

Journalism.org  
**The State of the News Media** 2008  
An Annual Report on American Journalism

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## Online

### Intro

*By the Project for Excellence in Journalism*

After a decade of high hopes, there are increasing concerns about the Web's ability to meet the news industry's financial challenges.

The number of people going online for news on a regular basis is rising.

The audience for major news sites is also continuing to grow.

For many of these bigger players, the watchwords increasingly appear to be assimilation, acquisition and partnership. In 2007, among other examples, MSNBC purchased community news aggregator Newsvine and ABC News allied with Facebook, just as Google had earlier bought YouTube, and News Corp. acquired MySpace.

But there are also nuances and growing concerns. There has been little evidence that these new acquisitions and alliances have added much to the bottom line or justified their expense.

More significant, as a category, news Web sites appear to be falling behind financially. They are not growing in advertising revenue as quickly as other kinds of Internet destinations. And these figures do not include the most important revenue source, search, where news is a relatively small player.

The most promising element heading into 2008 may be innovation. The news industry now appears to be taking to new technology in earnest. Sites are evolving quickly and, in a new development, the mainstream media are now among the more experimental players.

More media sites are taking the reader away from the "walled garden" – their own content – linking to once-taboo outside sources or even inviting in third-party content, allowing hunting-and-gathering consumers to act more directly on their preferences rather than being led to them.

Citizen media are also growing in ways unmistakable and engaging. Web sites run by citizen journalists are multiplying – rapidly approaching 1,500 heading into 2008 – offering stories, blogs and videos. And that trend is considered a healthy one by professional journalists, who call on citizens more frequently to inform their reporting.

The journalism of the future increasingly appears to be a hybrid that takes advantage of the technology rather than fights it. But the questions of who will pay and how they will do it seem more pressing than ever.

### Content Analysis

How does the lead news agenda online differ from that in other media? Is it a replay of what we find elsewhere? Is there any shifting of priorities? And among the most popular sites for news, commanding the largest share of the online news audience, how much original content is there to be found?

Throughout 2007, the Project for Excellence in Journalism conducted a study of the lead news coverage every weekday on five of the most popular news sites on the Web -- AOL News, CNN.com, Google News, MSNBC.com, and Yahoo News.<sup>1</sup> These sites range from generating their own content to solely aggregating content from other sources to having a mix of original reporting and reliance on other news sources. While much exists on these sites beyond the lead stories, the goal of this study was to investigate what stories and topics the Web sites were choosing to emphasize above all others.

The most striking finding over all was a heavy emphasis on foreign news, particularly topics not involving the U.S. directly. One consequence of that, in turn, is that we found a smaller focus on major domestic news.

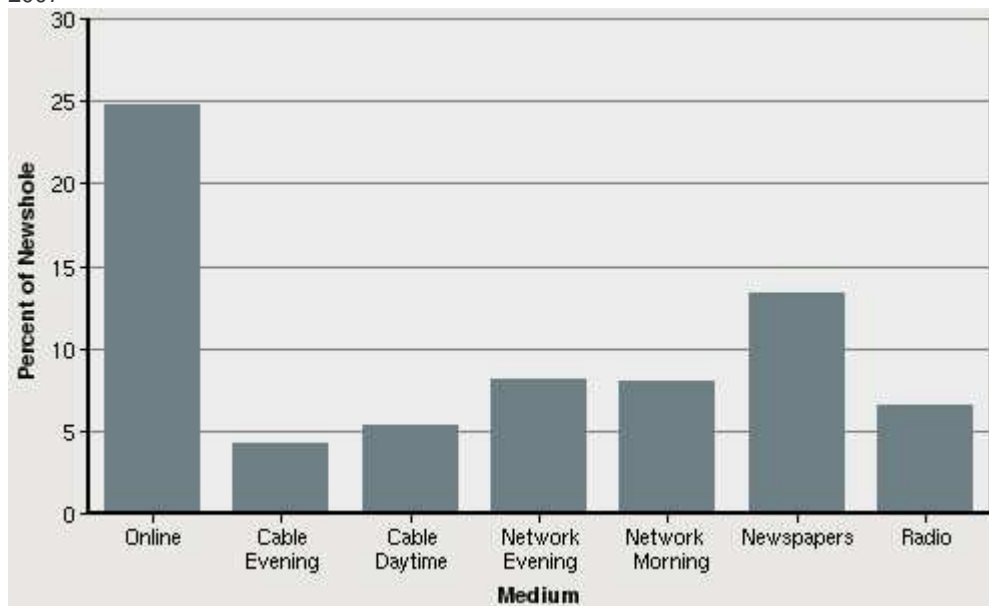
We also found that the sites varied tremendously -- not only aggregators versus originators of news but also among the aggregators themselves. Yahoo was the most focused on the events in Iraq, while Google gave more attention to the 2008 election and AOL covered smaller, one-time news events. The two cable news Web sites mirrored the characteristics of their cable counterparts but with an added emphasis on international news.

### International Takes the Lead

Over all, the lead news agenda online was the most international of any media we studied. At least in their top five stories, which is roughly analogous to the number of stories found on a front page of a newspaper and generally describes the number of stories featured at the top of a Web page, the leading Web sites studied put a premium on international news that far outweighed any other medium. Fully 25% of the top coverage dealt with non-U.S. international stories. This was nearly six times that of cable (4%), three times that of commercial network evening news and the network morning news (8%), nearly twice that of newspapers (13%), and about 60% more than radio news programming (15%).

### International Focus, By Media

2007



Design Your Own Chart

Source: PEJ, A Year in the News, 2007

In addition, 26% of the space was devoted to U.S.-international events, again more than any other genre, though not to the large extent as foreign news.

Looking at the specific news stories covered enhances the finding. Of the top 10 news events in our online sample, six were foreign events, some of which involved U.S. policy and some of which did not. Events inside Iraq constituted the biggest story over all, accounting for more than one-tenth (11%) of the newshole of the lead stories online.

Other events in the top 10 list were Iran's weapons build-up (No. 4 at 3%), Pakistan (No. 5 at 3%), the U.S. military campaign in Afghanistan (No. 7 at 2%) and, at No. 10, the Israeli-Palestinian conflict (2%)

By contrast, Afghanistan and Israel were not among the top 10 stories in the media over all and the other foreign stories all got a smaller share of the news agenda.

### Top Stories for Online Sites in 2007

Percent of Newshole

1	Events in Iraq	11%
2	2008 Campaign	7
3	Iraq Policy Debate	6
4	Iran	3
5	Pakistan	3
6	U.S. Economy	2
7	Afghanistan	2

8	Domestic Terrorism	2
9	Fired U.S. Attorneys	2
10	Israeli/Palestinian Conflict	2

### Top Stories for All Media in 2007

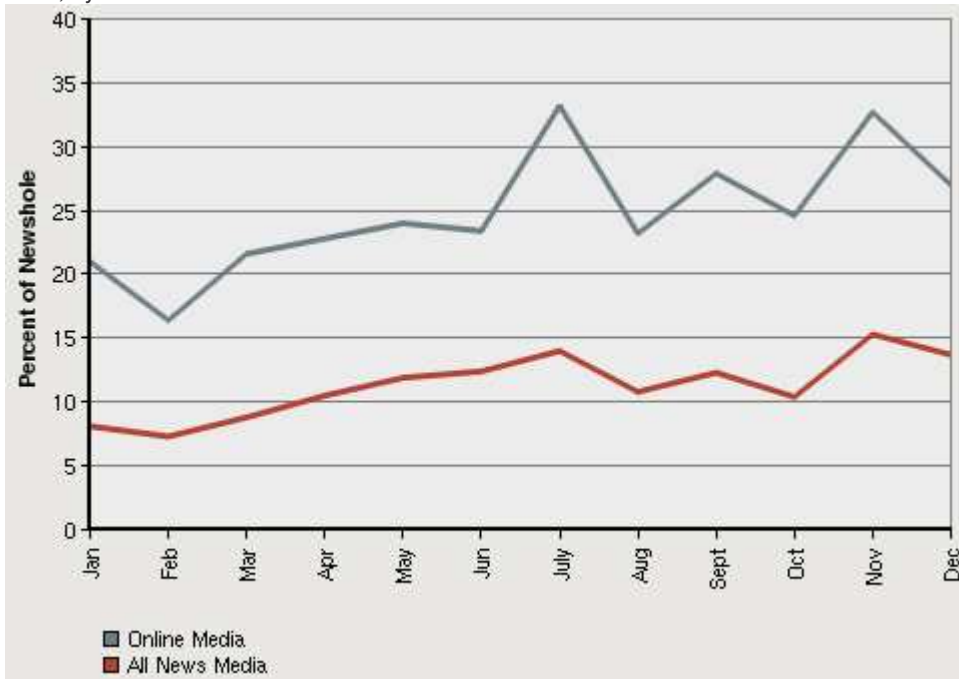
Percent of Newshole

1	2008 Campaign	11%
2	Iraq Policy Debate	8
3	Events in Iraq	6
4	Immigration	3
5	Iran	2
6	Domestic Terrorism	2
7	U.S. Economy	2
8	Iraq Homefront	2
9	Pakistan	2
10	Fired U.S. Attorneys	1

This emphasis on foreign coverage online was a trend that occurred throughout the entire year of 2007. In every month except one (December), these sites devoted the most attention in their lead news to an international story. From January through October it was the war in Iraq — either events on the ground there or the debate over U.S. policies about the war. In November, the top story did not even involve the U.S. The chaotic events occurring in Pakistan led, accounting for a full 14% of the online newshole for the month. December was the only month where an entirely domestic story, the presidential campaign, was the biggest online story (16% of the newshole).

### Non-U.S. International Coverage, Online vs. Overall

2007, by month



Design Your Own Chart

Source: PEJ, A Year in the News, 2007

No other overall media sector studied came close to giving international news such consistent top play. It is only at the more specific programming level that resemblance appears. On the commercial evening newscasts, international news events got the most coverage seven months of the year and the PBS evening news gave it top billing in nine. Morning network television, on the other hand, only had three months where an international news story got the most coverage (all three months being the debate about U.S. policy in Iraq). Even in newspapers, the sector with the second-most focus on non-U.S.

foreign news, a domestic news event got the most coverage for eight months. Cable television had a domestic story in the lead 10 months in 2007.

### Domestic News in the Background

One result of the emphasis on international news is that certain domestic topic areas and specific news stories got less prominence. Elections and other U.S. politics, for instance, received the lowest percentage of coverage in the online sector—just 8% of the online newshole studied, 17% in cable television, 11% on newspaper front pages and 10% in network television.

### Online Topics for 2007

Percent of Newshole

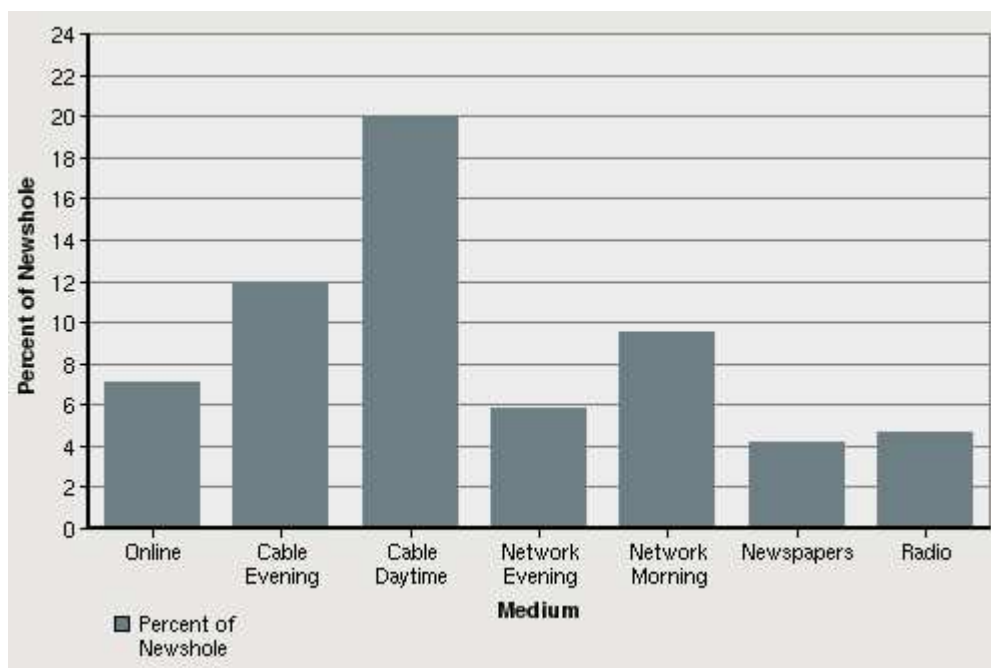
Government	6%
Elections/Politics	8
Crime	7
Economics/Business	5
Environment	1
Health/Medicine	2
Science/Technology	1
Immigration	1
Other Domestic Affairs *	7
Disasters/Accidents	6
Celebrity/Entertainment	1
Lifestyle/Sports	4
Miscellaneous & Media	4
U.S. Foreign Affairs	22
Foreign (non-U.S.)	25

*Totals may not equal 100 due to rounding.*

*Note: \* Other Domestic Affairs includes such things as development, transportation, education, religion, abortion, gun control, welfare, poverty, social security, labor, aging, court/legal system, race and gender issues, etc.*

One area of domestic news that the Web sites gave more attention to in their lead stories was crime. Only cable television spent more of its news coverage (13%) on crime than the Web sites did (7%). In fact, for all of the domestic topics covered online, only stories about politics took up more space than coverage of crime. The greatest percent of this coverage were one-time events rather than continuing stories, followed then by coverage of the Virginia Tech shootings and the trial of I. Lewis (Scooter) Libby Jr., the White House official whose prison sentence was commuted by President Bush.

### Crime Coverage by Media, 2007



Design Your Own Chart

Source: PEJ, A Year in the News, 2007

A number of domestic stories commanded less attention online than in other genres. Immigration, for example, was the No.12 story of the year online (1% of the online newshole). While it received considerable more attention on cable television (5%) and radio (4%) and was the No. 4 story in the media over all. The tragedy of the Virginia Tech shootings was the No.13 story online (1%) while it was the No. 7 story on cable (2%) and No. 9 on network television (2%).

Certainly users can find news stories about a large variety of topics lower down on these sites, in the margins of the news sections or through user-generated searches. But, to the extent that editors or algorithms are making a news agenda, there is higher priority placed on international news. And the PEJ has found in past research that it is often only these lead stories that take advantage of the online capabilities, offering users multimedia components such as slide shows, video clips or links to background information.

### A User's News Agenda?

If the Web is all about democratization of the news and the flow of information, there is an interesting chasm in the priority of news public interest. Through the year, the one area that the public consistently said the press gave *too* much attention to was foreign news. President Pervez Musharraf's decision to declare a state of emergency in Pakistan, the Mideast peace summit meeting at Annapolis, Maryland, the agreement by North Korea to abandon its nuclear weapons program and the Lebanese Army's battle with Islamic militants were all stories that the public felt generated too much media attention. ([See Overview](#)) Does this suggest that the Web sites, at least in their lead news coverage, are less reflective than other media of users' interests? One important difference is that the audience for many of these Web sites, according to online news professionals, is more international in origin. The audience for network evening newscast, for instance, lives by and large in the United States. The audience for Yahoo News lives around the world.

### Site Differences – The Aggregators

The mix of online outlets studied is more diverse in structure and news process than any other genre studied. Three of the sites aggregate news, one with a completely computer-based algorithm (Google News) and two tied to cable news channels (CNN.com and MSNBC.com). We'll first consider the aggregators.

Google News uses a computer-based algorithm to determine the most popular stories being read throughout the net. It does not include any originally reported material, but takes its headlines and links from a wide variety of sources that originate from all over the globe.

Yahoo News is another frequently updated aggregator site, but it uses human editors to select stories throughout the day. The editors rely heavily for their top stories on wire news services such as the Associated Press (98%) and, as we have found in past research, update it continuously. At least in these top stories, Yahoo News tends to emphasize breaking news as it happens rather than offering different angles on a given story, analysis pieces, or multimedia treatment of top stories.

AOL News also relies heavily on wire news services for its content, but the home page looks less like a listing of the top stories and more like an interactive newspaper in that each of the highlighted top stories on the center of the page is given a teaser, a photograph, and perhaps an interactive feature. In addition to the feature stories, AOL News is incorporating more and more user input by having sections on the home page devoted to "blog chatter" and "user-submitted news." These

sections are different from the prominent stories highlighted by the editorial process from AOL.

How did the various structures sites play out in the featured news coverage? How did Google's algorithm-based selections compare with the stories on a aggregator such as Yahoo, a site that is still mostly written by outside news organizations but involves an editorial selection?

### Geographic Focus for the Top 5 News Web Sites

Percent of Newshole

	All	AOL News	CNN.com	Google News	MSNBC.com	Yahoo News
<b>U.S. National</b>	49%	62%	52%	36%	56%	35%
<b>U.S. Interests Abroad</b>	26	23	23	26	26	33
<b>Foreign (Non-U.S.)</b>	15	16	25	37	17	32

Google and Yahoo stood out for a similar devotion to international events, more than other outlets. Fully two-thirds of the lead coverage on each site was about foreign news (65% for Yahoo and 64% for Google). Google devoted a little more space to non-U.S. international events (37% versus 32% on Yahoo).

