

Models of Internet Monetization

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Abstract

Predicting the future of the news industry begins with understanding the history of newspapers and the current news delivery landscape. Because the Internet has brought fundamental shifts to news distribution, successful organizations of the future will capitalize on the digital world's economics and scale. This study documents the recent adjustments in American newspaper distribution and predicts the business models required for news organizations to survive. This research found that the Internet will foster the development of both scale dependent and ad-supported publications and niche organizations that cover a narrow subject.

I. Introduction

Predicting the news business of the future starts with a nuanced understanding of both the history of newspapers in the United States and an understanding of the current news delivery landscape. With online readership growing and additional advertisers seeing the benefits of online marketing, it would seem that online journalism is thriving. Advertisers can target their advertisements based on online reader behavior and measure their effectiveness with unprecedented accuracy. The Internet is threatening the legacy business model of printed newspapers. Internet startups are paving the way with disruptive businesses whose success depends on the capacity for exponential Internet market growth.¹

Today, more than 65 percent of people ages 18 to 29 receive their news from the Internet – outpacing newspapers, television, and radio. Digital platforms give new media companies an opportunity to build quickly with lower marketing, distribution and creation costs than legacy media companies. Although the user traffic for most digital media companies is significant, the revenue gained for digital media companies is not. The Internet economy is based on the concept that online information is abundant and largely free.²

The Internet has brought fundamental shifts to news distribution and has extended the lifespan of a story. Stories never disappear and are available “forever.” In the analog world, consumers had to buy an

1 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 24.

2 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>.

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entire newspaper to read a specific story or certain topic; stories lasted a short time period before newspapers were thrown away.³

Today, stories published on the Internet exist as searchable content, accessible for many years; viral stories stay relevant for a long time. Consumers have an over-abundance of choice. Distribution control has largely shifted to Google, Facebook, and Twitter. Reading choices are no longer constrained by time and location. Instead, social media platforms and search algorithms feed personalized links to consumers. Today, readers receive the best and most personalized content on the Internet with less cost and effort.⁴ Consumers have an “effectively infinite array of choices for news, entertainment, etc.,” meaning content must stand out for it to be consumed. The best content will be widely read and distributed, while the worst content will not be discovered. Social media and search algorithms trump newspapers in the Internet age. Newspapers no longer have the best content and the delivered information is not personalized.⁵

The following research attempts to determine the business models that are best suited for the Internet. Most of the world is shifting from an analog world to a digital one, but this research focuses on the American media. The research identifies three business models that are primed to succeed on the Web. As defined in *Reinventing Your Business Model*, a business model is an “operational and managerial process that allows [organizations] to deliver value in a way they can successfully repeat and increase in scale.”⁶ Business models create revenue for an organization while providing values for consumers.⁷

The successful media organizations and businesses of the future fall into one of the following three categories: 1) Scale Dependent and Ad Supported, 2) Subscription Dependent and Ad Supported, or 3) Internet-Only Niche Publications. This paper uses *BuzzFeed*, *The Financial Times*, *The Wall Street Journal*, *Daring Fireball*, and *Stratechery* as case studies to predict the future of the online news business.

II. Background

On the Internet, consumers can seamlessly navigate from platform to platform, story to story. Legacy news organizations have lost the benefit of bundling modular sections into an aggregated product. In the words of Michael Golden, vice chairman and president of *The New York Times*, “we have lost the power of the package.” Information on the Internet is ubiquitous and news has become commoditized.

Journalists can immediately reach consumers whenever readers have access to the Internet. Links to stories appear natively on popular social media platforms like Facebook and Twitter or shared within seconds through email or iMessage. Before the Internet, newspaper circulation was geographically limited by the reach of delivery trucks and the number of printing presses. Prior to 1994, the only three nationally distributed newspapers were *The New York Times*, *USA Today*, and *The Wall Street Journal*.⁸ Journalists can now reach consumers with time sensitive content directly through Twitter, Facebook, and comment platforms allowing for continuous dialogue and a 24/7 news cycle that is immediately and internationally viewed.

Publishers have more information about their readers. Usage-tracking services like Chartbeat provide real-time readership data and Google Analytics to track and report website traffic, while ad-trackers serve targeted advertisements based on Internet usage, consumer interest profiling and demographics. Internet tracking and measurement allows publishers to measure the popularity of articles and modify them to increase visibility and revenue. Publishers are storing credit card information and tracking consumer habits on the Web. However, the Internet has caused reading behaviors to change. Today, viewers struggle to immerse themselves in a story. Reading times are shortening as viewers effortlessly jump to tab-to-tab and browse with

3 Briggs, Mark. *Entrepreneurial Journalism: How to Build What's Next for News*. Thousand Oaks, California: CQ Press, 2012.

4 Thompson, Ben. “FiveThirtyEight and the End of Average.” *Stratechery* by Ben Thompson, March 17, 2014. <https://stratechery.com/2014/fivethirtyeight-end-average/>.

5 Thompson, Ben. “Newspapers Are Dead; Long Live Journalism.” *Stratechery* by Ben Thompson, March 24, 2014. <https://stratechery.com/2014/newspapers-are-dead-long-live-journalism/>.

6 Johnson, Mark W., Clayton M. Christensen, and Henning Kagermann. “Reinventing Your Business Model.” *Harvard Business Review*. Accessed November 15, 2015. <https://hbr.org/2008/12/reinventing-your-business-model>.

7 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 62.

8 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 56.

multiple tabs open. Short attention spans and ubiquitous information lower advertising revenues for media providers and also harm the quality of the user experience.⁹

The economics of the Internet have seen a massive shift as well. Journalism is unsustainable without a dependable business model. Online media firms are characterized by “low capital requirements, low fixed costs, low production costs, low distribution costs, high marketing costs, no variable costs and rapidly declining costs.” In contrast, “the financial/cost characteristics of print newspapers model consists of high capital requirements, high fixed costs, high production costs, high first-copy costs, moderate variable costs, low marketing costs, and rapidly declining average total costs.”¹⁰ For example, there is a hard cost to produce an extra copy of a print newspaper, whereas each “copy” of a news article is distributed at no cost on the Internet.¹¹ Without profitability, traditional newspapers cannot operate.

