Realistically, no single news organisation will be able to provide the quality and quantity of information needed through its own economic and editorial resources. To gain such diversity of information then, the news organisation will be forced go far beyond its internally produced content. Publishers will have to rely substantially on other sources: traditional syndicated and wire-service content; specialized magazines, trade journals, newsletters, and books; blogs and other community sources; TV news providers; and many free-lance journalists, investigative reporters, pundits, and editors. In short, they will have to become ?virtual.?

This will lead to two archetypes of news organisations: first, specialist content providers - some of them operating from offshore - and similarly specialist marketing, production, and advertising operators. And second, semi-virtual integrators who bundle, pick and choose their content and service elements from these specialists, validate its quality, add some of their own, and shape the overall character of the product. This will differentiate them from the more passive portals and search engines such as Google.

The problem for traditional news organisations is that this type of virtual integrator function can also be done by others. Today's bloggers, for example, already do so embryonically through hyperlinking to chosen stories from other sources. In the future, some of them will expand into full-fledged news-sites based on such integration.

This does not mean a proliferation of large integrator-based news sites. There are strong economies of scale and network effects, and this means that, in time, market leaders will emerge and drive traffic, advertising, and hence larger budgets. With market power, these large news sites become economically viable.

It is not clear what the competitive advantage of established newspapers is in such a virtual model. They are too big for the specialist shop model, and too expensive or low-tech for the integrator model. Some have an established brand which will draw users, such as the New York Times, or the Financial Times. Other news organisations can find some niche based on ideology or a brand image with a loyal following.

But unless many of today's conventional newspapers manage the transition to virtual, integrated, and networked information sites, they will have no real function beyond that of greatly diminished specialist providers of local information to bigger media integrators. Or, alternatively, as the local brand for such national integrators, either owned by them or in their orbit.

Are people drifting away from news? Not really. What people are drifting away from is paying for news. And that will be hard to reverse beyond the most powerful or specialised of news brands. It's happened to music, and now it is beginning to happen to newspapers. Yes, the technology will create many new tiny news media. But the overall result will be more media concentration - a lot fewer but more comprehensive mainstream news organisations as the integrator of most information. First, the paper element of their operations is beginning to vanish. And then, the news part, too, will become unsustainable. Today's newspaper becomes tomorrow's news-integrator.

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Eli Noam's column addresses a problem that has long been apparent to us all. Standard newspapers have been losing ground to the rival news sources that are available online. It is important, however, to realise that the shift in sentiment and taste is not driven solely by the preference for a new technology relative to the old. Rather, it is the latest stage in a continuous cycle that shows little sign of abating: generalist operations are always subject to a loss of market from the intervention of niche players.

This basic truism does not only apply to news, but to all sorts of products. Fifty years ago the department store had a dominant position because it could allow individuals to buy all that they wanted in diverse areas under a single roof. That still works today with superstores when individuals want to buy various staples. But at the same time, the department store has given way to the shopping mall, where specialised stores are able to attract those customers with a deep interest in a single area, by offering them depth of product line and specialised knowledge that the generalists cannot supply.

Ditto for camps and schools. As a child in the 1950s, I went to general day camps for an entire summer. Those have largely given way to various specialty camps with shorter seasons that specialise in single sports, such as basketball or tennis, or even some portion of the game (defence or serving for example). Greater affluence and awareness leads to a decline of the all-service operations, but never their elimination.

Closer to newspapers, the magazine industry exhibits the same pattern. Fifty years ago - my age is showing - the general periodicals such as Life, Look, and The Saturday Evening Post dominated the weekly market. But they have given way to periodicals that stress fashion, childrearing, sports and the like.

The internet has provided a new way in which people with specialised tastes can log on to their favourite issues, and ignore the rest. The old advantage of newspapers, which was that stories on the front-page did not have to relate to each other, becomes a disadvantage when tighter markets are available. Most large national papers try to publish editions that are tailored for particular markets (centre city, suburbs, national) for both readers and advertisers, and thus have followed the Noam advice before it was offered. But the trend will doubtless accelerate as online service can also be localised as well. There is little reason to lament, and less to intervene. So long as the cycle represents the interaction of supply and demand, let it run its course. Newspapers, like the Financial Times, can read the tealeaves, which is why this response to Noam is online.

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