But within this geographic breadth, their specific story lineups were quite different. Google's top story of the year was domestic — the 2008 presidential campaign, accounting for 10% of the lead coverage. This was close to five times the attention it received on Yahoo, where it barely made it into the top 10 list (coming in at No. 9 with 2%).

### Top Stories for Google News in 2007

Percent of Newshole

1	2008 Campaign	10%
2	Iraq Policy Debate	7
3	Events in Iraq	6
4	Pakistan	4
5	Iran	3
6	Fired U.S. Attorneys	2
7	Israeli/Palestinian Conflict	2
8	North Korea	2
9	Afghanistan	2
10	Rival Factions in Gaza	1

Second on Google's list was the U.S. debate over policies in Iraq (7%) which was also the second story on Yahoo's list (5%). Beyond these, though, the only other U.S.-based story to make it in Google's top 10 was the scandal over the fired U.S. attorneys (No. 6 at 2%). This and the percentage of foreign coverage over all suggests that beyond these stories, much of the day-to-day coverage was spent on international news.

Google has even structurally imposed priority for foreign news. Beneath the top two or three stories featured on the center of the page are topic-related sections, the first of these is "World" news, followed by "U.S." news.

Yahoo News stood out in its lead news stories for a devotion to events inside Iraq. Those events alone accounted for a full 16% of lead coverage, making it the top story over all for 2007. Those events ranked first on the other three Web sites as well, but not at that degree of coverage. (MSNBC.com devoted the second most attention to it at 12%.) Coverage of these events got three times the attention on Yahoo as the second-place story, the debate over U.S. policies there (5%).

In fact, events in Iraq got the top most billing—the No. 1 lead story in more one out of every four weekday mornings (27%) in 2007.

### Top Stories for Yahoo News in 2007

Percent of Newshole

1	Events in Iraq	16%
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2	Iraq Policy Debate	5
3	Iran	5
4	Pakistan	4
5	U.S. Economy	4
6	Israeli/Palestinian Conflict	4
7	North Korea	3
8	Afghanistan	3
9	2008 Presidential Campaign	2
10	Domestic Terrorism	2

The other story that stood out on Yahoo's news page was the U.S. economy. Throughout the year, its lead stories tended to give more attention to the U.S. economy, 4%, than the 2008 presidential campaign, 2 %.)

### Top Stories for AOL News in 2007

Percent of Newshole

1	Events in Iraq	7%
2	Iraq Policy Debate	5
3	2008 Campaign	5
4	Iran	3
5	Domestic Terrorism	2
6	Fired U.S. Attorneys	2
7	Afghanistan	1
8	Iraq Homefront	1
9	Global Warming	1
10	Valerie Plame Investigation	1

If Yahoo was the most caught up in one news story, AOL News was the reverse. Readers of its news page got the greatest mix of lead stories day-to-day. AOL spent less time on the Iraq War (13% total) than any of the other Web sites, and no single news story took up more than 7% of the coverage. Over all, the top 10 stories accounted for just 28% of the newshole, at least 20% less than any other Website studied (MSNBC.com 42%, CNN.com 35%, Yahoo news 49%, Google news 41%). And the last two stories on the list — global warming and the investigation over the leaking of Valerie Plame's association with the CIA, each accounting for 1% – did not show up in the top lists of any of the other four Web sites.

Another way to consider AOL's tendency toward smaller, one-time news events is by looking at the top story for each download. What landed in the No. 1 spot? Here again, the big news events of the year were less common. On 13% of the days tracked, the lead story was not among the list of major stories that PEJ was tracking as part of its weekly index. Among the other sites, an average of only 9% were not big news events.



For example, on the morning of July 9, AOL led with a story about the NAACP planning to hold a symbolic funeral for the "N-word," a story that did not attract much attention in many other media outlets. On that same day, MSNBC.com led with a story about a tougher immigration policy in Oklahoma, Yahoo News led with a story about President Bush invoking executive privilege to prevent some of his staff from having to testify in the investigation over the fired U.S. attorneys,

Google News led with a story about Pakistan's President Pervez Musharraf trying to deal with a conflict with militants at a mosque in his country, and CNN.com led with a story about the shutdown of the Pennsylvania state government over a budget dispute. All these stories on the sites other than AOL were stories that received much more coverage in the media over all than the story that AOL chose to lead with.

The differences in subject matter between AOL News and Yahoo News cannot be accounted for by the sources that the sites use for their lead stories. Both AOL and Yahoo use wire services for more than 90% of the lead news coverage on their sites, most of it coming from the Associated Press. So while each site often relies on similar sources, they make very different editorial decisions about which stories to lead with.

## Source by Web Sites

Percent of Newshole

	CNN.com	Yahoo News	MSNBC.com	Google News	AOL News
<b>Internal Staff</b>	61%	<1%	16%	0%	2%
<b>Wire</b>	32	98	54	17	90
<b>Combo Wire/Staff</b>	3	0	4	<1	0
<b>Other News Outlet</b>	3	1	26	82	8
<b>Outside Contributor/Freelance</b>	<1	0	<1	<1	0

Google News, on the other hand, a site that produces no original content itself sends its users to other sites for their news content. And when a user follows a link from one of the lead stories on the Google News site, 17% of the coverage was wire content that appeared on some other site while 82% of the coverage was original reporting by the cited news organization, most often newspaper outlets.

## Site Differences – Sites Tied to Legacy Media

Two of the sites in the year-long study were tied to legacy media, in particular cable news channels. In what ways do the sites tied to legacy media differ from those who are not likewise connected? And how similar is each to their cable identities?

The CNN.com and MSNBC.com homepages mirror to a certain degree the news tendencies of cable counterparts but augmented with the characteristics of online news such as a greater emphasis on foreign news.

CNN.com is similar to the CNN cable network in that their specialty is in featuring up-to-the-minute news and spends less of its focus on its on-air personalities and more on the ability for users to customize the site. On the CNN.com homepage, the latest headlines are featured prominently on the page with one story usually getting the clear top billing because of a large picture and sizable headline. CNN.com also offers ample opportunities for users to watch streaming video clips that accompany the news stories of the moment. Below the top lists of breaking stories, CNN.com has sections for two headlines for various groups of news (such as "Politics," "Entertainment," and "Science"). The site also has links to blogs written by CNN's television personalities and information about their programs, but those are not as prominently placed.

MSNBC.com, on the other hand, has built its own identity by being the home for NBC, MSNBC and Newsweek magazine. The site offers a combination of breaking news, often from wire stories, along with longer pieces from Newsweek and prominent links to the various NBC and MSNBC television-related Web sites. Like CNN.com, multimedia features are prevalent on the site, although unlike CNN.com, MSNBC.com will often feature multiple stories on the top of the page with pictures and story teasers rather than focusing on one or two emerging stories only. Beneath the top stories on the page, MSNBC.com also has sections devoted to specific topics, but, unlike CNN.com, the sections include six or more headlines along with multiple video news reports for each section.

A quarter of the lead coverage for CNN.com (25%) was about stories that went beyond the boundaries of the U.S., while only 17% of the lead coverage on MSNBC.com did so.

## Top Stories for CNN.com in 2007

Percent of Newshole

1	Events in Iraq	11%
2	Iraq Policy Debate	5
3	2008 Campaign	5
4	Iran	3



5	Pakistan	2
6	Afghanistan	2
7	Immigration	2
8	Fired U.S. Attorneys	2
9	Virginia Tech Shootings	2
10	Western Wildfires	2

### Top Stories for MSNBC.com in 2007

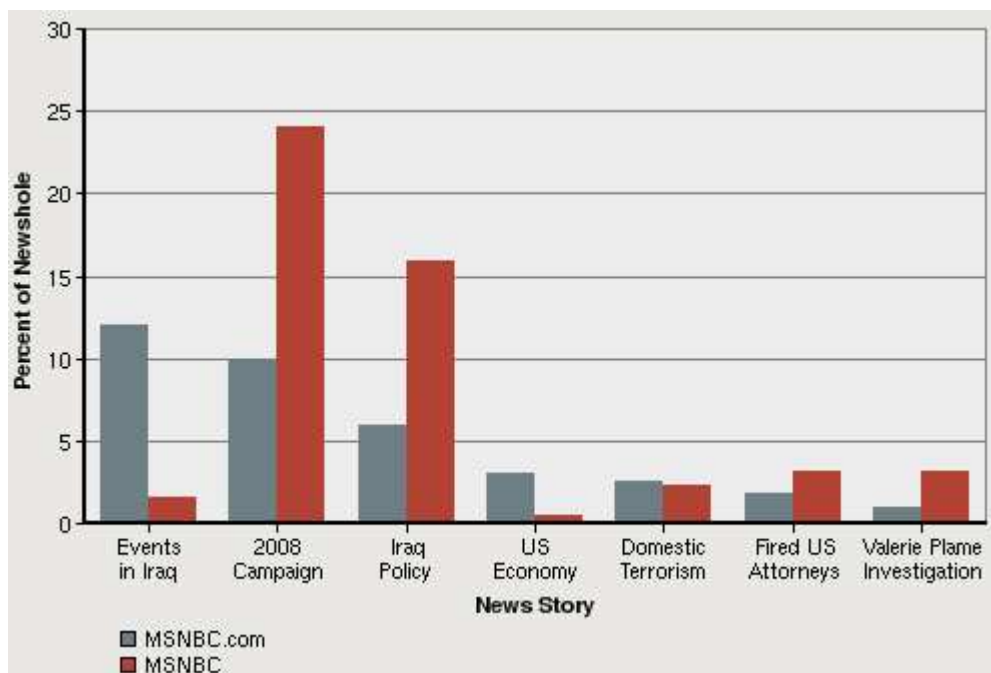
Percent of Newshole

1	Events in Iraq	12%
2	2008 Campaign	10
3	Iraq Policy Debate	6
4	U.S. Economy	3
5	Domestic Terrorism	2
6	Iran	2
7	Pakistan	2
8	Fired U.S. Attorneys	2
9	Iraq Homefront	2
10	Afghanistan	1

Comparing the CNN and MSNBC Web sites, both had the same top story for the year, events on the ground in Iraq. And both sites spent about the same percentage of coverage on the Iraq policy debate (CNN.com at 5% and MSNBC.com at 6%). However, MSNBC.com gave twice as much coverage to the presidential campaign (10%) as CNN.com did (5%). MSNBC.com also gave more coverage to the U.S. economy throughout 2007 (3%) than CNN.com did, which at 1% was not one of the top ten stories of the year on their site.

MSNBC.com's emphasis on the presidential campaign reflects an identity that the cable channels established this year. (See [Cable news investment section for more](#)) In the programs studied throughout 2007, the cable channels devoted almost a quarter of its newshole (24%) (See [Cable content section for more](#)) to the campaign, more than any other news outlets studied. While the percentages are smaller online, the priority of politics relative to other news and to other Web sites stands out.

### Top Stories of 2007: MSNBC.com and MSNBC



Design Your Own Chart

Source: PEJ, A Year in the News, 2007

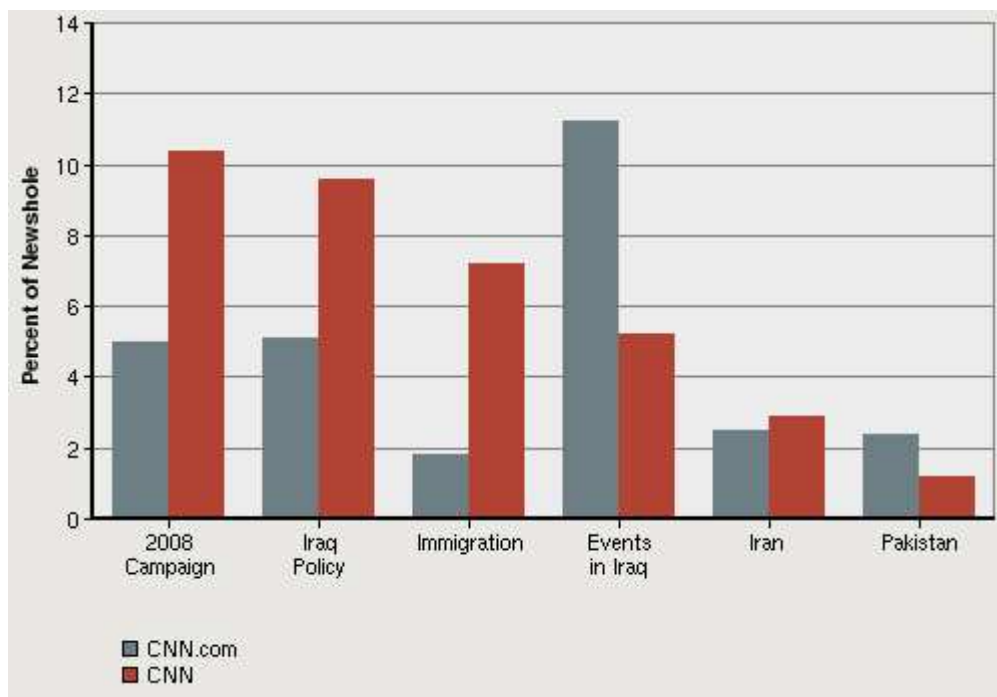
Similar ratios exist in coverage of the policy debate about the war in Iraq. It was one of the most covered stories on both

MSNBC.com (No.3) and the programming studied on MSNBC cable (No. 2). But the percent of newshole it garnered was much smaller on the Web site (6%) than the cable channel (16%).

The similar ranking but smaller percentages on the Web site suggest the slightly different role each outlet plays in daily journalism. The cable television news programs, especially ones like *Hardball* and *Countdown*, are more about pundit-driven analysis and discussion of one or two news events of the day. The Web site that at least in brand name is associated with the cable channel (they are separate companies produced on separate coasts) is a place more for event-driven coverage of breaking events. This also helps to explain why the reports of the war in Iraq, which were almost all event-driven stories, were the lead story on MSNBC.com at 12% and the policy debate about Iraq, at 16%, was the No. 2 story on the cable channel.

CNN and CNN.com have a closer relationship: they are at least the same company and are produced in the same city, although the television people are not directly responsible for the Web site. And here the contrasts between cable and the Web were not as sharp. For CNN.com, the presidential campaign was the No. 3 story of the year (5%) while it was the top story on the cable channel at 10%. Likewise, CNN.com focused more on the events in Iraq (the No.1 story at 11%) while the cable channel focused more on the policy debate about potential planning for the war (No. 2 at 10%).

## Top Stories of 2007: CNN.com and CNN



Design Your Own Chart

Source: PEJ, A Year in the News, 2007

The most striking difference between CNN and CNN.com's lead news coverage is in the emphasis on immigration. On the Web site, immigration was the No. 7 story of the year at 2%. However, on the cable channel, immigration was No. 3 at 7% of the airtime. Much of this difference can be explained by the presence of on the cable channel of Lou Dobbs, who devoted 22% of his airtime to immigration. It is clear that the focus Dobbs has on immigration on his cable show does not carry over to the editorial decisions made about the lead stories on the CNN.com Web site.

The focus of the Web sites in this study on international news is even more evident when comparing CNN.com and MSNBC.com to their cable counterparts. CNN.com (at 25%) and MSNBC.com (at 17%) devoted much more coverage to issues not involving the U.S. than did the corresponding cable channels, with CNN only devoting 6% of its airtime to non-U.S. stories and MSNBC giving even less with only 2%.

## Footnotes

1. For each site studied, the Web sites were captured every weekday between 9 and 10 a.m. ET. The Project captured and coded the top five stories on each site, as those are the most prominent as determined at that time by the news service.

## Audience

As the number of people going online continues to grow, how people use the Internet is changing rapidly, as does what they access and how often they visit those sites.

Americans are going online more frequently, spending more time there and relying more on search and links rather than brand-name destinations to navigate the Web. They are also spending more time looking at content and less time e-mailing. Video is becoming more important. And while still a niche activity, mobile access is widely expected to grow, thanks to a revolution that may be led by the Apple i-Phone.

The Web is becoming a more integral part of people's lives. Eight in 10 Americans 17 and older now say the Internet is a critical source of information — up from 66% in 2006. According to the same survey, more Americans identified the Internet as a more important source of information than television (68%), radio (63%) and newspapers (63%).<sup>1</sup>

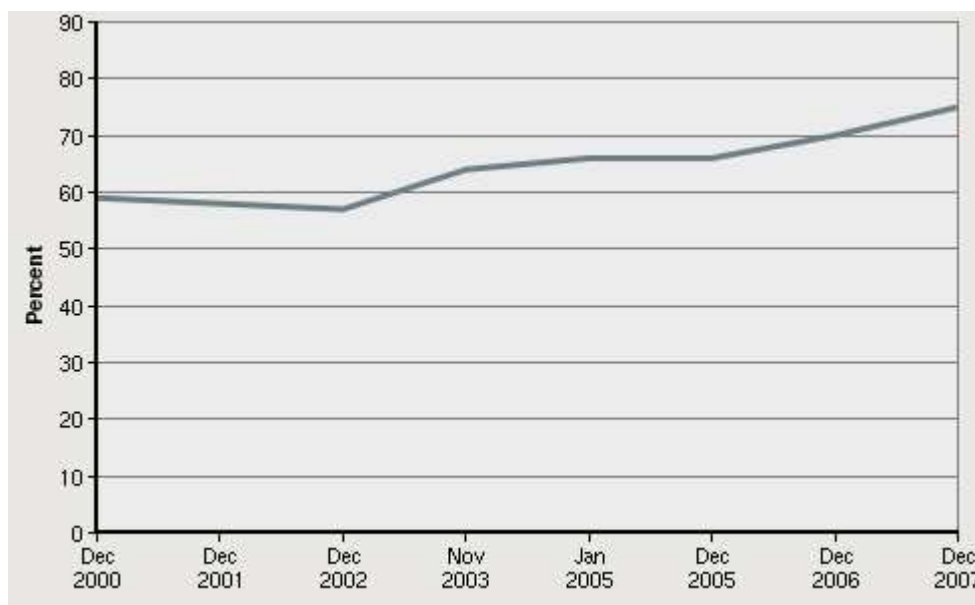
Another survey found that fully a third of Americans now say the Internet is the most essential medium (up from 2 in 10 in 2002), trailing television by only 3 percentage points.<sup>2</sup>

### The Online Universe

In 2007, as the number of people going online grew, so did the frequency with which they went there, as well as how much time they spent.