Print and online newspapers have always depended on advertisements to supplement subscription revenue.¹² Figure 1 shows how digital display advertising click-through rates have remain low on mobile devices. Consumers are more likely to click on Facebook advertisements or native advertisements. Advertisements that appear next to a story in a traditional newspaper format have been adapted for the Web through banner ads. Display or banner advertisements are typically disruptive to the viewer-consumers’ reading experience and therefore ignored. Banner ads invade consumer privacy through scripts and cookies, which hurt the user experience.¹³ The most intrusive forms of online advertising, “roadblock” messages take over the entire screen before consumers can access the content they desire. Due to low click-through rates, publishers will need to find new ways to monetize their content by reforming their advertising methods.

Consumers become indifferent to banner advertisements when the number of them increases due to a phenomenon called “Banner Blindness,” where users consciously or subconsciously ignore advertisements while browsing the Internet. Both banner and roadblock advertisements harm the user experience more on mobile devices than personal computers because of the platform’s smaller screen.

Consumers are more tolerant of native advertisements that match the natural form and function of the platform.¹⁴ The best native advertisements contribute to the user experience and add value for consumers. Unlike banner advertisements, native advertisements provide entertainment and information without being obtrusive and annoying. While the Internet makes advertisements more relevant, consumers find programmatic advertising annoying and obtrusive.

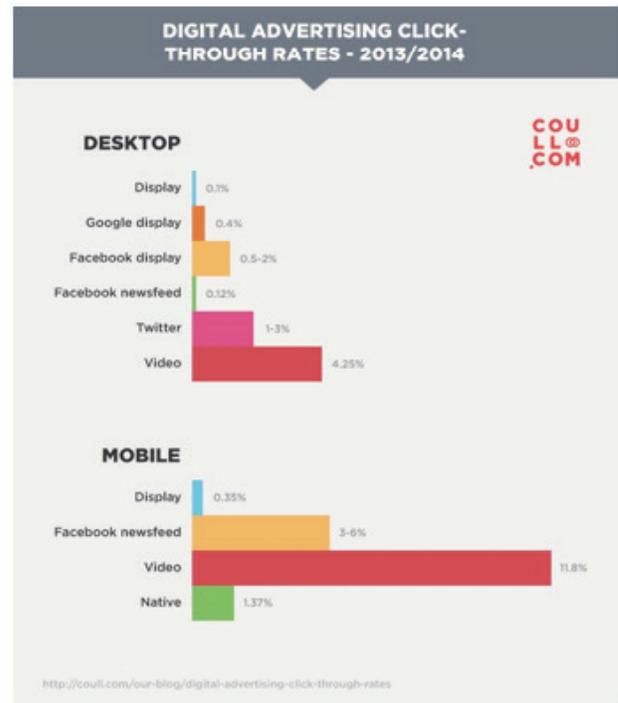


Figure 1. Coull Company Blog <http://coull.com/our-blog/digital-advertising-click-through-rates>

9 Briggs, Mark. *Entrepreneurial Journalism: How to Build What's Next for News*. Thousand Oaks, California: CQ Press, 2012.

10 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 56.

11 Thompson, Ben. “Differentiation and Value Capture in the Internet Age.” *Stratechery* by Ben Thompson. Accessed November 11, 2015. <https://stratechery.com/2014/differentiation-value-creation-internet-age/>.

12 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 56.

13 Salmon, Felix. “Ad Tech Is Killing the Online Experience.” *The Guardian*, July 19, 2015, sec. Media. <http://www.theguardian.com/media/2015/jul/19/ad-tech-online-experience-facebook-apple-news>.

14 Marcus, Aaron. *Design, User Experience, and Usability: Web, Mobile, and Product Design: Second International Conference, DUXU 2013, Held as Part of HCI International 2013, Las Vegas, NV, USA, July 21-26, 2013, Proceedings*. Springer, 2013.

As smartphones and social network consumption via the Internet becomes ubiquitous, legacy business models are no longer viable. Digital media companies with business models ideally suited for the Internet are disrupting the newspaper and media businesses that depend on local circulation and constrained distribution systems. Online advertisements are faster, cheaper, measurable, interactive and more direct than analog ones. Newspaper businesses and traditional publishing conglomerates cannot survive in a world with increasing online advertising revenues because they are unable to capitalize on the potential for new and expanding advertising revenue streams.

The monetization of digitally distributed information requires a refreshed mindset that recognizes the abundance of choice that consumers have, most of which allows for free to access content. In the digital world, there are an unlimited number of pages that can be published and an infinite number of advertisements to be sold. The marginal cost of publishing and ad sales is close to zero.

Today's digital news startups are inventing new ways to monetize using the Internet where consumers can access most content for free. Increased Internet usage and sophistication prompted the rise of large organizations like *Vox* and *BuzzFeed* along with niche publications that cover a specific topic or personal or professional consumer interest profile such as *Skift*, *Stratechery* and *Politico*. Consumers are depending on platforms like Facebook, Twitter, email, and Apple News to receive written content instead of picking up a printed newspaper from their doorstep. Digital platforms can innovate quickly, accurately determine readership quantities, and shut down unsuccessful ventures with minimal capital expenditure.

III. History of the Newspaper Industry and the Media Evolution

Johann Carolus published the first newspaper on a printing press in 1609. Since then, the newspaper has become a mass medium that has educated and informed literate citizens of the world.¹⁵ More than a century ago, the newspaper industry dealt with a major technological shift. In the 1890s, telephone service and improved human transportation revolutionized reporting while the Linotype machines increased the speed of printing. These technology shifts enabled the mass production of newspapers, growing the readership pool and number of newspapers that were printed and distributed. The number of English-language daily newspaper companies grew from 850 in 1880 to 2,200 in 1910. Daily circulation grew from 3.1 million to 22.1 million during the same period.