Over all, 75% of adult Americans use the Internet, according to data from the Pew Internet & American Life Project gathered from October 24 to December 2, 2007. That number is up from the 70% during the same time in 2006.

### Percent of Population Ever Going Online

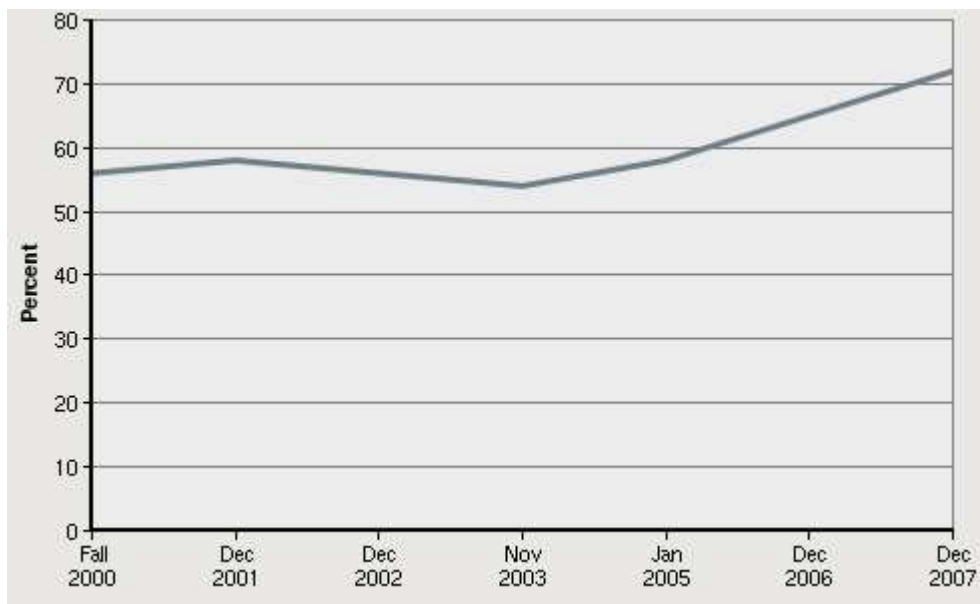


[Design Your Own Chart](#)

Source: Pew Internet & American Life Project, <http://pewinternet.org/>

When respondents are asked about more regular use – say, if they went online “yesterday” – there is even more growth. Fully 72% of Internet users said they had been online the day before, up from 65% in 2006, the survey found.

### Percent of Population Going Online Yesterday



Design Your Own Chart

Source: Pew Internet & American Life Project, <http://pewinternet.org/>

Data from other sources seem to confirm the finding. According to the USC Annenberg Center for the Digital Future, Americans 17 and older said they spent 15.3 hours a week online in 2007, up by more than an hour per week over 2006.<sup>3</sup>

In a November 2007 Harris Poll, Americans reported spending 11 hours per week online, up from nine the previous year, and eight hours in 2005.<sup>4</sup>

### Online News Viewing

How many of these Americans are going online specifically for news?

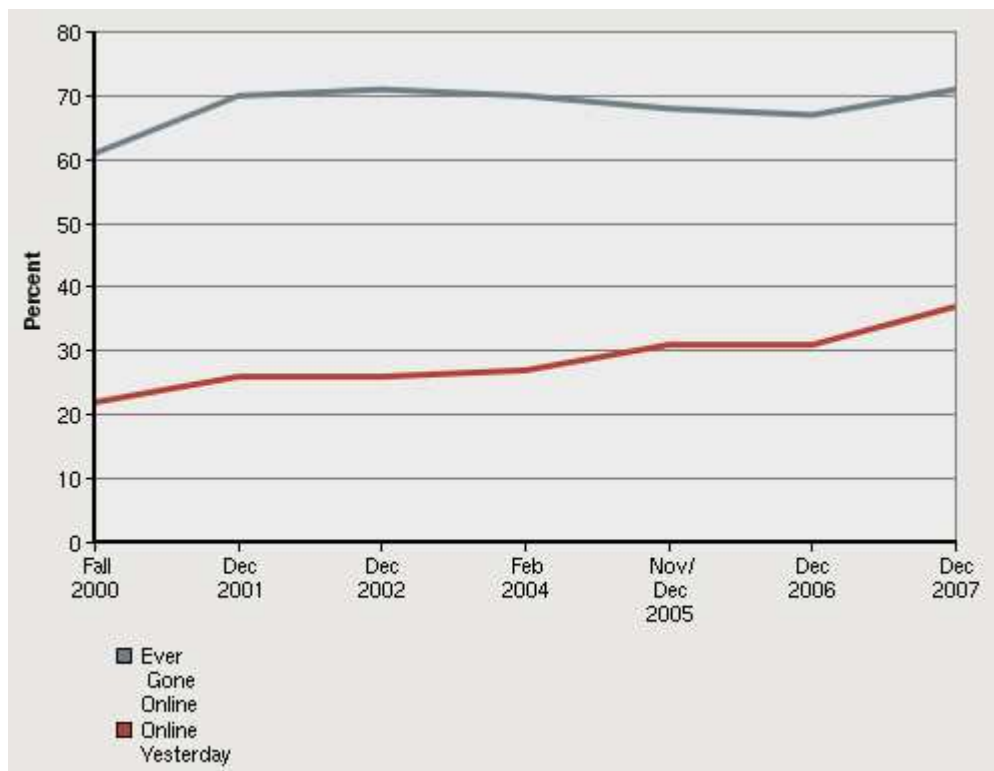
Nearly three-quarters of those who go online have used the medium at some point for news in 2007, a percentage that has not changed over the past five years, although the total the universe of online users has grown during this time.

But, as was the case for more general use, the number going online *regularly* for news is growing.

In late 2007, more than 7 in 10 Americans (71%) said they went online for news, the same number reported in 2002, according to the Pew Internet & American Life Project. But the number who reported going online more regularly has grown considerably. In the October to December survey, 37% went online yesterday for news, up from the 30% who did so at the same time in 2005 and the 26% who did so in 2002. This is the highest number recorded by the Pew Internet project.

### Online News Consumption

Percent of Internet Users



Design Your Own Chart

Source: Pew Internet & American Life Project, <http://pewinternet.org/>

### Online Video

One element of Internet growth is the use of videos, but how much it has grown is less certain.

According to a 2007 study from the Online Publishers Association, 44% of online video users say they watch them on at least a weekly basis — up from 24% a year ago. More frequent use is up as well, according to the study. Eight percent report watching video online daily, up from 5 percent a year ago.

A different study, from Horowitz Associates, a market research company, put that number even higher among high-speed Internet users. It found that 61% of them watched online video content at least once a week, up 36% from 2006.<sup>5</sup>

Meanwhile, the Pew Internet & American Life Project's first major report on online video shows as of March 2007, 57% of online adults have used the Internet to watch or download video, and 19% do so on a typical day. For those with broadband connections at home or work, 74% report having watched video online.<sup>6</sup>

Other research suggests more regular online video consumption could be quite a bit lower.

The Leichtman Research Group, which looked at the general population, found only 4% of all adults over 18 watch video online at home every day, and 14% watch once a week. In comparison, 93% of all adults spend at least an hour a day watching television.<sup>7</sup>

Whatever the number, the bigger audience bodes well for video on news sites. News videos appear at the top of most-watched lists in several studies.

Research from the Pew Internet & American Life Project found that news was the most popular genre, surpassing comedy, movies and television, music and sports. Thirty-seven percent of adult Internet users report ever having watched online video news. Ten percent said they had done so yesterday.<sup>8</sup>

Other research also finds news to be the most popular online video category. According to an Online Publishers Association study, 14% of video users said they watched online video news on a daily basis, up from 5 percent a year ago. A third study, from advertising.com, found that news was the leading category (62%), followed by movie trailers (38%) and music videos (36%).<sup>9</sup>

At the same time, investors increasingly see the medium as a lucrative one. A Dow Jones survey found the amount of venture capital channeled into video-related startups was up 95% in 2007 over 2006, reaching \$682 million.<sup>10</sup>

Who is most likely to watch online news video? Everyone, with the exception of young adults, according to survey research from the Pew Internet & American Life Project in February and March of 2007.

These younger Americans, the 18-to-29-year-old group, preferred comedy (56% vs. the 43% who said they had watched

news). But even comedy may qualify as news to some. “Much of the content viewed by young adults, such as clips from *The Daily Show* or *The Colbert Report*, blurs the line between news and comedy,” the Pew report argued, referring to two cable television programs on the Comedy Central channel.<sup>11</sup>

The rise of video viewing brings a significant shift to the possibilities and appeals of the Web, which for many years had remained largely text-based. The newspaper industry, which used the text-based structure to its advantage online, appears to have understood this shift to a more video-based platform. With greater competition online from other news that is video-based, the industry is grappling with what balance to strike, at the same time trying to find the resources and time to train staff in video story-telling (see [Newspaper Chapter](#)).

How is video consumption online affecting television viewing? For now, there are conflicting data.

One study found that 32% of frequent YouTube viewers said their time spent watching television is most likely to have taken a hit, and 36% said their YouTube viewing comes at the expense of visiting other Web sites.<sup>12</sup> Yet research from [advertising.com](#) came to a different conclusion: 80% of Americans said online video usage does not cut into their television viewing.<sup>13</sup>

### **The Changing Way Online Information is Accessed**

The most important change in the Internet in 2007 may not be in the size of the audience per se but the growing recognition of how people are using the medium.

And that may start with the way people arrive at Web sites.

For years, much of the strategy behind major Web sites connected to larger companies, particularly in news, was to lure users to a home page or section front and try to keep them there. The *New York Times* site, for instance, features its own content, as most other news sites do. Some people have likened it to entering a walled garden.

Even aggregator sites like America Online tried to create a good deal of proprietary content to persuade users to choose it as their Internet provider.

For many, particularly Web sites engaged in producing news, the walled garden connected to long-held and cherished professional principles. Visitors were being directed to content the site could vouch for, usually already vetted. This was core to the concept of brand — the reason for coming: If it's here, you can bank on it.

The focus was on collecting eyeballs, and any link that sent readers offsite was frowned upon. “A link that went to a competitor's site was almost treasonous,” as Mark Glaser, the author of *MediaShift*, a PBS weblog that tracks the Internet, put it.<sup>14</sup>

But early in online development, a different philosophy emerged. Aggregators such as Yahoo, and later Google, did not produce news but helped users navigate work produced by others. Blogging represented something of a hybrid, a place where individuals offered comments but also passed along news stories and linked visitors to other blogs — news and opinion as a social dialogue. The same was true of social networking sites and viral marketing.

In 2005, Dave Winer, a pioneer blogger who ushered in the development of Really Simple Syndication, or RSS, feeds (explained below), began to see the value of having news sites mimic, at least somewhat, the gateway model.

“Imagine putting your best news, with links to pages with your ads on it, in the right column of a [River of News](#) style aggregator with all your competitors' news on it (and weblogs, of course, thank you),” he said. “Now the readers no longer need to go to your competitors' home pages. You've just given them an incentive to come to *you* to get news from *them*.”

The kind of change Winer was talking about was bold, and most news Web sites stuck to what they knew. Even as late as 2007, PEJ found sites largely keeping users inside their own content.<sup>15</sup>

But we may look back at 2007 as the year that consumers could act more directly on their preferences, rather than being led to them.

In 2004, most users came to a Web site through its home page, Advertising Age reported in April 2007.<sup>16</sup> While the magazine offered no hard data for that, it did have some numbers for how things worked now. By 2007, only 43% arrived at Web sites via their front pages, the magazine reported. Instead, nearly 57% report first making contact with a Web site by clicking to a page buried deep inside.

At some sites, the numbers may be higher. The editor of one of the country's largest newspaper sites told us in a background briefing that fully two-thirds of the traffic to his paper's site now comes not through the home page but, in effect, through the side door, through aggregators, blog links and other means.

When the *New York Times* announced in September 2007 it would no longer charge readers for online access to its opinion columnists, an article in the newspaper explained as follows:

“What changed, the Times said, was that many more readers started coming to the site from search engines and links on other sites instead of coming directly to NYTimes.com. These indirect readers, unable to gain access to articles behind the pay wall and less likely to pay subscription fees than the more loyal direct users, were seen as opportunities for more page views and increased advertising revenue.”<sup>17</sup>

This is a major reason, in turn, that Rupert Murdoch considered for a time eliminating the paid content requirement for the Wall Street Journal online. The paper was thought to be losing more in potential advertising revenue from higher traffic than it was gaining from subscriptions, but Murdoch said in January 2008 that the paper would continue to charge readers for access to much of its Web site. Murdoch, who took control of the paper a month earlier, finally decided to keep the it behind the paid wall, at least for now, company officials said.<sup>18</sup>

This recognition is changing the way sites are being designed, including in news. “The walled garden is over,” the editor of one of the country’s most popular Web sites privately told us this fall.

Indeed, a PEJ analysis in December 2007 found some local sites, such as the online version of the Cleveland Plain Dealer and several others owned by the Advance/Newhouse Group, one of the top five newspaper companies by daily circulation, were now linking to outside content. But this is not new only for smaller newspapers. The Los Angeles Times, the fourth largest newspaper in the country, announced in February of 2008 that it had added the ability to place hyperlinks in its news stories.<sup>19</sup>

Some leading media sites have gone a step farther, taking much of the work out of updating outside links by using “disaggregation.” CBS.com and Washingtonpost.com, for instance, now embed coding, called widgets, into their pages, that bring in live content – advertising, links or images — from third-party sites without the need for constant monitoring.

Aggregators like Sphere, Technorati and Newsgator also help news sites keep up with the wave of online content that could be helpful links for readers. Technorati, the leader, for instance, tracks 112.8 million blogs and over 250 million pieces of tagged social media.

### Once Again, Content is King

This horizontal nature of Web traffic — people moving among sites, hunting and gathering as they please — may also be linked to another growing recognition about how people use the Web.

There was new evidence in 2007 that more Americans were spending time online with content rather than with communication tools, like email.

According to a study by the Online Publishers Association, nearly half (47%) of all time on the Web was devoted to content, up from 34% in 2003. The study also found a significant decrease in time devoted to communication, falling from 46% in 2003 to 33% in 2007.

The study’s authors attributed the trend toward content-driven viewing to four factors that open Web doors wider or save users time:

- Wider availability of the Internet, thanks to higher broadband penetration rates
- The increase in online video viewing
- Improvements in search engine technology that allow users to “more easily and quickly find the exact content they are looking for”
- More Web content being produced

## How Internet Users are Spending Time Online

2003 vs. 2007

	Share of Time Online 2003	Share of Time Online 2007	Share of Time Online Change 2003-2007
<b>Content</b>	34%	47%	+37%
<b>Search</b>	3%	5%	+35%
<b>Commerce</b>	16%	15%	-5%
<b>Communications</b>	46%	33%	-28%
<b>Total</b>	100%	100%	--

Source: Online Publishers Association

What is not clear is whether the extra revenue that could result from consumers spending more time online with content —

and news in particular — will be enough to offset sluggish ad revenue growth on older media platforms, such as television and newspapers. The data now suggest that ad spending on the Internet, including news, is growing. However, both growth rates are slowing. ( See [Economics Section](#) and [Advertising Chapter](#).)

In this horserace between content and communication, e-mail is still the single most popular activity online. According to data from the Pew Internet & American Life Project conducted in late 2007, 60% of Internet users said they sent and received e-mail, compared to the 37% who received news or the 19% who watched any kind of video.<sup>20</sup>

And according to Lee Rainie, director of the Pew Internet project, people are also communicating on social network sites like MySpace and Facebook, activity that is not captured by research organizations.

### **News Over the Phone**

If the Web is becoming a more horizontal activity, and content is more of a draw, how much of it is moving to cell phones?

In 2007, the evidence suggests online access through mobile phones was still a niche activity. The debut of Apple's iPhone in June of 2007 may begin to change that. In February 2008, the company projected sales of 10 million iPhones by the end of the year.<sup>21</sup> In addition, other technology companies such as Google are developing software and other technology to make it easier to use the Internet over the phone.

These companies, though, have a long way to go. As of March 2007, the latest period for which data are available, more than 60% of U.S. broadband users owned an Internet-enabled mobile device, but just 5% reported using the Internet there, according to research conducted by Media-Screen, a research firm.<sup>22</sup>

And another study, conducted in July 2007 by Avenue A|Razorfish, a Web design firm that develops applications and layouts, suggests usage of the Internet through cell phones is higher, with 36% using them to check weather, news or sports headlines. Still, 64% said they had never used their phones to do so. Moreover, 76% had not viewed video on their phones.<sup>23</sup>

For those people who do use their phones online, what news sites do they tend to visit? Data from January of 2007, six months before the release of the iPhone, found it is a mix of traditional news, pure play and sports sites.

For now, the heaviest consumers of mobile video appear to be men and young people, according to research conducted by comScore, a leading online measurement firm. More frequent use over all should rise when and if other demographic groups become more regular users.

"While the use of mobile TV is a growing trend among mobile phone users, its current devotees appear to be the early adopters of new technologies," said Serge Matta, senior vice president of comScore Telecom Solutions. "As is the case with the majority of technology lifecycles, early adopters include many younger and male consumers. Once the early adopters have had a chance to fully engage with the technology and share their experiences with colleagues, mobile TV is substantially more likely to reach a critical rise in the marketplace."<sup>24</sup>

### **Podcasting**

As with using cell phones to access the Internet, podcasting is popular with only a certain few heading into 2008.

The number of Americans who own MP3 players, such as Apple's iPod, continued to rise. Nearly a third of Americans (30%) over the age of 12 owned an iPod or other MP3 player in 2007, an increase of 8 percentage points over the previous year.<sup>25</sup>

And there is no shortage of podcasts ready to stream over those phones. According to PodNova, an Internet site to place to find podcasts and videoblogs, there were 90,000 online in 2007.

But only 13% of Americans over 12, or 32 million, have ever listened to podcasts, according to Arbitron.<sup>26</sup> And just 1% downloaded a podcast on a typical day, said James Belcher, a senior analyst with eMarketer.<sup>27</sup>

That does not appear to have affected the inventory for news podcasts.

According to Podcast Alley, an organization that tracks podcast content and trends, there were 36,018 podcasts as of October 2007. Of those, 984 focused on news and politics. And of the top-10 podcasts that Podcast Alley tracked in October, half were on news and politics. (See [Radio Chapter](#).)

### **Online Audience Metrics: The Web's Biggest Challenge?**

All the changes in online audience viewing habits have made a tough job even tougher — measuring. And, because audience is so closely tied to ad dollars, the perennial lack of a standard method to count viewers is a source of ever-growing frustration, particularly among marketers.

Over the past several years, the big names that once dominated the online metrics industry — notably, comScore and



Nielsen//Net Ratings — have been joined by dozens of others, including Google. These new entries into the market offer very different ways to assess online usage that often yield very different traffic figures, even for the same site. In short, there are no standard measurement data for advertisers as there are, for example, for network television.

For some advertisers, the uncertainty of gauging Web traffic may be behind a slowdown in the growth rate of online advertising — from 36% in 2006 to 26% in 2007. When it comes to accurately measuring traffic, the stakes for Web site operators and advertisers are high. Except for a bumpy ride when the dot-com bubble burst in 2000, spending on online advertising has grown robustly each year. And even with a slowdown, the Web generated more than \$15 billion in the first nine months alone of 2007, according to the most recent data released by the Interactive Advertising Bureau, a trade association that helps media companies increase their ad revenues. (See [Economics Section](#).)

“You’re hearing measurement as one of the reasons that buyers are not moving even more money online,” said Wenda Harris Millard, president for media at Martha Stewart Living Omnimedia.

Living Omnimedia and formerly chief sales officer at Yahoo. “It’s hugely frustrating. It’s one of the barriers preventing us from really moving forward.”<sup>28</sup>

A number of experts believe strong revenue growth will continue only if there is widespread agreement on the accuracy of online traffic measurements.

In its infancy, the Web appealed to many advertisers who presumed that audiences left a measurable footprint when they clicked on an ad. Unlike older media platforms — radio, television and newspapers — advertisers would no longer have to play a guessing game to determine the number of people who saw a particular ad.

Advertisers were attracted to those sites that generated the most traffic, so unique visitors and page views became the vital statistics for media companies and advertisers (unique visitors are the number of people who go to a Web site, and page views are the number of pages seen by visitors). Nielsen Net//Ratings, along with comScore, ruled the scene, allowing marketers to make key business decisions based on the volume of traffic.

But even as advertisers poured money into the Web, some expressed dissatisfaction with how traffic was being measured. And recently these concerns have grown louder.

In April 2007, Randall Rothenberg, president and CEO of the Interactive Advertising Bureau, published an open letter requesting an audit of how comScore and Nielsen//Net Ratings gauged Web traffic.

“We simply cannot let the Internet, the most accountable medium ever invented, fall into the same bad customs that have hindered older media and angered advertisers for decades,” Rothenberg wrote.

Some also wondered whether there were more valuable data — such as how much time a user spends on a site — than visitors or page views.<sup>29</sup>

These questions have become particularly relevant with the rise of online video consumption. When someone views a video online, as compared to text, there may be a drop in their number of page views but the person’s amount of overall time spent online could increase.

The picture gets even murkier with the increasing popularity of Ajax, a Web technology that updates data automatically without a user having to refresh the page. For example, on Yahoo’s Finance site, stock prices continuously change as their value changes in real time on Wall Street. Because pages using Ajax programming are not continually refreshed, page views decline, failing to take into account the fact that users are spending more time on the site.

For advertisers, these changes create a different, perhaps even more valuable, opportunity to reach consumers because they are engaged with a particular Web site for a longer period of time.

In a move that reflects the continuing evolution of the online metrics industry, Nielsen//Net Ratings announced in the summer of 2007 that it would change the method by which it ranked top Web sites. Now, rather than counting visitors, Nielsen will calculate how much time the average visitor spends on a site.

“The page view was exposed as a flawed metric over the last year and Nielsen clearly listened to customers and tried to get out ahead of things with this new metric,” said Jeff Lanctot, a senior vice president at Avenue A|Razorfish.

Others, however, say this change is only a preliminary move toward establishing a better tracking system. According to Robert Niles, editor of the *Online Journalism Review*, Nielsen’s announcement is “just a toddler’s step toward the larger goal of cleaning up the mess that is online audience metrics.”

Nielsen and comScore no longer have the playing field to themselves. Criticism of these companies, which employ panel-based methodologies, intensifies. Some critics contend that the panels lack representation from college students, Hispanics and other demographic groups.<sup>30</sup>

An increasing number of smaller services that track online metrics have emerged recently, although it is difficult to keep count. Among the best known of these services, which generally rely on radically different sampling methodologies, are Alexa, Quantcast and Hitwise.

Hitwise seems to have emerged from this new crop as a significant new force in the industry. Its data are regularly cited in publications such as *Broadcasting & Cable*, *Wired* and *Forbes*.

Hitwise, founded in Australia in 1997 and introduced in the U.S. in 2003, collects its data differently than comScore and Nielsen, which rely on panels of users for their data. They assemble these users by installing software on the participants' computers to record online behavior. Hitwise, in contrast, collects anonymous data sent directly from Internet Service Providers such as Verizon, Comcast and AOL. Over all, 25 million online users are included in the sample, although some critics contend it is biased toward home users and misses those who surf the Web at work.

Hitwise's general manager for global research, Bill Tancer, argues that data based on this larger sample size enable his clients to study their customers' Web behavior on a "granular level." In addition to the number of visits to a Web site, clients can see precisely their share of the online market and even the sex and age breakdown of their users.

For *Barenecessities.com*, an online retailer of women's intimate apparel, the number of monthly unique visitors to its Web page are not the only data it needs. *Barenecessities.com* uses Hitwise to keep track of how its smaller rivals, not traditionally tracked by the leading measurement companies, are performing online, according to Dan Sackowitz, vice president for marketing and business development at the company.

Will the online metrics industry mimic the VCR market in the 1970s and 1980s — one clear winner (VHS) and one clear loser (Beta)? For now, it does not appear that will be the case. The rise of these smaller and newer companies that aspire to shake up the world of Web metrics may be a welcome development for advertisers and businesses long searching for more than one option, but several metrics could all continue to thrive and compete, offering a more complete picture.

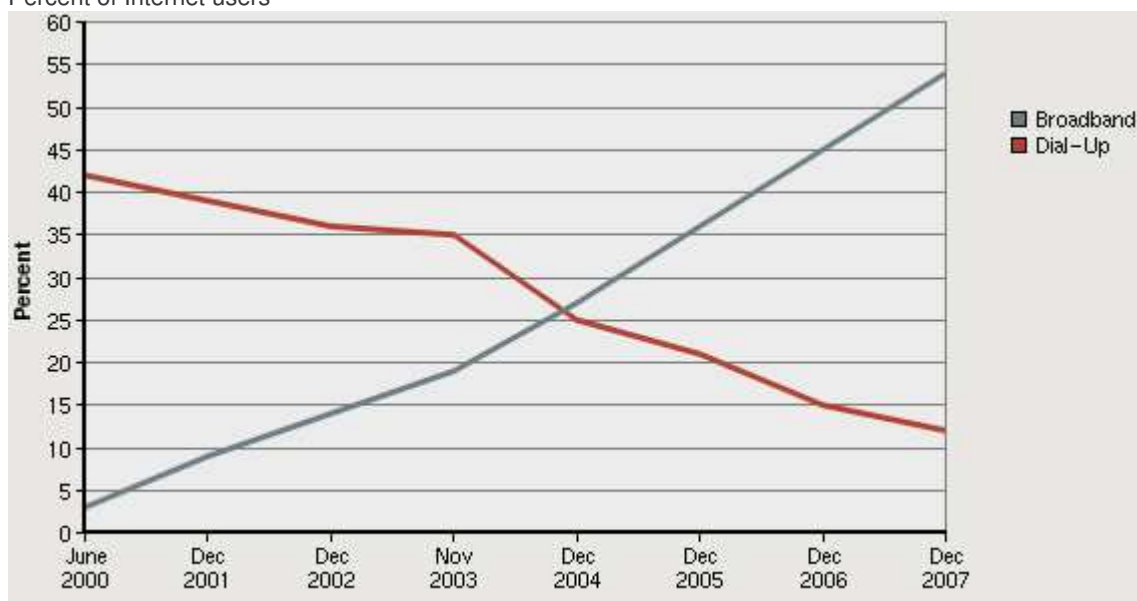
"Web publishing is complex and fast changing," said Katie King, lead digital strategist at Marsteller Interactive's office in Washington, D.C. "The most successful players are always tracking new ways to analyze what they do. Even though it is challenging for all of us to keep up with the pace of change, I believe having lots of tracking tools is an advantage, and gives me a richer source of information."

### High-Speed Internet

In September 2007, the number of Americans going online through a high-speed connection reached a majority of users for the first time. By December, the Pew Internet project found that 54% of all online adults had a high-speed connection at home, up from 45% the same month in 2006.<sup>31</sup>

### Home Broadband and Dial-Up Penetration

Percent of Internet users



Design Your Own Chart

Source: Pew Internet & American Life Project, <http://pewinternet.org/>

Other data also suggest that access to high-speed Internet connections is growing robustly in the United States.

According to the data published by the Federal Communications Commission (FCC), the number of high-speed connections

in 2006 increased 61%. By December 2006, there were 82.5 million high-speed lines, an increase of 31.3 million from the same time in 2005. In 2005, the number grew 37%.

Since 2000, the number of high-speed lines has increased 1,122%, according to FCC data.

A substantial majority of high-speed lines, or broadband, are hooked up either through a cable modem or digital subscriber line (DSL), which transmits over telephone wires. According to the FCC, nearly 70% of all high-speed lines fall into one of these two categories.<sup>32</sup> Other studies suggest their share may even be higher.

What accounts for their recent growth?

“The most significant factor here is the aggressive push by phone companies to offer affordable DSL plans that competed with cable company offerings,” Lee Rainie, the director of the Pew Internet & American Life Project, told us. “This prompted some cable operators to drop prices, too. Both sides ramped up their marketing dramatically. Another factor at work was that more and more people were drawn to the greater amount of content and activities they could do online.”

Broadband users view more Web pages, including news pages and online video clips, than those who connect to the Internet on a dial-up connection, research from Pew Internet shows. Broadband access provides more opportunities for telecommuting, long-distance education and online health care services not readily available in rural areas, for instance. In response, there has been growing pressure for a more aggressive public policy to expand broadband lines.

To support their push for a more active government role, advocates point to international data showing the United States trailing other industrialized countries in the total number of high-speed lines. According to June 2007 data from the Organization for Economic Co-Operation and Development, the U.S. currently is ranked 15th in the number of high-speed subscribers per 100 inhabitants.<sup>33</sup>

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29. Even the difference between unique visitors and page views can greatly impact traffic figures and thereby revenue. As Ari Rosenberg, a media sales consultant, sees it, using unique visitors instead of page views would decrease advertising expenditures online because each unique visitor normally goes to multiple pages on a site. In other words, the totals for unique visitors are usually lower than the totals for page views. The sites that fare better here are portals or search engines, with very large numbers of unique visitors who do not go deep into the site. According to Rosenberg, "The big fellas who have amassed the largest number of uniques will win out. Only the big guys have enough unique visitors to sell this way and not lose their shirts. Yahoo, at a reported 100 million uniques, looks like a magazine on steroids, making more mature content brands like Newsweek — which is considered a mass reach vehicle in print — appear paltry online, with a reported 8.5 million uniques." Online Publishing Insider, March 29, 2007.

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## Economics

The economics of the Internet are still new and still being sorted out, but for now and the foreseeable future the news industry is still betting on advertising revenue as its basis.

In 2007, online ad revenue continued to grow, but for the first time fell short of analyst expectations. And growth rates over the next several years are now expected to slow even more. Moreover, news is lagging other online categories in growth.

Despite all this, given even greater slowdowns in other platforms, at least one major research firm predicts that by 2011 the Internet will trail only newspapers and broadcast television in total revenue. What is less clear is how much news will be a part of that.

And all this may change if new forms of advertising or revenue grow, or if the portable technology of video, podcasting and cell phones, now relatively small revenue enhancers, increase beyond anyone's expectations.

### Growth in 2007

Ad spending online is still growing, but not as quickly as in recent years.

Through the first nine months of 2007, online ad revenue grew by 26% to \$15.2 billion, according to Interactive Advertising

Bureau. But that number was down from a 36% growth rate through the same period a year earlier.

Depending on the source, growth predictions for the full year 2007 vary. JMP Securities projected 26%, while Borrell Associates put the figure at a low of 10%.<sup>1</sup>

But whatever their differences in accounting and projections, most analysts agree that growth is slowing and they offer a number of reasons why.

First, the industry has not yet agreed upon an audience measurement, a source of complaints from online media and advertisers. As online measurement firms experiment with the most effective way to count online viewers, advertisers can only guess how many consumers are seeing their ads. ( See [Audience section](#) and [Advertising chapter](#)).

A weakening U.S. economy could also be slowing the online ad market. Real gross domestic product was expected to grow just 2.2% in 2007 and 0.8% in 2008.<sup>2</sup>

Some experts also contend that advertisers need to make their Web strategies a higher priority and bring digital out of the back room. According to a survey conducted by the Association of National Advertisers, the Interactive Advertising Bureau and Booz Allen Hamilton, only 24% of marketers believe their organizations are "digitally savvy."<sup>3</sup>

But most marketers realize that online is now critical to their broader ad campaign strategies. According to the Interactive Advertising Bureau's president, Randall Rothenberg, "Marketers large and small have come to accept digital media as the fulcrum of any marketing strategy."<sup>4</sup>

### Looking Ahead

Despite the slowdown in growth, as ad strategies become more and more directed toward the Web, most analysts see the Web's piece of the pie growing.

By 2011, Veronis Suhler Stevenson predicts that online advertising will reach \$35 billion, a compound annual rate of growth of 18% between 2006 and 2011. That projection trails only newspapers (\$60 billion) and broadcast television (\$53 billion).<sup>5</sup>

## Advertising Spending

2007-2011, Spending in Millions (\$)

	2007	2008	2009	2010	2011
<b>Newspapers</b>	56,200	57,192	58,120	59,260	60,367
<b>Broadcast Television</b>	48,150	52,263	51,198	54,437	53,454
<b>Cable &amp; Satellite TV</b>	23,452	25,925	27,830	30,545	32,492
<b>Broadcast &amp; Satellite Radio</b>	20,725	21,386	21,733	22,604	23,143
<b>Yellow Pages</b>	15,914	16,173	16,481	16,836	17,233
<b>Pure-Play Internet</b>	19,093	23,106	27,462	31,246	34,780
<b>Consumer Magazines</b>	13,996	14,581	15,192	15,823	16,465
<b>Business-to-Business Magazines</b>	11,489	12,103	12,845	13,714	14,717
<b>Out-of-Home</b>	7,931	8,943	10,103	11,441	12,986
<b>Entertainment Media</b>	691	1,006	1,314	1,720	2,343
<b>Pure-Play Mobile</b>	810	1,259	1,755	2,235	2,707
<b>Total</b>	218,451	233,937	244,033	259,861	270,687

Source: "Communications Industry Forecast 2007-2011," Veronis Suhler Stevenson

The market research firm offered two main reasons for the shift in priorities in years ahead.