Newspapers began charging customers a penny per issue in 1833, but did not start implementing advertisements until the 1880s when Adolph Ochs of *The New York Times* and William Randolph Hearst developed the advertising business model for newspapers. In the words of management guru Peter Drucker, "Advertising made it possible for them to distribute practically free of charge, without the profit coming from the market."¹⁶ By 1914, 66 percent of newspaper revenue came from advertising, a figure that increased to 80 percent of revenue by the 1990s. To increase revenue, newspapers were incentivized to sell and distribute as many copies as possible. The size of newspapers grew along with the quantity of advertisements leading to increased costs, larger staff, and expansive, advanced printing presses. Substantial infrastructure served newspapers well when they held local monopolies. Before 1995 when the Internet first became readily accessible, newspapers depended on a monopoly/oligopoly structure due to geography and distribution constraints.¹⁷ Today, newspapers are an economically unsustainable business due to complex infrastructure, rising costs, and large staff base that once monopolized them.

The rate of change in the newspaper industry has increased exponentially. It took *The New York Times* fifty years to reach 30,000 subscribers. In contrast, *BuzzFeed* launched in 2006, claims 200 million unique monthly visitors today.¹⁸ Free blogging platforms like WordPress and Medium give a voice to millions of Internet users while Facebook and Twitter allow millions more to share news and information on the Internet. The Internet allows for unprecedented scale that was impossible to achieve in the analog world.

15 Escher, Thomas. "The Newspaper Is Dead. Long Live the Newspaper.: Like My Style? Read On!" Medium, October 15, 2014. <https://medium.com/thoughts-on-journalism/the-newspaper-is-dead-long-live-the-newspaper-8b7969b4d4b6>.

16 Johnson, R, and A Gutierrez. "Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study." Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 30.

17 Andreesen, Marc. "The Future of the News Business: A Monumental Twitter Stream All in One Place | Andreesen Horowitz." Accessed November 13, 2015. <http://a16z.com/2014/02/25/future-of-news-business/>.

18 The BuzzFeed Team. "BuzzFeed." Accessed November 10, 2015. <http://www.buzzfeed.com/about/team>

In 2005, newspapers reached a peak in annual revenue when American newspapers earned a collective \$48 billion. By 2014 newspaper revenues fell to \$19.9 billion, a 59 percent decrease. As the Internet grew in popularity, “digital media disrupted the aggregation model that was profitable for so long”. Most consumers did not read the entire newspaper every day, but newspapers sold advertisements as if every page was read. As shown in *Figure 2*, newspaper revenue is declining across newspapers of all sizes.¹⁹ Newspaper weekday circulation has fallen 19% since 2004.²⁰ In

2011, *The New York Times* attracted more than 30 million online visitors and a weekday circulation of 900,000 newspapers. While online visits dwarf analog ones, most of *The New York Times*’ revenue comes from print; distribution is rapidly shifting from print to digital.²¹ Between 1995-2005, traditional media companies guarded revenue streams instead of innovating with new business models. Since then, newspaper reach has increased but has not kept pace with online advertising revenues. As consumers switch to accessing content digitally, newspapers are burdened with the high, rising costs and carbon-waste impacts associated with purchasing ink, paper, and financing delivery drivers and trucks.

Traditionally, the news business has separated journalists from the revenue side of the business. The American Society of Magazine Editors remains strict about “separating ad content visually from editorial content.” Journalists enjoyed the luxury of thinking their business was different from other businesses aided by the constitutional protection of the free press.

In contrast, digital media requires innovative ways of reaching audiences that benefit from an abundance of information and with editorial and journalism closely tied to expanding revenue markets. According to Syracuse University professor Vin Crosbie, “Within the span of a single human generation, people’s access to information has shifted from relative scarcity to surplus.”

However, news media in the digital age has become commoditized and it can come from anybody, anywhere. Publishing content on the Internet allows organizations to forego printing and distribution costs entirely. Newspapers traditionally generated \$500 to \$900 per year in advertising revenues per customer. With the increase of digital readership, media revenues from online viewers have dropped to \$5 to \$10 in revenues, per unique visitor.²²

Marc Andreessen, an American entrepreneur and venture capitalist at *Andreessen-Horowitz*, has observed that the ubiquity of the Internet has caused three things to happen simultaneously. In the analog world, journalists had a voice and distribution was limited. The Internet provides a different model that is open, adaptable, and allows content to always be accessed. Meanwhile, separate industries are colliding on the Internet to create friction and disruption. The previous two factors drive prices down. However, the Internet’s pervasiveness has exponentially increased the number of people with access to content driving advertising volume up. Andreessen predicts the total addressable global market for news will be 5 billion

19 Briggs, Mark. *Entrepreneurial Journalism: How to Build What’s Next for News*. Thousand Oaks, California: CQ Press, 2012.

20 Barthel, Michael. “Newspapers: Fact Sheet.” Pew Research Center’s Journalism Project. Accessed November 8, 2015. <http://www.journalism.org/2015/04/29/newspapers-fact-sheet/>.

21 Peretti, Jonah. BuzzFeed’s Take on the Future of Media, July 15, 2014. https://www.youtube.com/watch?v=t_w-lscnhEK.

22 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 11.