First, it considers online ad rates a bargain relative to television and print, which will help it grow.

Second, the capability that online offers advertisers to both track and target audiences will be even more appealing once the industry refines its methods of measuring.

If the projections are correct, they carry one other implication. While online advertising may be slowing, it is still growing at a brisk pace, while the competition, newspapers and television, are expected to be basically flat.

### Ad Dollars and the News

As the Web becomes a stronger advertising tool, news sites are not expected to grow as much. In 2006, the rate of growth for ad spending on news sites already had not kept pace with other leading categories.

Data from TNS Media Intelligence, based only on display advertising and excluding search and video, show that in 2006, ad revenue for news and current events sites grew by just 9% from the year before, to \$767 million. And that rate of growth is down from 12% in 2005.<sup>6</sup>

Over all, news is the third-largest category of online advertising, behind portals and search engines, as well as business/finance/investing sites.

In 2006, portals and search engines such as MSN, Yahoo and AOL took in \$1.3 billion, an increase of 13%. Business sites took in display ad revenue of \$901 million, up 26% from 2005.

### Top 25 Web Site Categories by Ad Revenue, 2006 Dollars, in Millions

Rank	Type of Site	U.S. Ad Spending	% Change
1	Portals, search engines & ISPs	\$1,277.9	13.1
2	Business, finance, investing	900.5	25.5
3	News & current events	766.8	9.1
4	Sports	715.4	31
5	Local news & guides	689	48.3
6	General interest/general entertainment	644.1	16.1
7	Computing & technology	523.8	62.6
8	Movies, videos, TV & cable	374	1.6
9	TV stations	340.9	21.2
10	Portals & search engines	318.6	5
11	Games	315	5.4
12	Health & fitness	282	-22.8
13	Travel	260.1	15.2
14	Internet service providers	229.7	3.2
15	Automotive	206.8	15.5
16	Cards & screen savers	199	16.3
17	Common cultures/communities	138.1	35.9
18	Music, broadcast & radio	134.4	-9.9
19	Real estate	116.4	11.3
20	Shopping	109.2	34.1
21	Special interests/hobbies	109.1	25
22	Food	107.7	31.1
23	Meeting places	85.1	21.5
24	Hispanic	81.3	64.1
25	Education & reference	75	27.9
	<b>Total</b>	<b>9,769.8</b>	<b>17.5</b>

Source: Data from TNS Media Intelligence on more than 2,800 sites.

Note: Dollars are in millions for calendar 2006 and represent only display advertising; excludes search and broadband video. Percent change computed vs. 2005 data, not shown. No. 1 is multi-service such as MSN, Yahoo and AOL and No. 10 is just portals and search engines such as Ask and About. Categories are from TNS.

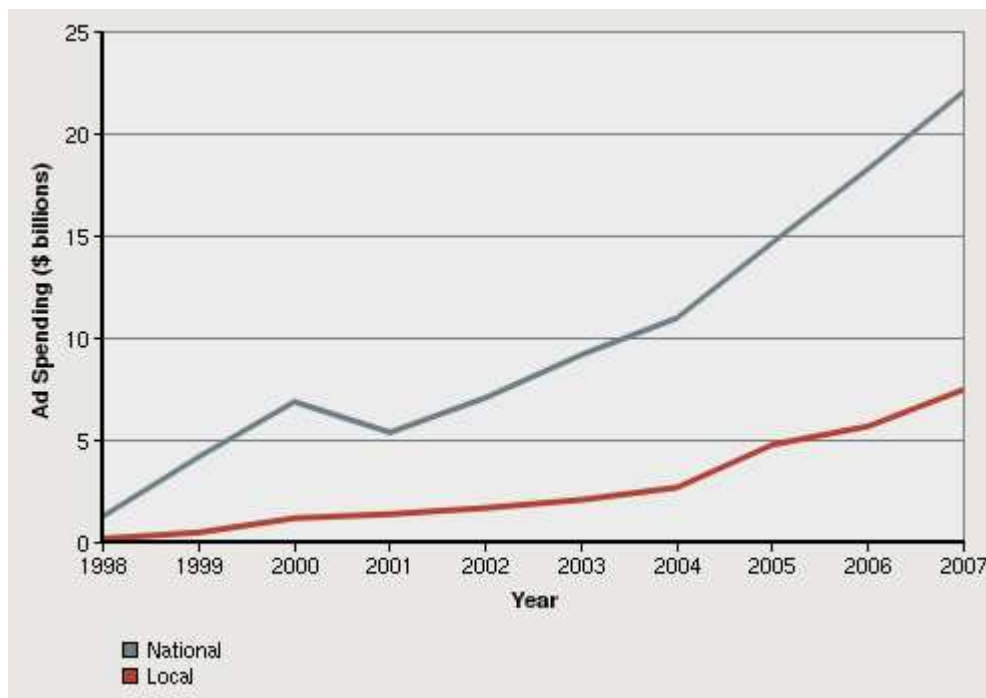
#### Local vs. National Advertising

Another way of parsing Web ads is by their geographic focus — those aimed at a national audience and those targeting a more local one. As far back as 1998, national ads have accounted for a much greater portion of ad spending. While this continues to be the case heading into 2008, local ads are gaining ground.

According to Borrell Research, local ads are projected to increase 32% in 2007, to \$7.5 billion, from \$5.7 billion in 2006.<sup>12</sup>

National ads, on the other hand, are expected to grow 20%, though overall spending is still nearly three times that of local ads.

## Local and National Online Ad Spending, 1998-2007



[Design Your Own Chart](#)

Source: Borrell Research, "What Local Media Web Sites Earn: 2007 Survey"

Newspapers (36%) continue to dominate the local market but "pure-play" Internet companies, such as Google, Yahoo and Monster, are closing the gap (33%). Following are YellowPages (12%), other print (such as local magazines, with 9%), television stations (8%) and radio stations (2%).<sup>13</sup>

In response to strong growth in local online advertising, Web sites also are beefing up their sales forces. The number of local online-only salespeople increased 26% in 2006, with budget figures for 2007 showing an additional 35% increase.<sup>14</sup>

### Video Advertising

Online video advertising was expected to grow exponentially in 2007, though in sheer dollars is still a very small number.

eMarketer projected that advertising on online video will grow 89% in 2007, to reach \$775 million. But even with that growth, it will account for just 4% of total online ad spending. By 2011, the market is expected to multiply by more than five, to \$4.3 billion, but still less than 10% of all Internet expenditures, eMarketer projects.<sup>15</sup>

That \$775 million does not include the videos that marketers are creating and posting on their own sites. A February 2007 Advertising Age article listed some examples, including "Unilever creating mobisodes for Dove Calming Nights"; "General Motors launching mini-documentaries as part of its MyCadillacStory.com"; and the ambitious Bud.tv project out of Anheuser-Busch, essentially the brewery company's own Web entertainment network targeting 21- to 27-year-olds. (A mobisode is a brief episode meant to be seen on a cell phone.) (See [Advertising Chapter](#).)

As Suzanne Johnson, a senior product marketing manager at Akamai, a company that has Apple, Audi and IBM as Web clients, put it, "We have to question what's coming to be the ultimate ad format. Is it going to be a paid sponsorship? Marketers are also investing a lot on their own."<sup>16</sup>

The industry seems unsure, even divided, over the potential of video ads online. Some marketers have found reason to doubt consumers are drawn to ads on online videos. A study conducted by Forrester Research in late 2006 found that 75% of Web video users ignore ads placed either before or after video clips.<sup>16</sup>

Others have found just the opposite. Research from DoubleClick conducted in 2006 found that video ads generated around three times as many clicks as image ads did.<sup>17</sup>

Another question is whether the classic 30-second format that works on traditional television will succeed online. In a summer 2007 Advertising.com survey of 500 consumers, 63% said online video ads should be shorter than television ads.<sup>18</sup> And it is not just consumers who lean toward brevity. Another 2007 survey by Advertising.com, this one of publishers of a

range of Web sites, found that 93% preferred 15-second ads, compared to 70% who favored the traditional 30-second format.<sup>19</sup>

Advertising.com also asked publishers which format they most prefer. Most seem to be moving toward in-banner ads, or ads that run within a banner, or pre-roll ads, which run before content begins playing. Ads that run at the end of the video, or post-roll ads, have become much less popular, the survey found, presumably because most viewers have clicked off by then.

### **Big, Bigger, Biggest**

In the early days of the Internet, some writers such as George Gilder pictured an inherently democratic utopia where virtually anyone with a modem and computer could compete with the richest media companies.

But when it comes to advertising, the Web's biggest recipients are big media companies, according to data from IAB/Pricewaterhouse Coopers. In 2006, the top four sites — Google, Yahoo, AOL and MSN — accounted for 85% of all online ad dollars, as measured in gross dollars ("gross" is the amount before reductions, deductions and taxes).<sup>20</sup> In net dollars, or the amount after adjustments, the share of total dollars fell to 57% for the top four sites.<sup>21</sup>

Who receives the rest? The data suggest a large part filters down to other large corporate media sites, such as Disney Internet Group, Fox Interactive and New York Times Digital.

Altogether, the top-10 sites received 99% of all gross dollars and 70% of all net dollars.

### **Podcasting Advertising**

As the science of audience measurement evolves, podcasting ads will continue to generate only a very small piece of the ad revenue pie, even over the next five years.

According to eMarketer, advertising on podcasts will grow to \$400 million in 2011, up from \$165 million in 2007 and the \$240 million expected in 2008.<sup>22</sup>

"I definitely see growth in podcasts because they're free and targeted," says Chad Stoller, executive director of emerging platforms at Organic, which is part of the Omnicom Group. "But it's still going to get lumped into that experimental media category until measurement improves and audiences grow."<sup>23</sup> (See [Radio Chapter](#).)

### **Advertising on the Cell Phone**

What about cell phones? For now, the number of Americans using their cell phones to keep up with news remains small (see [Audience Section](#).) The same is true for advertising on mobile phones.

Data from eMarketer suggest that advertisers would spend \$878 million on mobile phones in 2007, more than twice what it was in 2006 (\$410 million). Although significant, \$878 million still would represent just a very small percentage of total online spending.

Spending is expected to jump to \$1.5 billion in 2008, \$2.3 billion in 2009, and \$3.2 billion in 2010.<sup>24</sup>

### **Business Model**

What could a slowdown in online advertising revenue mean for the industry?

Revenue from media companies' digital operations are still just a fraction of total gross revenues. According to Borrell Associates, newspaper online revenues account for roughly 3% to 8% of total dollars, and television and radio sites bring in even less, from 1.5% to 3.5% on average.<sup>25</sup>

Over the past five years, as the dust settled from the dot-com bust of 2000, major newspaper companies saw online advertising grow sharply. The five-year compound annual growth rate at 13 major newspaper companies during this time was 35%, according to Borrell Associates. But in the first quarter of 2007, growth rates fell to 18%.<sup>26</sup>

This is also true at Web companies with no links to old media, such as AOL, which experienced a major slowdown in ad revenue in the third quarter of 2007, growing just 13%, compared to 46% the same quarter a year before.<sup>27</sup>

The question that many continue to dodge: What will media companies do when it becomes apparent that online revenues will not compensate for sluggish growth on older platforms?

News organizations are considering or initiating a variety of solutions, including consolidating staff and experimenting with access to online content.

"We have to find ways to grow revenue or become more efficient by eliminating fixed costs," said Joseph Lodovic, president of MediaNews Group. "Why does every newspaper need copy editors? In this day and age, I think copy-editing can be done



centrally for several newspapers.”

The New York Times reported in late September 2007 that it was dropping its Times Select subscription program, which allowed access to Times columnists and other features but not the newspaper’s basic menu of news, even after it generated \$10 million a year in revenue. “[O]ur projections for growth on that paid subscriber base were low, compared to the growth of online advertising,” said Vivian Schiller, senior vice president and general manager of the site, [NYTimes.com](http://NYTimes.com).<sup>28</sup>

On the other hand, after studying proposals that the Wall Street Journal drop subscriptions to the paper’s Web site, its owner, the News Corp., decided to continue charging, at least for now.

In 2007, The Journal charged about four times what the New York Times does for each ad shown on its Web page. If the Journal moved to a free model, critics contended, it could not command the same premium because advertisers would lose access to the highly educated, high-income business professionals who can afford the \$100 annual subscription fee.

As of December 2007, another successful business news Web site, that of the Financial Times, offers its readers four options.

Unregistered users can read only five news articles in 30 days. Registered users can read 30 articles a month and receive news by e-mail. At the third level, those who pay an annual fee of \$109 have unlimited access to news and commentary. And last, for \$299 a year, premium subscribers have news and financial data delivered to their cell phones or PDAs.

“To get caught between all this ‘free’ or ‘paid’ is too simplistic,” said Ien Cheng, publisher of FT.com. “We see this as a third way.”<sup>29</sup>

But the Financial Times’ hybrid strategy — mixing both subscription and ads — clearly appears to be an exception to a broader trend. Most media companies, old and new, are shifting to a pure ad-based model on the Web.

MediaNews, a chain of 57 newspapers, now sees 7 percent of its sales come from online ads. Its CEO, Dean Singleton, says he wants to see that figure at 20% in five years. And at AOL, all signs point to an even greater reliance on online advertising, despite its setbacks in 2007. (See [Ownership Section](#).)

“The business model for advertising revenue, vs. subscriber revenue, is so much more attractive,” said Colby Atwood, president of Borrell Associates. “The hybrid model has some potential, but in the long run, the advertising side will dominate.”<sup>30</sup>

### The Top 25 Online Advertisers

Data from TNS Media Intelligence showed that spending by the top 25 U.S. Internet companies on display advertising, the second most popular format after search, increased 18% in 2006 compared to the year before.<sup>31</sup>

But eight companies on that list actually slowed down their spending, according to TNS. Those included overall leader Vonage Holding as well as 19th-place Time Warner, which decreased spending by 46%.

The 17 remaining companies — including second-place AT&T and Walt Disney Co., coming in fourth — increased spending over 2005, with a total growth rate of 86%.

### Top 25 U.S. Internet Advertisers, 2006

Dollars, in millions

Rank	Type of Site	U.S. Ad Spending	% Change
1	Vonage Holdings Corp.	\$185.7	-32.7
2	AT&T	166.9	196.9
3	Dell	137.8	-13.3
4	Walt Disney Co.	133.2	46.7
5	General Motors Corp.	129.7	16
6	Experian Group	128.3	-29.5
7	Verizon Communication	123.6	-14.2
8	Apollo Group	123.6	38.7
9	IAC/InterActiveCorp	123	37.2
10	TD Ameritrade Holding Corp.	119.8	30.5
11	United Online	115.9	-23.2
12	Netflix	115.2	-15.8

13	Hewlett-Packard Co.	111.4	3.1
14	E-Trade Financial Corp.	106.9	49.3
15	Scottrade	105	23.3
16	Monster Worldwide	102.6	74.3
17	Ford Motor Co.	99.1	80.1
18	FMR Corp. (Fidelity Investments)	97.4	236.8
19	Time Warner	90.6	-46
20	Nextag	90.1	198.6
21	Dollar Thrifty Automotive Group	88	176.4
22	Microsoft Corp.	81.7	-20.7
23	American Express Co.	80.8	180
24	Sony Corp.	73.6	65.8
25	Charles Schwab Corp.	72.1	12.1
	<b>Total</b>	9,769.8	17.5

Source: Data from TNS Media Intelligence on more than 2,800 sites.

Note: Dollars are in millions for calendar 2006 and represent only display advertising; excludes search and broadband video. Percent change computed vs. 2005 data, not shown.

### Main Categories of Online Advertising

Three main categories of online advertising account for roughly 80% of total spending (see [Advertising Chapter](#)):

**Search advertising** continued to account for the largest share of online advertising. Through the first six months of 2007, \$4.1 billion, or 40% of all spending, fell into this category, according to the most recent data published by the Interactive Advertising Bureau.<sup>7</sup>

**Display advertising**, banner ads placed on Web sites, came in second, generating \$2.1 billion, or 21% of all online advertising in the first half of 2007.<sup>8</sup>

Third is **classified advertising**, which brought in \$1.7 billion, a drop in share from 20% to 18% in the first half of 2007.<sup>9</sup>

The remaining 20% of spending was allocated largely to rich media, which include video, referrals, sponsorships and e-mails.<sup>10</sup>

Some industry analysts expect search ads to remain the top category. eMarketer, for instance, projects that search will account for 40% of all online spending through 2011. It projects display ads will make up 20% and classifieds 17%.<sup>11</sup>

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## Ownership

Which companies dominate the online industry? It depends on which criteria you use.

Whatever the method, a few big companies show up as Internet leaders.

If revenue is the standard, there are three main players -- Time Warner, Google and Yahoo.

If traffic is the measuring stick, Microsoft and News Corp. — thanks to the popularity of MySpace — enter the picture.<sup>1</sup>

When it comes to online news, the same four Web sites continued to dominate in 2007 as have in the past: Yahoo News, CNN.com, MSNBC.com, and AOLNews.com.

## Mergers and Acquisitions

2007 was an active year for media deals in the online world.

The first three quarters saw more than 637 transactions, matching the number for all of 2006. What's more, these deals totaled more than \$95 billion in value, surpassing last year's total of \$61 billion by 56%.<sup>2</sup>

Online advertising companies were among the most sought after, and the biggest names — AOL, Yahoo, and Microsoft — made a number of notable purchases.

By mid-year, advertising deals such as Google's purchase of the digital marketing company, DoubleClick, had topped \$12 billion.<sup>3</sup>

Why were online advertising sites the most sought-after? According to an August 2007 article in the New York Times, more people are spending time on social networking sites and less time on online portals.<sup>4</sup>

“Just like Yahoo, AOL is fighting MySpace, Facebook and others for audience and ad dollars, and those are tough competitors,” Jordan Rohan, an analyst with RBC Capital Markets, told the New York Times.<sup>5</sup>

As a result, owners are feeling increasing pressure to acquire a more lucrative stake in the online advertising market, and add more revenue streams.

How long the run on online advertising and content companies will continue is less certain. At least one analyst, John Suhler, president of Veronis Suhler Stevenson, said tightening credit markets, though not likely to affect the number of transactions, may significantly reduce the number of high-value deals, or those estimated at more than \$2 billion.<sup>6</sup>

Perhaps no potential acquisition created more interest than that of Facebook, the social networking site developed in February 2004 initially to appeal to college students. Facebook was opened to the general public in September 2006. Meanwhile, its friends-making theme struck a chord with the general public, attracting more than 58 million active users worldwide, as of December 2007.

In October 2007, Microsoft beat out Google to acquire a 1.6% stake in the site for \$240 million. Facebook’s founder, 23-year-old Mark Zuckerberg, did not appear interested in an outright sale.

Although Facebook rivals News Corp.’s MySpace in total members, some question whether the site is worth its bidding price. According to the Economist magazine, investors estimate Facebook’s 2007 revenues at just \$100 million, with “tiny profits.”<sup>7</sup>

Facebook, which Microsoft valued at \$15 billion, seemed excessive to those who see long-term challenges in making money from social networking sites.

“No one knows what the scene is going to look like in five years’ time. It is the Wild West out there,” the News Corp. CEO, Rupert Murdoch, replied when asked about Facebook’s valuation.

Some analysts disagreed. “The partnership can’t be measured in dollars — its chief benefit is to give Microsoft a critical foothold in the emerging ecosystem of social network-based advertising, and Facebook is a formidable partner for long-term growth,” said Andrew Frank, vice president for research with Gartner, an information technology research firm.

Other analysts view the deal as a worrisome sign that the tech industry may be headed for a market crash similar to the one precipitated by the dot-com boom of the 1990s. Others argue that venture capitalists, older and wiser, will take a more sober, long-term approach to valuing deals this time around.<sup>8</sup>

### **Profiles of Major Online Media Companies**

According to data from the online measurement companies Nielsen//Net Ratings, Hitwise and comScore, three of the most popular news sites are Yahoo News, AOL News and Google News, owned by three of the biggest online companies.

In 2006, for instance, Time Warner, which owns AOL News, was the U.S. media company with the most revenue from its media properties, according to data published by Advertising Age. Google (No. 19) and Yahoo (No. 21) were lower on Advertising Age’s list.

In official filings to the Securities and Exchange Commission, Yahoo, Google and AOL do not break out revenue for their news properties, making it nearly impossible to discern how much money the companies are generating from their online properties. Therefore, the discussion about revenue and earnings in this section will refer to these companies’ total revenues.

There are both differences and commonalities among the three companies.

Yahoo and Google are pure-play Internet companies, meaning all their revenue is generated online. And virtually all that revenue comes from advertisements placed on their search engines.

AOL, in contrast, represents a minority share of its parent company, Time Warner. Revenue from AOL, of which news is just one small part, accounted for just over one-fifth of Time Warner’s total revenues in 2006.

In 2006, AOL shifted largely from an Internet provider to one more dependent on revenue from advertising. The company made more moves in 2007 to strengthen its ad revenue stream in the years ahead, with perhaps less success than it had hoped for.

Nevertheless, AOL appeared even more committed to generating revenue from marketing over the Web in 2007, acquiring a number of online advertising companies, and moving a step closer toward the models adopted by its rivals, especially

Google.

### *Google*

Google continues to dazzle Wall Street, getting bigger, more profitable and gaining even more market share in its core business — search.

Through the first nine months of 2007, Google's earnings grew 46%, to nearly \$3 billion, compared with the same time the year before. Revenue, meanwhile, grew by 59%, to \$11.8 billion.<sup>9</sup> With a market value of \$187 billion, Google, which went public in 2004, was by the end of 2007 more valuable based on stock market capitalization than such older companies as Coca Cola, Wal-Mart, Hewlett-Packard and IBM.<sup>10</sup>

The gains in 2007 came after robust growth in 2006, when the company added nearly 5,000 employees and increased revenues by 73% to \$10.6 billion. Profits had increased 110% in 2006, reaching \$3.1 billion, according to SEC filings.<sup>11</sup>

Most of the advertising revenue at Google, 60%, comes directly from its search engine at [www.google.com](http://www.google.com). The remaining ad revenue of 40% comes largely from its Google Network members. According to Google's Web site, the network is a "large group of Web sites and other products, such as e-mail programs and blogs, who have partnered with Google" to display ads.<sup>12</sup>

The source of Google's success is its dominance of the search market. In October 2007, for instance, 64% of all searches in the United States originated on Google, up from 61% a year earlier. Yahoo's share, meanwhile, remained at 22% while third-place MSN fell from 11% to 7%, according to October data from Hitwise.<sup>13</sup>

Traditional media companies have noticed missed Google's amazing growth. Several newspaper companies that once considered Google a major competitor have agreed to partner with Google, Yahoo and other online media companies to compensate for little or no growth in revenue from print ads.

Google also made gains abroad, especially in China and other emerging markets. Over all, 43 percent of its total revenue in 2006 was generated outside the United States. As of early 2007, the company had 32 sales offices in 19 countries.<sup>14</sup> Nearly half its engineer hires in 2006 were placed abroad, including in China, Brazil, Russia, and India.

Beyond search, Google seems to be everywhere and anywhere, pursuing more ad revenue as it looks ahead.<sup>15</sup> It has sought to compete in markets with well-established leaders: e-mail, social networking, online news, instant messaging and, most recently, cell phones. According to Jennifer Simpson, a senior analyst with the Yankee Group research firm, "Google is trying to make itself into a ubiquitous brand, where it's everywhere on the Web."

History offers no guarantee that Google will be able to succeed in these new markets. Microsoft, Yahoo and AOL all achieved a great success in branching out with cutting-edge applications, but struggled to maintain their dominance as technology's leading innovators.

Google also made a big splash in the world of online video in October 2006 when it acquired YouTube, the most popular video-sharing site with 57.4 million unique viewers in the U.S., for \$1.65 billion.<sup>16</sup> At the time, media mogul Mark Cuban was quoted as saying only a "moron" would buy the site because it eventually would be "sued into oblivion" for copyright violations.

A year later, questions remain about the fallout from the YouTube purchase.

YouTube's legal troubles remain unresolved. In March 2007, Viacom announced it would sue YouTube for \$1 billion, alleging that 160,000 of Viacom's clips had been uploaded to the site. "Their business model, which is based on building traffic and selling advertising off of unlicensed content, is clearly illegal and is in obvious conflict with copyright laws," the company said in a statement.<sup>17</sup> As of late 2007, Viacom showed no signs of backing off the lawsuit.

Second, there are questions about how much YouTube will contribute to Google's bottom line. It was thought Google planned to charge \$20 per viewing. One blogger suggests that, in a best-case scenario, it will take five years for YouTube to generate the amount of revenue Google currently gets from its search engine.<sup>18</sup>

Citigroup estimated YouTube would bring in \$135 million in revenue in 2008.<sup>19</sup> At that clip, the number of videos watched on the site would have to grow 1,642 percent before YouTube accounts for 5% of Google's revenues.

Why does Google invest in news? Once again, it is hard to evaluate Google's financial stake because the company does not break out revenues for news. Since Google News, fully produced by computer algorithms that distribute other news organization's original reporting, was launched in 2002 and remained in beta form until early 2006, there were questions about whether Google News made any money.

According to Adam Penenberg, writing for Wired, Google News would bring up unwelcome copyright issues if it chose to place advertising on its home page.<sup>20</sup>

But that may not matter. According to Lucas Grindley, a blogger and operations manager on the Web site of the Herald-Tribune in Sarasota, Fla., Google is able to make money from its ad-free service because of branding and its ability to drive heavy traffic to newspaper sites often filled with Google AdSense ads.

"All multi-billion dollar companies are in it for the money, Google included," Grindley wrote in April 2007. "They're not featuring Google News prominently on their ever-so-sparse home page just to be nice."

### Yahoo

After a disastrous 2006, Yahoo appeared to be making gains in 2007. But the company's 2007 economic performance continued to pale in comparison to that of Google. It was estimated in mid-2007 that Google, in just one quarter, far surpasses what Yahoo makes in a year.<sup>21</sup>

Through the first nine months of 2007, Yahoo's earnings declined 6%, to \$454 million, compared to the same time a year earlier. Revenues, meanwhile, grew to \$5.1 billion, an increase of 8%. But things were much worse in 2006.<sup>22</sup> For the entire year, earnings dropped 60%. Revenues, meanwhile, were up 22%, to \$6.4 billion.<sup>23</sup>

Like Google, the lion's share of Yahoo's revenue comes from advertising -- 88% in 2006.<sup>24</sup>

Heading into 2008, Yahoo remains more focused on the U.S. market than Google, although it, too, is becoming more international. In 2006, nearly a third (32%) of its total revenue came from abroad, up from 30% in 2005 and 26% in 2004, according to documents filed with the SEC.<sup>25</sup>

Yahoo attributed some of its growth to its implementation of Panama, the company's long-awaited online advertising platform, purchased in the fall of 2006. Panama promised advertisers a quality index, which gives them a better sense of why certain ads are more effective than others.

In the third quarter of 2007, Yahoo increased its share of all spending in the search market to 20.4% in the third quarter, up from 8.5% in the second quarter.<sup>26</sup>

Is that enough for Wall Street? Some analysts had projected that Panama would boost Yahoo's search revenue by as much as 45% in 2007.<sup>27</sup>

Much of Yahoo's troubles with investors may have a lot to do with the general perception of the company. According to blogger Alan Mutter, author of the Reflections of a Newsosaur blog, Yahoo "is not the technology leader. Yahoo is the technology follower."

In late 2007, one business analyst, Jeffrey Lindsay of Sanford C. Bernstein, went so far as to say Yahoo would be worth more if the company was broken up. "It appears that Yahoo will not take bold measures to right the ship," Lindsay wrote in a research report. "We believe that Yahoo still has a potentially high intrinsic value. We believe, however, that to stop the inevitable slide into irrelevance the management team must consider more radical actions and strategies."

In February 2008, Microsoft formally bid for Yahoo, offering \$44.6 billion in cash and stock. Yahoo declined the offer as too low, the New York Times reported.<sup>28</sup> Shortly after, there were news reports that Yahoo and News Corp. had begun talks about a possible acquisition. As of late February 2007, there was speculation that Microsoft may offer Yahoo more money or conduct a proxy fight to acquire Yahoo.

When Yahoo replaced Terry Semel with co-founder Jerry Yang as CEO in June 2007, the company made it clear that it remained committed to a strategy that bucks the conventional wisdom of how Web behavior has changed over the past few years. With mounting evidence that the initial concept of the portal as a gated community is in decline (see [Audience Section](#)), Yahoo insists that it is still a place where consumers can find all their informational and communication needs: In a much-discussed October 2007 blog posting, Yang told users that Yahoo is still a starting point that will "help you better manage your life and connect you to what matters most to you." That, according to Yang, includes e-mail, search, news, sports and finance.

How is Yahoo investing in its news operations? Yahoo News is the top news site in the United States, according to data from Nielsen//Net Ratings and comScore, but, since most media companies do not break out revenues and profits for their news divisions, analysts cannot be certain.

But at least some of Yahoo's budget, it seems, is allocated to licensing fees it pays to post articles from more than 7,000 sources.

There is also some original reporting. Kevin Sites' *In the HotZone*, launched in 2006, was the company's first attempt. In 2007, Yahoo Sports published findings from its eight-month exclusive investigation of former Heisman Trophy-winner and current NFL player Reggie Bush of the New Orleans Saints, focusing on possible NCAA violations while the running back played at the University of Southern California.

Yahoo has also created several pages that mix more traditional journalism with consumer information, such as Yahoo Food and Yahoo Health, which offer communities of users ways to organize around their interests as well as blogs from experts.

## AOL

In 2007, AOL's ambitions to move from a subscription-based to advertising-supported model were somewhat undermined, according to its economic data.

In 2006, when AOL essentially abandoned its dial-up subscribers and shifted focus to online advertisers, revenue from subscriptions dropped 14% while ad revenue surged 41%. But over all for the year, revenue dropped 5%, underscoring the critical boost subscriptions had given AOL's bottom line.<sup>29</sup> The hope was that online advertising would continue to grow even more in 2007, defying critics' skepticism that AOL's transition would be a relatively smooth one.

Instead, growth in revenue from online ads slowed considerably. In the third quarter of 2007, for instance, ad revenue grew 13% while subscription revenues decreased 56%. And over all, revenues fell 38%.<sup>30</sup> Some analysts are concerned that AOL will not be able to generate enough revenue to compensate for canceled subscriptions. According to Forbes columnist Louis Hau, "AOL's transition to an ad-supported business is proving to be a tad rocky."<sup>31</sup>

There is also continuing pressure for AOL to bolster Time Warner's earnings, which led to 2,000 AOL employees being laid off in October 2007, adding to the 5,000 let go the previous year.<sup>32</sup>

Time Warner continues to deny rumors that it plans to sell AOL after the retirement of its chairman and CEO, Richard Parsons, which is expected in 2008.

Looking ahead, what is AOL's strategy?

"Publishing is no longer just about the portal," Randy Falco, the CEO for AOL, told the New York Times. "We are going to be in as many different places as possible." Falco said he believes that everything does not have to be tied to the AOL brand, "which evokes many, not entirely positive, associations."<sup>33</sup> Some contend that AOL's money-making focus will be on selling ads not on its own Web properties, but on other Web sites.

And AOL does not have to look far for a model. "[Google] combines its own site with a network that represents millions of other sites," Falco said. "The reach of the network attracts advertisers, but most of the profits come when those ads are run on its own site."

AOL's recent purchases suggest it is beginning to act on that strategy.

The company's most notable acquisition was the targeted ad network Tacoda, whose clients include Coke, Bank of America and General Motors, purchased in July 2007 for \$275 million.<sup>34</sup> Tacoda is described as using "behavioral targeting" to give online advertisers insight into select audiences.

Again, analysts see Google's success as the inspiration.

"The rest of online advertising, from banner ads to video spots to pop-up ads, is getting Googified," Business Week said in May. "Google made the business of selling ads against search results a runaway success — in the process making display ads less attractive to advertisers. Not only can advertisers target just the right customers based on search terms they type in, no guessing required, but those advertisers also can track exactly how many people click on the ad and whether they bought something as a result."

In May, AOL also bought Third Screen Media, the leading mobile ad network, and AdTech Ag, an international serving company based in Germany. In early November, it spent \$300 million on Quigo, an Israeli startup that specializes in online advertising.<sup>35</sup> In 2006, it bought Lightningcast, which delivers ad solutions for video content.

In the wake of these acquisitions, critics appeared divided over the long-term implications for AOL and its parent company, Time Warner.

"We wake up one day and now AOL has become a real player in online advertising," said Bob Davis, a managing partner at Highland Partners, a venture capital firm.

But AOL's future seemed a bit cloudier for Anthony Noto, an analyst at Goldman Sachs. "This is a conglomerate company, and there are two underlying companies that are really driving the valuation: AOL and Time Warner Cable, both of which have some uncertainties right now," Noto told the New York Times in November 2007.<sup>36</sup>

## Net Neutrality

One issue that appeared to have cooled down a bit in 2007 is net neutrality.

The ins and outs of net neutrality are complex and confusing; the name itself is hard to define.

In simple terms, net neutrality is the idea that those who provide Internet service treat those who produce the content on the Web equally. It is the framework that exists now, which allows users to access Google, blogs and everything in between at the same speed. This approach offers the same terms to everyone, whether they are one of the largest media companies or an ordinary citizen.

On one side of debate are those who oppose writing net neutrality into law. These forces, arguing free-market economics, say that the Web should be left free of burdensome regulation, which they contend would reduce the investments in the Internet needed as more and more bandwidth is utilized. Under this scenario, how fast a site runs or how much it pays to an Internet service provider may one day be determined by that site's content.

Opponents of net neutrality include a number of telecommunication companies, such as AT&T, Comcast and Verizon, free-market advocacy groups, as well as the Communications Workers of America, which, according to its Web site, is "America's largest communications and media union, [and] represents over 700,000 men and women in both private and public sectors, including over half a million workers who are building the Information Highway."

Then there are those who urge codifying net neutrality, currently a policy but not a regulation, as the law of the land. This side argues that a differentiated pricing arrangement could be unfair to certain content producers, particularly smaller, non-commercial sites who may not be able to absorb any higher fees set by the telecommunications providers. Consequently, those sites unable to pay the premiums would be forced to run at slower speeds, and theoretically, be less desirable to Web readers. Without net neutrality, they contend, the big will just get bigger.