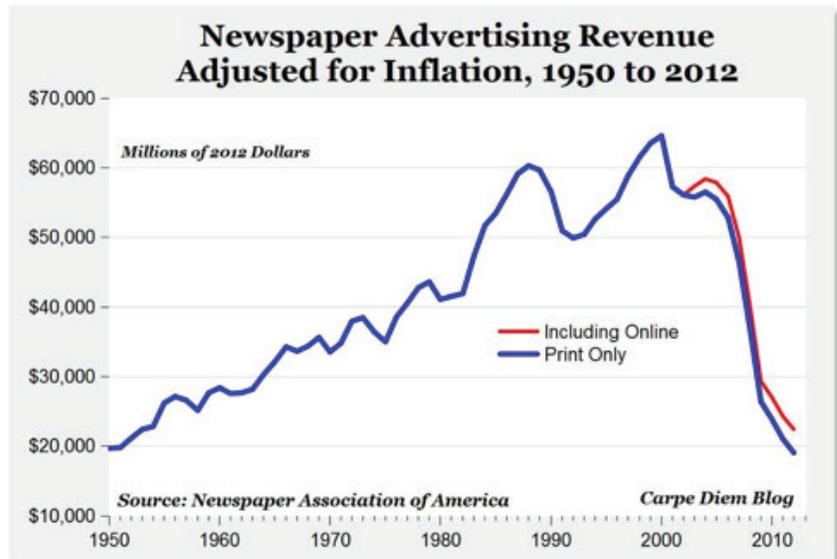


Figure 2. Newspaper Association of America.

<https://www.baekdal.com/insights/the-newspaper-associations-total-distortion-of-reality>

people by 2020.²³

While news has been commoditized, analysis and engagement have not. Writers with strong engagement allow media companies to charge higher ad rates as they build loyal readerships. The Internet gives writers an unprecedented opportunity to build interest-based relationships with readers from around the world. Writers can publish articles on niche topics of interest and monetize through highly targeted contextual advertising or subscriptions. These targeted websites attract readers who are highly interested in the content and are likely to follow the writers on social media or subscribe to email lists.

IV. Case Examples of Successful Media Organizations and Businesses

1. Scale Dependent and Ad Supported

After co-launching *The Huffington Post* in 2005, CEO Jonah Peretti launched *BuzzFeed* as an experimental lab. As a graduate student at the MIT Media Lab in 2001, Peretti became interested with how content and ideas spread. While writing his master's thesis, Peretti ordered a new customizable Nike sneaker with "sweatshop" imprinted on it. Peretti forwarded his email exchange with a Nike customer service representative to 10 friends before it spread from inbox to inbox. Six weeks later, Peretti appeared on the *Today Show* with a Nike representative to discuss its "sweatshop" labor practices.²⁴

Peretti launched *BuzzFeed* to track viral content. Kenneth Lerer, *BuzzFeed*'s executive chairman, predicts that the content companies of the future will focus on mobile, video, social, and technology.²⁵ Today *BuzzFeed* has more than 700 employees, five billion monthly content views and more than 200 million monthly unique visitors.²⁶ A self-defined "network-integrated media company," *BuzzFeed* derives insights from the data it receives to improve the content it produces. *BuzzFeed* aims to be indifferent to the platform where audiences view its content. Instead the company focuses on user experience, gathering data and building a sustainable business model.²⁷ Today's massive social media trends were not self-evident when *BuzzFeed* first began. Social media made it easy for content to spread quickly, while smartphones allowed readers to consume content at any time, anywhere. Increased data has developed *BuzzFeed*'s content strategy with the goal of making viral content. *Figure 3* demonstrates *BuzzFeed*'s cross-platform approach to news distribution. Cross platform distribution is essential for ad-supported publications that operate at scale because news is increasingly being consumed through social media channels and native applications.

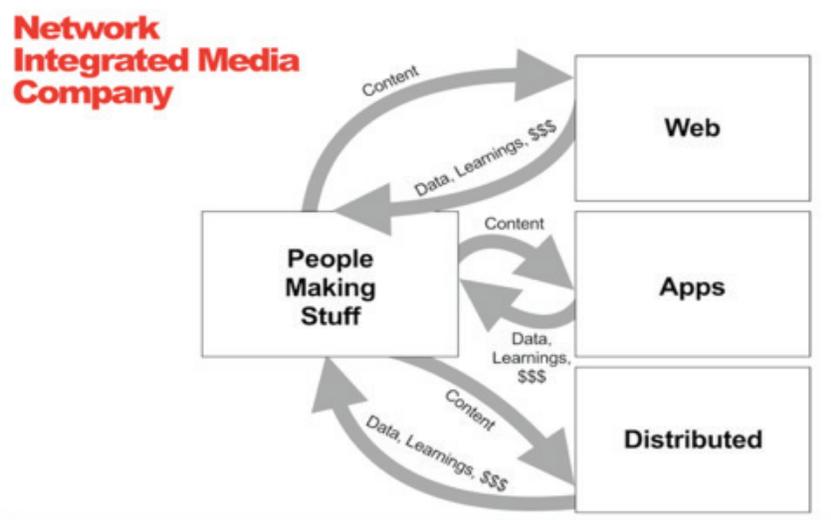


Figure 3. Buzz Feed Blog. <http://www.buzzfeed.com/daozers/making-content-for-the-way-people-consume-media-today#.tdzJ9yOQ>

23 Andreesen, Marc. "The Future of the News Business: A Monumental Twitter Stream All in One Place | Andreesen Horowitz." Accessed November 13, 2015. <http://a16z.com/2014/02/25/future-of-news-business/>.

24 Rice, Andrew. "Does BuzzFeed Know the Secret?: Jonah Peretti's Viral-Content Machine Purports to Have Solved the Problems of Both Journalism and Advertising at Once, All with the Help of a Simple Algorithm." New York, April 15, 2013.

25 Staff, BuzzFeedPress BuzzFeed. "BuzzFeed Announces Major Expansion Across All Business Lines." BuzzFeed. Accessed November 8, 2015. <http://www.buzzfeed.com/buzzfeedpress/buzzfeed-announces-major-expansion-across-all-business-lines>.

26 "The BuzzFeed Team." BuzzFeed. Accessed November 10, 2015. <http://www.buzzfeed.com/about/team>.

27 Nguyen, Dao, and Ashley McCollum. "Making Content For The Way People Consume Media Today." BuzzFeed, October 23, 2015. <http://www.buzzfeed.com/daozers/making-content-for-the-way-people-consume-media-today>.

While traditional media companies sell the same content to everybody, *BuzzFeed* focuses on leveraging the power of custom delivery of individual stories (sponsored or not) and focuses on using social media to spread them. With its content, *BuzzFeed* focuses on entertaining and inspiring readers using the advantages of the Internet to do so.²⁸

The fast-forward business of *BuzzFeed* is based on a model of native advertising and branded, customized content. SmartInsights reports that (standard) digital banner advertisement click-through rates are at 0.1 percent and falling.²⁹ *BuzzFeed* board member Chris Dixon says “banner advertisements do not work on the desktop and will not work on mobile.”³⁰ 75 percent of *BuzzFeed*’s revenue comes from *BuzzFeed* Creative, a 75-person unit that creates custom video and list-style advertising content for brands.³¹

Producing hundreds of posts per day, *BuzzFeed* does not run banner advertisements, *BuzzFeed* monetizes sponsored viral content for companies that pay to place articles on the website. The company focuses on producing content that resonates so people will share it with friends. *BuzzFeed* does not charge advertisers on a per-post basis, but rather charges advertisers on a cost-per-thousand-impressions basis instead. Advertisers pay for the images and “story units” that display the branded content and drive people to the post. *BuzzFeed* charges a daily fee for advertisers’ paid posts to remain in one of the two paid spots on the *BuzzFeed* home page.³²

Instead of living on *BuzzFeed*’s home page, most inbound traffic to *BuzzFeed* comes from Facebook and Twitter. Jason Kottke at Harvard University’s Neiman Journalism Lab has observed that links on the Web have moved from “the loosely connected network of blogs to tightly integrated services like Facebook and Twitter.” *BuzzFeed* does not strive to be a destination site focusing on driving traffic from networked social media sites.³³ *BuzzFeed*’s dependence on social media platforms has its dangers. Facebook’s control over *BuzzFeed*’s content will increasingly threaten its monetization potential. From January-September 2015, *BuzzFeed*’s visits through Facebook fell 40.8 percent to 23.7 million.³⁴ Facebook, *BuzzFeed*’s biggest referrer, controls what news feed is delivered to its 1.5 billion users.³⁵ The newsfeed filters use an algorithm to filter what Facebook users see.

Traditional ad agencies see *BuzzFeed* as a threat. The *BuzzFeed* model challenges the traditional separation between editorial content and the business of journalism. *BuzzFeed* continues to raise venture capital and grow the company while Time Inc., Newsweek and *The New York Times* have laid off employees.³⁶ Meanwhile, *BuzzFeed*’s native advertisements like the Jet-Blue-sponsored “The 50 Most Beautiful Shots Taken Out of Airplane Windows” or the BBC America-sponsored “10 Beautiful Places in the World that Actually Exist” monetize without being intrusive to readers.³⁷ The *BuzzFeed* model works best at scale. This model is not a viable option for startups without venture capital, according to Rob Norman on GroupM, the world’s largest media investment group.

While the company is still private, the triple-digital millions of dollars in revenue that *BuzzFeed* made in 2014 proves that big Internet companies can monetize the Web by producing viral content and monetizing through native advertisements. Ben Thompson, an independent technology writer, says “*BuzzFeed*’s writers simply need to write stories that people find important enough to share; the learning that results is how

28 Salmon, Felix. “BuzzFeed.” Medium, August 11, 2014. <https://medium.com/@felixsalmon/normally-when-some-big-deal-is-announced-in-the-business-world-a-rah-rah-press-release-goes-out-236f5ae86ee4#.1da7w5bom>.

29 Heaton, Alex. “Content Marketing Case Study: Buzzfeed - Smart Insights Digital Marketing Advice.” Smart Insights, July 1, 2014. <http://www.smartinsights.com/content-management/content-marketing-strategy/buzzfeed-case-study/>.

30 Manjoo, Farhad. “Fall of the Banner Ad: The Monster That Swallowed the Web.” *The New York Times*, November 5, 2014. <http://www.nytimes.com/2014/11/06/technology/personaltech/banner-ads-the-monsters-that-swallowed-the-web.html>.

31 Issac, Mike. “50 Million New Reasons BuzzFeed Wants to Take Its Content Far Beyond Lists - *The New York Times*.” *New York Times*, August 10, 2014. http://www.nytimes.com/2014/08/11/technology/a-move-to-go-beyond-lists-for-content-at-buzzfeed.html?_r=1.

32 Rey, Jason Del. “Inside the BuzzFeed Pricing Model: How One ‘Native Advertising’ Pioneer Tries to Make It All Add up.” *Advertising Age* 83, no. 39 (October 29, 2012).

33 Kottke, Jason. “The Blog Is Dead, Long Live the Blog.” *Nieman Lab*, December 19, 2013. <http://www.niemanlab.org/2013/12/the-blog-is-dead/>.

34 Rice, Andrew. “Does BuzzFeed Know the Secret?: Jonah Peretti’s Viral-Content Machine Purports to Have Solved the Problems of Both Journalism and Advertising at Once, All with the Help of a Simple Algorithm.” *New York*, April 15, 2013.

35 Ingram, Mathew. “Facebook’s Referral Traffic Has Plunged for Some Media Outlets - *Fortune*.” *Fortune*, November 9, 2015. <http://fortune.com/2015/11/09/facebook-media/>.

36 Rice, Andrew. “Does BuzzFeed Know the Secret?: Jonah Peretti’s Viral-Content Machine Purports to Have Solved the Problems of Both Journalism and Advertising at Once, All with the Help of a Simple Algorithm.” *New York*, April 15, 2013.