In a worst-case scenario, proponents of net neutrality contend, an Internet provider could deny access to a particular form of content. To support their assertion, they point to an incident that occurred in the fall of 2007, when Verizon Wireless prevented an organization that favors abortion rights from sending text messages to its members who had agreed to receive them.

Those lobbying for net neutrality include a broad coalition of corporate Web companies, including Google, Amazon.com, Yahoo and eBay, along with a number of consumer rights groups, many bloggers and several conservative religious organizations.

After Democrats won control of the House and Senate in November 2006, many advocates hoped the shift in power would lead to legislation codifying net neutrality. By the end of 2007, it had not happened, although a number of presidential candidates from both parties did offer positions on the issue during the campaign.<sup>37</sup>

Perhaps most significant, in June 2007 the Federal Trade Commission urged policy makers to "proceed with caution" before enacting any legislation. Regulators, the report read, simply "do not know what the net effects of potential conduct by broadband providers will be on all consumers, including, among other things, the prices that consumers may pay for Internet access, the quality of Internet access and other services that will be offered, and the choices of content and applications that may be available to consumers in the marketplace."<sup>38</sup>

For now, it appears the Internet is still too raw to be regulated.

## Online News Leaders

Which news sites generate the most traffic each month?

This is a key question for the top Web sites, as they compete to attract the largest audience. Advertisers, meanwhile, analyze traffic figures to see which sites have gained momentum and which have cooled off.

Nielsen Online and comScore, despite growing competition from companies like the Australian-based Hitwise (See [Audience Section](#)), remain the most-cited sources for determining which sites generate the most traffic. Both Nielsen and comScore utilize a panel-based methodology to measure Web traffic. But because Nielsen and comScore differ in which sites they include in their samples, there is often considerable divergence between the traffic numbers compiled by the two rating houses. This leaves advertisers and others unsure about which figures to trust and where the eyeballs and clicks are going. And as the figures below indicate, the differences lead to different lists of who is on top and who has momentum.

### *The Big Four*

In 2007, four news sites continued to generate the largest audiences: Yahoo News, MSNBC, CNN and AOL News. The rank order among them has remained the same since 2005. While Nielsen and comScore both found that the audiences for each of these four sites grew in 2007, they differed on how much. Over all, comScore showed lower year-to-year growth among the top sites (although some of this was because of higher traffic figures for 2006).

At the very top is Yahoo News, which according to Nielsen Online data averaged 32.6 million unique visitors a month in 2007, up 15% from its 2006 average. comScore reports slightly higher figures, 35 million unique visitors a month, an



increase of 13% over 2006.

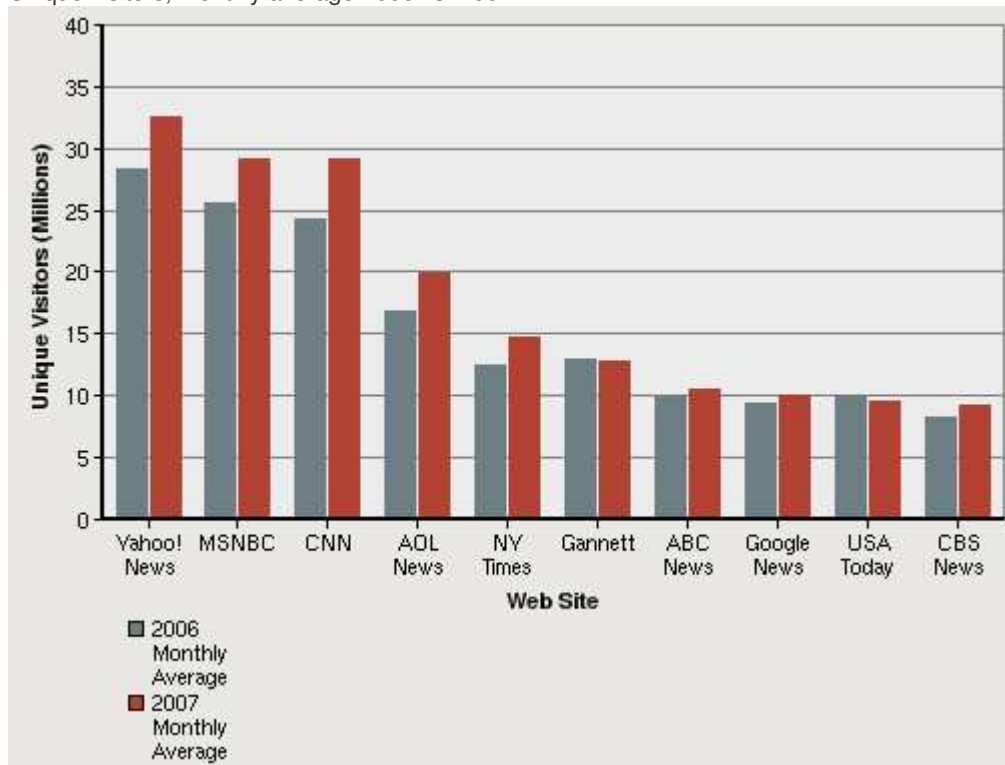
At No. 2 is MSNBC.com. although the two measurement firms differ quite a bit in their exact figures. According to Nielsen data, MSNBC averaged 29.2 million unique visitors a month in 2007, an increase of 14% year to year. But comScore reports an average of 26.7 million per month, but just a 3% growth rate.

In third place is MSNBC's cable rival CNN.com, which drew an average of 29.1 million a month in 2007, according to Nielsen, a 20% surge compared with 2006. Again, comScore's numbers are lower, with half the rate of growth — 10% -- and an average of 23.4 million unique visitors a month.

And fourth is AOL News. In past years, this has been the site with the greatest variance between comScore and Nielsen, with comScore ranking AOL News much closer to CNN.com and MSNBC.com than Nielsen. This year, comScore's numbers are still higher, but not by nearly as much. Much of this seems to be due to 19% growth reported in the Nielsen numbers, with an average of 20 million unique monthly visitors in 2007. ComScore reports a slightly higher average, 22.9 million, but an increase over 2006 of just 9%.

## Top Online News Sites (Nielsen), 2006 vs. 2007

Unique visitors, monthly average 2006 vs. 2007

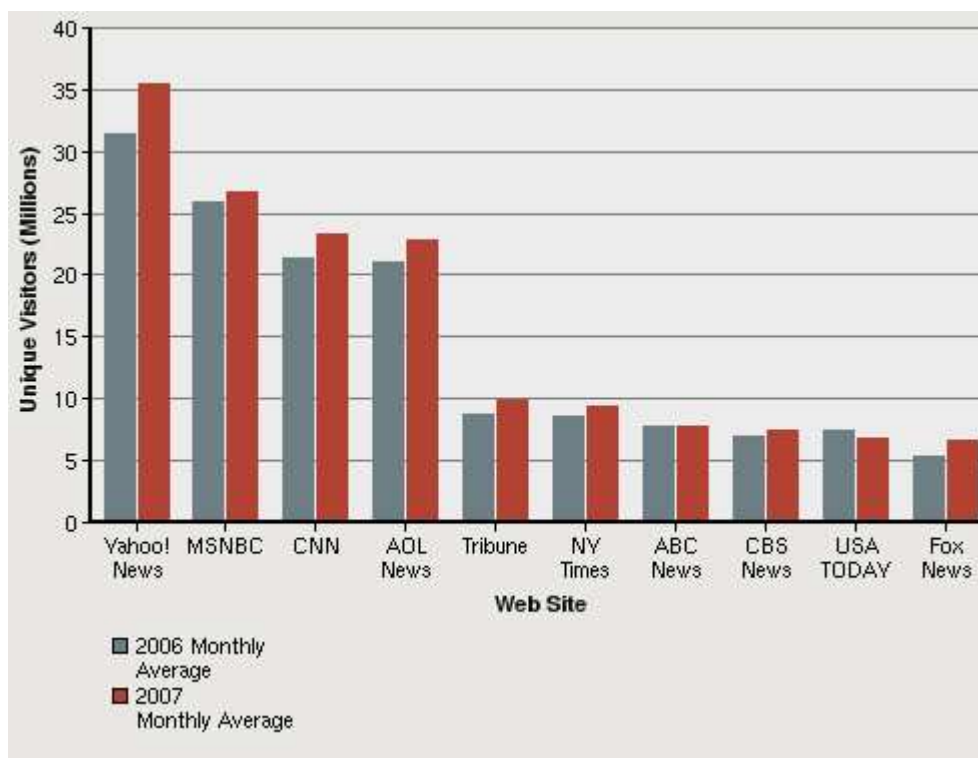


[Design Your Own Chart](#)

Source: Nielsen Online

## Top Online News Sites (comScore)

Unique visitors, monthly average 2006 vs. 2007



[Design Your Own Chart](#)

Source: comScore Media Metrix

### The Rest of the Top Sites

There is a significant drop-off in the number of monthly unique visitors to the remaining top 20 sites, a group that includes a mix of newspaper Web sites, television news sites and collections of sites under one news brand.

(In this section, we will analyze the traffic data from Nielsen and comScore separately.)

#### Nielsen Online

Among the newspaper sites in Nielsen's 20, the most popular in 2007 was NYTimes.com, with a reported average of 14.7 million unique visitors a month. The site, which granted users free access to its opinion columnists in late 2007, grew by 18% year to year, according to Nielsen data. Next is USAToday.com, though its audience actually declined by 3% in 2007 to an average of 9.6 million unique visitors per month. The third individual newspaper site to crack the top 20, Washingtonpost.com, averaged 8.6 million unique visitors, growing 9% from its 2006 average.

In addition to CNN.com and MSNBC.com, three other television news sites were among the most popular in 2007. ABCNews.com's audience grew 8% over 2006, averaging 10.6 million unique visitors per month. This kept it ahead of CBSNews.com (9.2 million per month), although CBS had a higher growth rate (11%). Fox News's Web site also increased traffic by 20% in 2007, reaching an average of 8.3 million unique visitors a month.

There were a number of sites aggregated under one corporate news brand that finished among the top 20 sites. The most popular one was Tribune Newspapers, according to Nielsen data, which averaged 13.2 million unique visitors per month in 2007, up 17% year to year. Gannett newspaper Web sites (excluding USA Today) averaged 12.8 million unique visitors, down 1% compared with 2006 data.

Other sites in this category were McClatchy newspaper Web sites (8.9 million unique visitors, up 39%), Internet Broadcasting Web sites (8.8 million, down 28%), Hearst Newspaper Web sites (7.9 million, up 3%) and World Now Web sites (7.8 million, up 6%). Two other sites, Media News Group Web sites (6.7 million), and Advance Internet Web sites (6 million), were new to Nielsen's top 20 list in 2007.

Google News, a news aggregator that offers no original content, also made the top 20 list in 2007, averaging 10 million unique visitors, up 7% year to year.

Why did the audiences for some sites surge while others remained flat or even declined? It is hard to say. While ABCNews.com increased its digital staff in 2007, CBSNews.com announced at the end of the year that it was reducing its online personnel by 30% and ceasing operations of perhaps its most well-publicized blog, Public Eye. Yet Nielsen data found the audience for CBSNews.com grew at a stronger rate than ABCNews.com in 2007.

Heading into 2008, it remains difficult to understand the ebbs and flows of Web traffic trends.

## comScore

comScore's list of the most-trafficked Web sites indicates a different line-up, with several that do not appear in Nielsen's rankings.

A number of individual newspaper Web sites appear on comScore's 2007 list. comScore reports an average of 9.4 million unique visitors a month for the New York Times, up 9% year to year. USAToday.com ranks as the second-most popular newspaper site in 2007, (ahead of the Washington Post) averaging 6.8 million unique visitors a month, but by comScore's count, as with Nielsen, it was losing traffic (8%) compared with 2006.

For the Washington Post, 5.4 million visitors were recorded, an increase of 6%.

Two other papers are included in comScore's list. Boston.com, the Web site for the Boston Globe, averaged 3.5 million visitors a month, increasing 9% during 2007, which saw the Boston Red Sox winning the World Series once again. And the Wall Street Journal Web site entered the top 25 in 2007.

Among the television sites, comScore has ABCNews.com edging out CBSNews.com (7.7 million unique visitors per month vs. 7.5 million at CBS). ABC, however, fell 1% year to year while CBS was up 9%. comScore also reported large increases, 29%, at FoxNews.com, with an average of 6.6 million unique visitors a month.

The BBC News Web site, with headquarters in the United Kingdom, fell 12%, according to comScore, coming in at the bottom of the list with 4.4 million visitors per month.

Most of the Web sites collected under one corporate name increased their audiences in 2007, according to comScore. Tribune Company newspapers averaged 9.8 million visitors a month, an increase of 13%. Belo news sites, which include the Dallas Morning News, attracted 4.5 million visitors per month, an increase of 22% over 2006. McClatchy sites drew 6.2 million visitors a month, up 28%. Sites in the MediaNews Group averaged 3.7 million, up 48%.

Cox Newspaper Web sites, which include the Atlanta Journal- Constitution, were virtually flat, averaging 3.4 million per month.

Two other aggregated sites, Hearst (6.5 million) and Scripps (2.2 million), were new to comScore's top-25 list in 2007.

## Online Media Ownership Trends

The most popular news sites are still largely owned by the richest media companies, a trend we have noted in previous editions of the annual report.

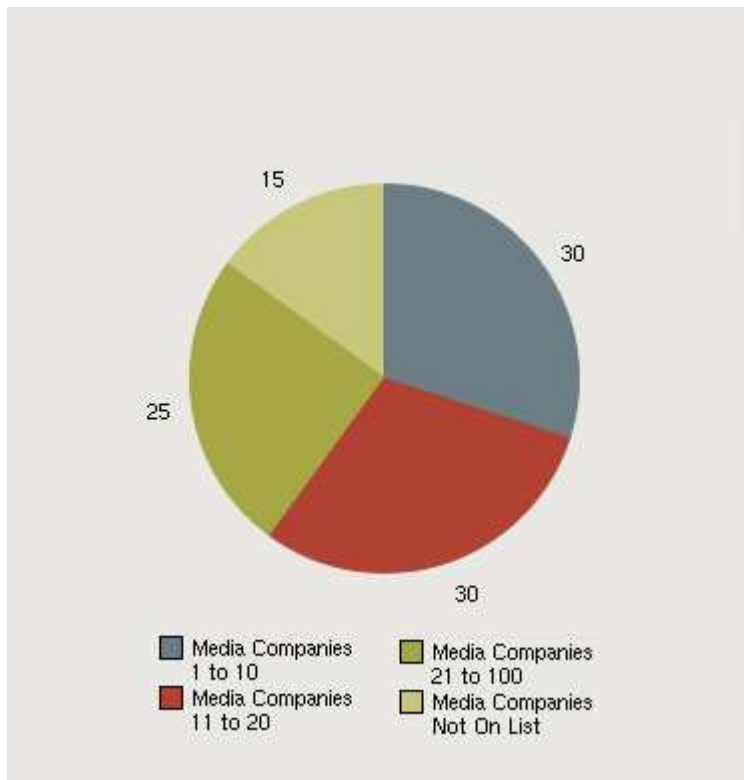
Of the top-20 most popular news sites, 17 are owned by one of the 100 largest media companies in terms of total net revenue generated in the U.S. in 2006, based on an analysis of data from Advertising Age and Nielsen Online. For instance, Time Warner, the leading U.S. media company in 2006 with \$34 billion in revenue, owns both CNN and AOL News, two of the four most popular news sites in 2007. Compared with 2006, the number of sites owned by the richest companies increased by one.

What's more, the 10 richest companies are increasing their hold on the top Web sites. In 2007, they owned 30% of the most popular news sites, up from 21% in 2006 and 25% in 2005.

Two of the three sites not owned by the richest media companies are Internet Broadcasting and World Now, which both aggregate local news sites. The third was the Associated Press, a non-profit cooperative.

## Ownership of 25 Most Popular News Sites, 2007

Percent owned by top media companies



### Design Your Own Chart

Source: Advertising Age, "100 Leading Media Companies list"; PEJ research

The top 100 list is determined by domestic media revenues. The top 25 sites are based on Nielsen Online data for January-December 2007.

1. Data from metrics company comScore in May 2007 showed that the top five most-visited Web sites overall were owned by Yahoo, Time Warner, Google, Microsoft and Fox Interactive Media, which is made up largely of MySpace.
2. Joe Mandese, "Media Deals Set New Record, First 9 Months Top All of '06," MediaPost, October 3, 2007.
3. Laurie Petersen, "AOL + Tacoda: You've Got Scale," MediaPost, July 25, 2007.
4. Miguel Helft, "Ad Growth for AOL Called Vital to a Remake," New York Times, August 20, 2007.
5. Ibid.
6. Mark Walsh, "Media M&A Slowing in Wake of Credit Crunch," Online Media Daily, October 31, 2007.
7. "Social graph-iti," Economist, October 18, 2007.
8. Therese Poletti, "Are we in the midst of 'Bubble 2.0?'," MarketWatch, October 26, 2007.
9. "Google Announces Third Quarter 2007 Results," Google press release, October 18, 2007.
10. "Google's stock surpasses \$600 a share," Associated Press, October 8, 2007.
11. 2006 Google Annual Report.
12. Ibid.
13. The same study found that the most popular search categories were: health and medical (45%), travel (33%), shopping and classifieds (26%), entertainment (22%), news and media (21%), and business and finance (17%). "Google Received 64 Percent of U.S. Searches in October," Hitwise, November 19, 2007.
14. 2006 Google Annual Report.
15. When Google purchased DoubleClick, an online advertising company, in April 2007 for \$3.1 billion, both Microsoft and AT&T argued that such a deal raised concerns about possible antitrust violations and urged the Federal Trade Commission to address the proposed deal. In late December, the FTC approved the acquisition. In addition to worries about anti-competition, consumer privacy advocates have also voiced their concerns about possible privacy violations.