37 Br, JetBlue Getaways, and Publisher. “The 50 Most Beautiful Shots Taken Out Of Airplane Windows.” *BuzzFeed*, June 3, 2012. <http://www.buzzfeed.com/h2/aaad/jetbluegetaways/the-50-most-beautiful-shots-taken-out-of-airplane>.

BuzzFeed makes their money.” The incentives are perfectly aligned.³⁸ For *BuzzFeed* to continue its success, it must produce native advertisements that are as engaging as the organic published content. Tech Crunch, a reputable online media blog site, reports that 75 percent of *BuzzFeed*’s traffic comes through external social media sources. Therefore, the company must continue producing viral content to drive traffic to the website.³⁹ By focusing on producing content that “makes an impact,” *BuzzFeed* hopes to leverage its scale and modern business model to build a sustainable business on the Internet.⁴⁰

2. Subscription Dependent and Ad Supported

Not every successful online company depends on scale like *BuzzFeed*. Internet economics virtually guarantees that a few publishers will dominate page views through viral content, while others will have to specialize. Sustaining business models are essential for a long-living publication because of the high costs of journalism. Sustainable business models generate ongoing revenue for the organization while providing value to the customer.⁴¹ Organizations that charge for advertising believe that pay walls make viral posts impossible and diminish the potential influence of their organization. Publishers who keep their content behind a pay wall do so because they believe consumers should pay directly for the steep costs of journalism. Even in the traditional business model, newspapers underpriced subscription costs in hopes of increased ad revenue.

A 2006 report from Harvard’s Kennedy School of government explained that publishers of the future must create tight bonds with consumers by building differentiated and therefore exclusive publications. Consumers will pay for exclusivity. Stewart Brand at the MIT Media Lab believes information wants to be free because it can be distributed and copied at low costs. John Lancaster echoed Brand’s statement in his *London Review of Books* essay: “The Internet is the most effective means of giving stuff away for free that humanity has ever devised. Actually making money from it is not just hard, it may be fundamentally opposed to the character and momentum of the net.”⁴²

The Story So Far cites three reasons that companies should charge for online access to content. Subscriptions increase revenue, and alter the notion that print media subscriptions cost money. Online content, however, remains free. However, paying audiences are generally more valuable to advertisers because payment demonstrates a deep commitment to the publication. When pay walls were first introduced, publishers feared that pay walls would detract from precious ad revenue.⁴³ Ad revenue benefits from scale and reach. Both are impossible to achieve when content is hidden from the general population behind a pay wall.

The Financial Times and *The Wall Street Journal* have seen the most success transitioning from a newspaper to an online subscription service. Both companies monetize through advertisements and subscriptions to serve a specialized customer segment. These publications are considered must-reads for people who work in finance, business strategy, and banking. The publications leverage subscriber data and demographics to deliver targeted banner advertisements, track trends, and increase ad prices.⁴⁴ *The Financial Times* and *The Wall Street Journal* know consumers will pay for content because of its influence within the business community. The wealthy demographic of readers is leveraged to charge high prices to advertisers who want to reach an affluent audience.

The Financial Times covers international business, finance, economic, and political news with differentiated analysis. The organization has a combined paid print and digital circulation of 747,000.⁴⁵ *The*

38 Thompson, Ben. “Why BuzzFeed Is the Most Important News Organization in the World.” *Stratechery* by Ben Thompson. Accessed November 8, 2015. <https://stratechery.com/2015/buzzfeed-important-news-organization-world/>.

39 Constine, Josh. “BuzzFeed’s Future Depends On Convincing Us Ads Aren’t Ads.” *TechCrunch*. Accessed November 8, 2015. <http://social.techcrunch.com/2014/08/12/buzzhome/>.

40 Nguyen, Dao, and Ashley McCollum. “Making Content For The Way People Consume Media Today.” *BuzzFeed*, October 23, 2015. <http://www.buzzfeed.com/daozers/making-content-for-the-way-people-consume-media-today>.

41 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” *Blekinge Institute of Technology*, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 67.

42 Grueskin, Bill, Ava Seave, and Lucas Graves. *The Story So Far: What We Know About the Business of Digital Journalism*. New York: Columbia University Press, 2011. http://cjrarchive.org/img/posts/report/The_Story_So_Far.pdf. Page 55

43 Grueskin, Bill, Ava Seave, and Lucas Graves. *The Story So Far: What We Know About the Business of Digital Journalism*. New York: Columbia University Press, 2011. http://cjrarchive.org/img/posts/report/The_Story_So_Far.pdf. Page 67.

44 Johnson, R, and A Gutierrez. “Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study.” *Blekinge Institute of Technology*, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 60.

45 “Financial Times.” *Financial Times*. Accessed November 12, 2015. <http://aboutus.ft.com/corporate-information/ft-company/>.

Financial Times has the largest editorial staff of any international newspaper with an editorial team of more than 500 journalists. It leverages the Internet's unique capabilities by using a metered business model where readers can pay for the service based on usage. *The Financial Times* started charging for access in 2001 and grew to 207,000 digital subscriptions by 2010. The publication charges \$481 for its premium access to everything on the site. As of 2012, non-subscribers receive ten free stories before registering for the site. In 2011, *The Financial Times* reported that 55 percent of revenue came from content subscriptions with the other 45 percent from advertising. Subscription revenue increased from 2001 when 71 percent of revenue came from advertising and 26 percent from subscriptions. However, Rob Grimshaw, managing director of *The Financial Times'* website, FT.com says, "The outlook for the ad business online is quite bleak. There is just not enough money there." The publication is able to charge high prices for its advertisements because of differentiated content that serves a select audience of generally wealthy business professionals.⁴⁶

The Wall Street Journal was the first newspaper with a profitable and sustainable e-business model.⁴⁷ At the beginning of the 1900s, *The Wall Street Journal*, with a circulation of 11,000, grew to more than 1 million by the middle of the 20th century and more than 2 million in 2010. Today, *The Wall Street Journal* is regarded as "the most respected source of business and financial news in the United States" and is perceived as a premium brand.⁴⁸ The online paper sits behind a partial pay wall. Some content is free to the general public and some is saved for paying subscribers. Most of *The Wall Street Journal's* revenue comes from physical newspapers despite a growing online presence. Most of its revenue depends on a subscription model supplemented by premium content.

Both *The Financial Times* and *The Wall Street Journal* target an affluent, Internet-savvy, niche demographic. The newspapers have earned strong, reputable brands and are considered must-reads for many business professionals. By consistently serving a pre-defined customer segment and pursuing a narrowly focused strategy, they will continue to serve as a model for organizations that struggle to fight off disruption.

3. Internet-Only Niche Publications

The Financial Times and *The Wall Street Journal* are not the only successful targeted publications on the Web. The enormous quantity of Internet users has paved the way for writers to monetize their blogs by diving deeply into a specific subject. Mark Briggs acknowledges that blogs are not necessarily a business model, but rather the style of Web publishing with the lowest barrier to entry. Bloggers benefit from low operating costs and "maniacal devotion" to a niche topic targeting a specific, returning and interested audience.⁴⁹ Independent bloggers can dependably rely on an ad-supported business model or a subscription model. John Gruber and Ben Thompson from *Daring Fireball* and *Stratechery*, respectively, prove that people will religiously follow individuals who consistently write high-quality, differentiated content.

Internet startups like Tumblr, Twitter, Pinterest, Reddit, Facebook, SnapChat, and Instagram have unbundled the traditional blog. Following people on the Internet is more common now than it has ever been.⁵⁰ Writers like Gruber and Thompson benefit from a low elasticity of substitution.⁵¹ Differentiated content focusing on a specific subject attracts loyal readers who will pay for content and advertisers who know their advertisements will reach their desired demographic. Lisa Williams, founder of PlaceBlogger, a startup that aggregates "hyperlocal" news sites, notes, "The Web favors things that are narrowly comprehensive" that say "everything about something."

For example, *Daring Fireball* is an Apple-Focused blog founded by Gruber in 2002. The website is a home for Mac nerds, Apple enthusiasts and designers. Gruber started writing about Apple before the company's popularity exploded. He is known for insightful analysis and the opinionated content that comes

46 Grueskin, Bill, Ava Seave, and Lucas Graves. *The Story So Far: What We Know About the Business of Digital Journalism*. New York: Columbia University Press, 2011. http://cjrarchive.org/img/posts/report/The_Story_So_Far.pdf.

47 Johnson, R, and A Gutierrez. "Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study." Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 70.

48 Johnson, R, and A Gutierrez. "Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study." Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 53, 60.

49 Briggs, Mark. *Entrepreneurial Journalism: How to Build What's Next for News*. Thousand Oaks, California: CQ Press, 2012.

50 Klein, Ezra. "What Andrew Sullivan's Exit Says about the Future of Blogging." *Vox*, January 30, 2015. <http://www.vox.com/2015/1/30/7948091/andrew-sullivan-leaving-blogging>.

51 Thompson, Ben. "Bloggins' Bright Future." *Stratechery* by Ben Thompson, February 2, 2015. <https://stratechery.com/2015/bloggings-bright-future/>.

from focusing on a company for 13 years. Gruber's business model is as follows: he publishes content targeted at an unequivocal audience, sells exposure to that audience to advertisers, and earns a profit from it. SimilarWeb reports that 60 percent of readers visit the Gruber site directly.⁵² Gruber sells weekly Syndicated Feed Sponsorships for \$9,750 and generates more than \$20,000 per month. Advertisers receive exclusive promotional access to 200,000 targeted *Daring Fireball* subscribers and 78,000 Twitter followers on the @daringfireball account.⁵³ His site's generated \$20,000 per month with 2 million monthly page views. Gruber's current revenue numbers are inevitably higher because he has grown his audience to more than 4-5 million monthly Web page views. With \$9,750 weekly advertising revenue, Gruber earns more than \$500,000 per year. He has built a successful business by delivering content to a highly targeted, loyal audience that specific sponsors want to reach. Unlike larger organizations, Gruber sells ads by the week or month instead of by volume. He has proven that highly focused, ad-supported news organizations can generate a profit on the Internet. Through differentiated content that cannot be found anywhere else, Gruber has generated a loyal audience that visits *Daring Fireball* directly through his Twitter feed or an RSS feed.⁵⁴

Writers who choose to monetize through a pay wall must establish a trusted and respected brand that people will pay for. To grow their audience, independent writers like Thompson at *Stratechery* have established an audience through free social media marketing channels. Thompson's fifty-one thousand tweets have led to thirty-two thousand followers. Thompson graduated from the University of Wisconsin-Madison with a degree in political science before receiving graduate degrees in engineering management from Northwestern University and a Master of Business Administration from Northwestern's Kellogg School of Management. His additional experience at Apple and Microsoft give him the credibility needed to charge readers for daily content.

For \$10 per month or \$100 per year, subscribers receive exclusive access to Thompson's Daily Update. The Daily Update "consists of substantial analysis of the news of the day delivered via four daily emails, in addition to the free weekly article." Subscribers also receive unrestricted access to *Stratechery's* Membership Forum, which provides readers with an avenue for in-depth discussions about tech strategy and the implications of technology on society moderated by Thompson along with priority email access.⁵⁵ For additional ancillary revenue, Thompson monetizes his "Exponent" podcast where readers listen to the thought-process and further justification for his analysis.

Thompson's differentiated content serves a niche audience that is willing to pay for high-quality, exclusive content. According to Thomson, "Blogging scales well because it costs the same amount to produce a post on the Internet that reaches 100 people as one that reaches 100,000. I am, of course, acutely aware that there is a tradeoff when it comes to the subscription business model: by making something scarce, and worth paying for, you are by definition limiting your number of readers." Thompson's readers pay for access to him. In a world of abundant and commoditized information, people remain distinct and irreplaceable. Thompson utilizes the Internet's low cost structure to charge for differentiated content that his affluent consumers will pay for. To promote himself, Thompson combines a trusted following on Twitter and uses it to promote his free weekly article and ad-supported "Exponent" podcast. Instead of focusing on scale and a low revenue per consumer, Thompson serves a niche of followers who care about his targeted content enough to pay a recurring subscription fee.

Targeted verticals will continue rising with the growth of the Internet. *Daring Fireball* has paved the way for ad-supported companies like Skift, *CoinDesk*, *Fast Casual*, and *The Business of Fashion*. To supplement ad revenue, these companies are monetizing with events or selling exclusive content to businesses and affluent readers. Meanwhile, *Stratechery* has influenced subscription-dependent organizations like *Mattermark*, *CBInsights*, and *The Information*. Niche websites must deliver important and relevant information that is exclusive to subscribers and cannot be found elsewhere. To boost their value proposition, subscription-dependent organizations host private meet-ups and events to grow their community of committed readers. These companies benefit from the economics of the Internet and its ability to bring people with shared interests together.

52 "Daringfireball.net Traffic Statistics." SimilarWeb. Accessed November 12, 2015. <http://www.similarweb.com/website/daringfireball.net>.

53 Gruber, John. "Daring Fireball: RSS Feed Sponsorship." Daring Fireball. Accessed November 12, 2015. <http://daringfireball.net/feeds/sponsors/>.

54 RSS (Rich Site Summary) is a format for delivering regularly changing web content. Many news-related sites, weblogs and other online publishers syndicate their content as an RSS Feed to whoever wants it.

55 Thompson, Ben. "The Daily Update." *Stratechery* by Ben Thompson. Accessed November 13, 2015. <https://stratechery.com/membership/>.

V. Conclusion and The Future of the Internet

The publications of the future will be the ones that capitalize on the Internet's economics and scale. The winners will serve the broadest reach or target narrow topics with unprecedented depth. Most of the future successful companies will focus on a small-segment, niche strategy instead of a mass-market broad-based one.⁵⁶ The business models of mid-sized newspapers with local monopolies are increasingly inefficient and will continue to be eliminated.⁵⁷ The expanding scale of the Internet means free content can effectively spread to every user on the Internet, while experts on a topic can reach interested consumers who are willing to pay a higher cost for differentiated, or customized content.

Traditional print publications will face a turbulent future as they transition to the Web. Those that survive will embrace the constant transformation of the Internet. Ad-supported publishers who depend on volume will have to be platform agnostic. They will depend on influential distributors like Google, Facebook, and Twitter, and work with them to capture mind share and consumer attention. They will rethink their relationships with advertisers by focusing more on sponsored content that attracts consumers and move away from unprofitable banner ads.⁵⁸

Small, ad-supported publishers will increasingly depend on targeted advertisements and sponsored posts. Companies will always pay for ads that reach their targeted audience on a website that these audiences routinely visit. The most successful ones will use aggregation to provide value with differentiated content.⁵⁹ The news organizations of the future will be smaller, often published by a single writer who has a narrow focus and is a specialist in the media content field they cover. Monetization will come from dedicated readers who will pay for access to premium content, access to chat forums and further discussion. Monetization will also come from the interest base of a loyal community of subscribers.⁶⁰ These news organizations will be more nimble, benefit from low costs, and develop modern ad sales strategies.

Media distributors will gain influence over a world of increasingly abundant information. Algorithmic feeds of Facebook, Twitter, and Google search will control the content that consumers see. Most consumers will see content that is widely read and shared like lifestyle, fashion, celebrity, and sports news. Much of the best content will serve an affluent readership with the means to pay for exclusive access to focused writers who are experts on a particular vertical market and content experience.

Expect new business models to develop with the growth of the Web. The Internet is growing rapidly, changing daily, and companies around the world are working to bring the Internet to everybody in the world. The future promises expanded digital infrastructure promoting digital literacy, free expression, and ubiquitous Internet access.⁶¹ Citizens of many third-world countries will use their smartphones to access the Internet for the first time in their lives. In less than a decade, free online content will be available to almost everybody in the world. Businesses that thrive on the Internet by developing sustainable revenue streams will lead, develop, and create a more networked, educated, and open world.

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56 Johnson, R, and A Gutierrez. "Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study." Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 62.

57 Johnson, R, and A Gutierrez. "Reinventing the Business Model of the Newspaper Industry: Electronic Business Models and the Newspaper Industry The Wall Street Journal as Case Study." Blekinge Institute of Technology, 2010. <http://www.diva-portal.org/smash/get/diva2:832292/FULLTEXT01.pdf>. Page 32-33.

58 Grueskin, Bill, Ava Seave, and Lucas Graves. *The Story So Far: What We Know About the Business of Digital Journalism*. New York: Columbia University Press, 2011. http://cjrarchive.org/img/posts/report/The_Story_So_Far.pdf. Page 133.

59 Grueskin, Bill, Ava Seave, and Lucas Graves. *The Story So Far: What We Know About the Business of Digital Journalism*. New York: Columbia University Press, 2011. http://cjrarchive.org/img/posts/report/The_Story_So_Far.pdf. Page 131.

60 Thompson, Ben. "Newspapers Are Dead; Long Live Journalism." *Stratechery by Ben Thompson*, March 24, 2014. <https://stratechery.com/2014/newspapers-are-dead-long-live-journalism/>.

61 West, Darrell. "Digital Divide: Improving Internet Access in the Developing World through Affordable Services and Diverse Content." The Brookings Institution, February 2015. <http://www.brookings.edu/blogs/brookings-now/posts/2014/02/how-the-internet-and-data-help-the-developing-world>. Page 22.