16. "Google Sites Ranked by comScore as Top U.S. Video Property in March 2007," comScore press release, June 4, 2007.
17. "Viacom Files Federal Copyright Infringement Complaint Against YouTube and Google," Viacom press release, March 13, 2007.
18. "Analyzing YouTube's Revenue Potential," Silicon Alley Insider, August 21, 2007.
19. Brad Stone and Matt Richtel, "Silicon Valley Start-Ups Awash in Dollars, Again," New York Times, October 17, 2007.
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23. 2006 Yahoo Annual Report.
24. Ibid.
25. Ibid.
26. "Yahoo Heats Up in Search Ad Race As Google Levels Off," Clickz.com, October 16, 2007 and Tameka Kee, "Yahoo Gaining in Search Dollar Share: RBC," MediaPost, October 16, 2007.
27. Shankar Gupta, "UBS Forecasts Up to 45% Yahoo Revenue Boost from Panama," MediaPost, February 23, 2007
28. Miguel Helft and Andrew Ross Sorkin, "Little Room for Yahoo to Maneuver," New York Times, February 14, 2007.
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30. "Time Warner Inc. Reports Third Quarter 2007 Results," Time Warner press release, November 7, 2007.
31. Louis Hau, "Portal Problems," Forbes.com, September 18, 2007.
32. "AOL to Cut 2,000 Jobs," Associated Press, October 15, 2007.
33. Saul Hansell, "Falco Prepares Another Layoff: the AOL Brand," New York Times, October 17, 2007
34. Laurie Petersen, "AOL + Tacoda: You've Got Scale," MediaPost, July 25, 2007
35. Guy Griml, "AOL snapping up Internet ad startup Quigo for \$300m," Haaretz.com, November 3, 2007.
36. Louise Story, "Another Step for a Remade AOL," New York Times, November 8, 2007.
37. James Boyle, "New Economy: Year in Review," Financial Times, January 1, 2008.
38. Federal Trade Commission, "Broadband Connectivity Competition Policy," FTC Staff Report, June 2007

## News Investment

How much did media companies invest in online newsrooms in 2007?

As in years past, the data remain spotty. News organizations continue to vary in how they account for staffing and budgeting for online newsgathering. The total number of journalists working on news Web sites is still difficult to pin down. In 2007, the Los Angeles Times followed Gannett's earlier lead in merging their online and news operations, with little or no clear-cut financial break-downs.

But the evidence in general suggests that 2007 brought a refocusing of resources to the Web and away from the legacy product, at least in some cases. While hard numbers are elusive, survey research and anecdotal evidence suggest more media companies are showing a deepening commitment to the Web.

Heading into 2008, four trends stand out:

- Media companies are partnering with online-only giants, specifically to exploit the Web's advertising potential.
- Veteran journalists as well as new hires are being trained more and more on new media skills needed for journalism of the future.
- Media companies are broadening the definition of journalism. No longer is it all about original, branded content.

News sites are now taking on the role of helping users navigate through content that comes from others.

- Old media are moving toward training more reporters to produce more multimedia.

## Joint Ventures

One trend that began in 2006, joint ventures between news organizations and online companies, including former competitors, grew in 2007.

In the summer of 2006, Monster.com, a job recruitment Web site, announced it would power the job search for the Philadelphia Inquirer's Web site. By early 2007, it had struck deals with 60 newspapers, including the St. Petersburg Times and the Akron Beacon Journal.<sup>1</sup>

Then, in February 2007, the New York Times, which had remained one of the few hold-outs to partnering with an online-only media company, announced it, too, had agreed to partner with Monster.com.<sup>2</sup>

"As big as it is, the New York Times doesn't have the same kind of marketing power a Monster does," said Ken Doctor, a newspaper industry analyst with Outsell, a research firm.<sup>3</sup>

As of early January 2008, Monster.com has formed partnerships with over 160 newspapers, according to its corporate Web site.

In November 2006, shortly after Monster.com's initial announcement, Google retaliated with its own new offering: the Print Ad program. Here, Google would serve as the middleman, allowing advertisers to purchase ads in any partnered print newspapers. Initially, 50 newspapers signed on; that number grew to more than 600 by late November 2007, according to a list published on Google's Web site.

Yahoo also got into the mix with yet a different kind of partnership. It announced, in November 2006 that it had joined with 176 newspapers to link their classified ads with Yahoo's search technology.<sup>4</sup> According to Rick Edmonds, an analyst with the Poynter Institute and co-author of this report's newspaper chapter, the newspaper industry has a "miserable record facilitating print buys for national advertisers across a large group of papers." Yahoo suggested it had the potential to resolve this. As of late November 2007, 415 daily newspapers had partnered with Yahoo.<sup>5</sup>

According to those involved, these partnerships offer potential advantages to all players. Advertisers can streamline their buys, placing many more ads in one transaction. Newspapers get a new avenue for ad dollars and can seem more appealing as a group than in individual sales. Aggregators naturally become a more essential player particularly in the growing local ad market.

Of course, aggregators also drive traffic to newspaper Web sites. A study by the audience measurement firm Hitwise found that newspaper Web sites, not necessarily participants in the Print Ad program, generated 30% more traffic from Google in March 2007 compared to the same month a year earlier.<sup>6</sup>

And early evidence suggests the Yahoo partnership has already yielded positive results for newspapers. In November 2007, Leon Levitt, vice president for digital media at Cox Enterprises, said there have been significant increases in traffic to the company's 17 Web sites since it joined Yahoo's consortium in November 2006.<sup>7</sup> And, while details of the revenue split between Yahoo and partnered newspapers has not been disclosed, early figures suggest the partnership has given newspapers a boost. For the Lee newspapers, one of the 10 largest newspaper groups by daily circulation, online revenue grew 49% in the eight months before its deal with Yahoo, but then averaged 62% growth in the first five months after the deal.<sup>8</sup>

According to a Lee spokesman, Dan Hayes, Yahoo is having a "beneficial impact" on the chain, which owns 50 daily newspapers, including the St. Louis Post-Dispatch. "We pick up eyeballs," Hayes said. "We gain traffic."<sup>9</sup>

One analyst projects even larger gains for newspapers in these partnerships looking ahead. According to Paul Ginocchio, an analyst with Deutsche Bank, online ad revenue for newspapers in the Yahoo consortium will grow by 20% or more in 2008 and 2009. He estimates that overall growth for newspapers, both print and online, "could turn positive" for some participating newspapers by 2009, a year earlier than most analysts currently anticipate.<sup>10</sup> (See [Advertising Chapter](#).)

## The Primacy of the Web

Up until a few years ago, the Web was frequently characterized as a tool to supplement or improve news on traditional platforms, particularly newspapers. In 2006 and 2007, however, media executives and editors started to speak of the Web as a front porch rather than back door for their older, legacy properties.

The most prominent voice representing this changing attitude came from Gannett, the country's largest newspaper chain. In November 2006, Gannett's CEO, Craig Dubow described his organization's vision for the

“newsroom of the future.”<sup>11</sup>

As part of its strategic plan, Gannett’s newsroom would become “platform agnostic,” meaning news would be delivered from any medium. New techniques for producing and gathering information formed the backbone of the plan, including using multimedia – podcasting, video, photos and graphics — and “crowd sourcing,” or soliciting advice from online readers on a particular story.

In May 2007, Gannett made such crowd sourcing, along with online video and databases, critical to the company’s experiment with hyperlocal journalism, a “24/7, multiplatform operation [that] invites readers to be among its eyes and ears.”<sup>12</sup>

Advocates of these new approaches, such as Jeff Jarvis, author of the Buzz Machine blog, applauded Gannett’s decision to foster a news climate in which “newspapers do less and the Web sites do much more.”<sup>13</sup> Although Dubow’s memo also included a discussion on how these changes could impact all of Gannett’s media properties, including newspapers, it was the Internet that was seen as the catalyst for change, because, as he put it, “Breaking news on the Web and updating for the newspaper draws more people to both those media.”

Other news organizations also publicized their commitment to the Web at about the same time.

In a November 2006 memo, the Washington Post’s executive editor, Leonard Downie, announced to his staff both a “re-direction of newsroom resources for expanded political coverage in the printed newspaper and significant initiatives on washingtonpost.com.”

Evolution in the Post’s digital operations resulted in changes on the print side. Although Downie emphasized he was still committed to maximizing the paper’s print readership, the memo stressed plans to “shrink” the newspaper staff.<sup>14</sup>

A few months later, at the Los Angeles Times, James O’Shea, who was then the editor, urged a “total integration of the print and online reporting teams” to compete not only with other newspaper sites but also online news aggregators. “We can’t hide from the fact that that smart competitors such as Google and Craigslist are stealing readers and advertisers from us,” O’Shea told his staff in January 2007.

More attention on the Web meant a new role for the Los Angeles Times newspaper. With the Web site now absorbing breaking news responsibility, the print version would focus more on “analysis, interpretation, and expertise,” O’Shea said.<sup>15</sup>

### **Online Newsroom Staffing**

Data — both quantitative and qualitative — on the precise number of people employed in online newsrooms are in short supply.

As media organizations devote more staff to their online products, the need has grown for specific staff counts. But since many employees serve both the legacy and online products, they are often difficult to pin down. The American Society of Newspaper Editors, for example, added an online element to its 2006 census of the newspaper industry. It proved valuable on a paper-by-paper basis but differences in newspaper structures made it hard to combine those figures across outlets in a meaningful way. The editors society has continued to refine its survey and will have new figures to release in the spring of 2008.

Directories like the News Media Yellow Book, published by the Leadership Directories, now include online staff listings, but there are often considerable variances from the numbers reported in news articles. For example, one widely circulated report on the future of LATimes.com, often referred to as the Spring Street memo, reported that the WashingtonPost.com Web site employed 200 employees.<sup>16</sup> Yet only six are listed in the 2008 Winter Edition of the Yellow Book.

Anecdotal evidence and discussions with specific news organization suggest sizable increases in online staff. At Time.com, the Web site’s general manager, John Cantarella, told MediaPost Publications in early 2007 that the number of employees on both the business and editorial sides had doubled to around 30.<sup>17</sup>

### **Retraining and Training for the Web**

One issue in the transition to the Web is working with journalists schooled and practiced in print and other more traditional forms of journalism. How well do their skills translate online and how is management preparing them for their new tasks?

In a survey of 245 online journalists, Shahira Fahmy, an assistant professor of journalism at Southern Illinois University, asked them to rank the most critical skills needed in 2007, and then predict the same for 2012. These responses indicated a clear sense of the need for sharper online skills.<sup>18</sup>

Although these journalists saw traditional journalism skills as the most vital, both now and in the future, they ranked digital journalism skills as increasingly important over the next five years.

According to the respondents, online production skills such as shooting photos and video, capturing audio, and editing and producing other multimedia will be more relevant to the online newsroom in 2012. Less important, the survey found, were Web-coding skills, such as a knowledge of Javascript or HTML.

In the future category, the study also found teamwork ranked third for 2012, perhaps underscoring the critical need for more collaboration between online journalists and those with older media background.

## Attitudes Toward Current and Future Journalism Skills

	Current Importance	Future (5 Years) Importance
<b>Traditional Journalism Skills</b>		
Ability to learn	#1	#1
Editing	#2	#6
Reporting	#3	#4
Spelling	#4	#13
Research	#5	#2
Writing	#6	#11
Teamwork	#7	#3
Interviewing	#8	#7
Photography	#10	#4
AP Style	#12	#25
<b>Digital Journalism Skills</b>		
Shooting photos	#9	#8
Imaging production	#13	#16
Graphics	#15	#19
Multimedia delivery	#16	#12
Multimedia editing/production	#21	#15
Capturing audio	#21	#14
Shooting video	#23	#10
Animation & Flash	#24	#17
Podcasting	#25	#20
<b>Web-Coding Skills</b>		
Accessibility	#11	#9
HTML/XML/XHTML	#14	#21
Database	#17	#18
Web-editing software	#18	#24
Javascript	#19	#22
PDF-editing	#20	#23

Source: Shahira Fahmy, "Retooling the News Approach: Online News Professionals' Attitudes Toward Current & Future Journalism Skills," Association for Education in Journalism and Mass Communication, 2007

Note: Rankings for perceived importance of current and future traditional journalism skills, digital journalism skills and web-coding skills (N=245)

There is also evidence of a shift toward investing more in multimedia already in use in 2007, particularly in training former print journalists to shoot video. In a January 2008 article published in the *American Journalism Review*, Charles Layton, a senior contributing writer for the journal, noted that as of fall 2007, the Washington Post had trained more than 140 reporters to capture video.

The Tampa ( Fla.) Tribune had given 60 of its 275 total news staff online video training. According to the paper's executive editor, Janet Coats, "pretty much everybody in the newsroom" ultimately will know how to use a video camera.<sup>19</sup>

In October 2007, ABC News announced it was opening seven new foreign bureaus, each staffed by one person



who would operate as both a reporter and producer. Before moving overseas, each of the reporters received training in digital photography, Reuters reported. Each bureau is staffed by one ABC News employee, who serves as both reporter and producer. Before being shipped overseas, each staffer received training in digital photography, Reuters reported.<sup>20</sup>

Training for the Web is now beginning even before future journalists hit the workforce.

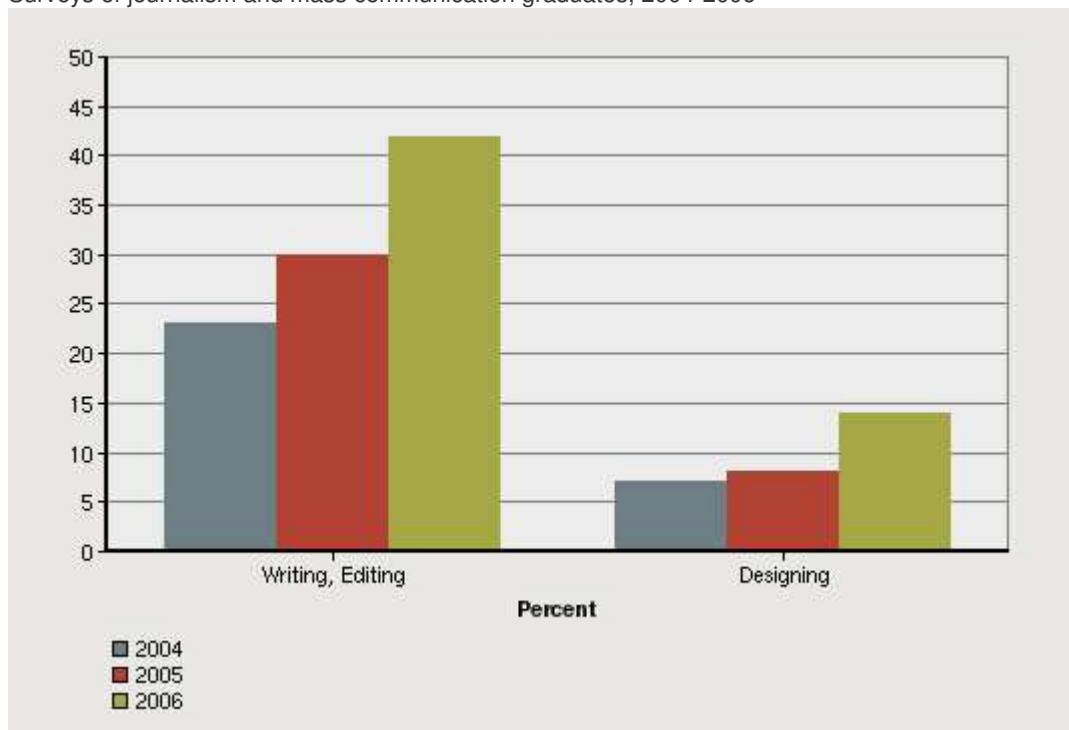
According to the 2006 Annual Survey of Journalism & Mass Communication Graduates, supervised by Professor Lee Becker at the University of Georgia, a growing number of journalism and communication students are being trained for the online work world.<sup>21</sup>

For instance, 42% of 2006 graduates indicated that their undergraduate curriculum included writing and editing for the Web, up from 30% in 2005, and 23% from 2004.

Over all, 14% say they received training in designing and building Web pages, up from 8% the year before and 7% in 2004.

### Growth of Web-Related Jobs in Journalism

Surveys of journalism and mass communication graduates, 2004-2006



[Design Your Own Chart](#)

Source: The Cox Center at the University of Georgia, Annual Survey of Journalism & Mass Communication Graduates, <http://www.grady.uga.edu/ANNUALSURVEYS/>

Seven in ten (71%) graduates surveyed also said they were more likely than their predecessors to be online news consumers.

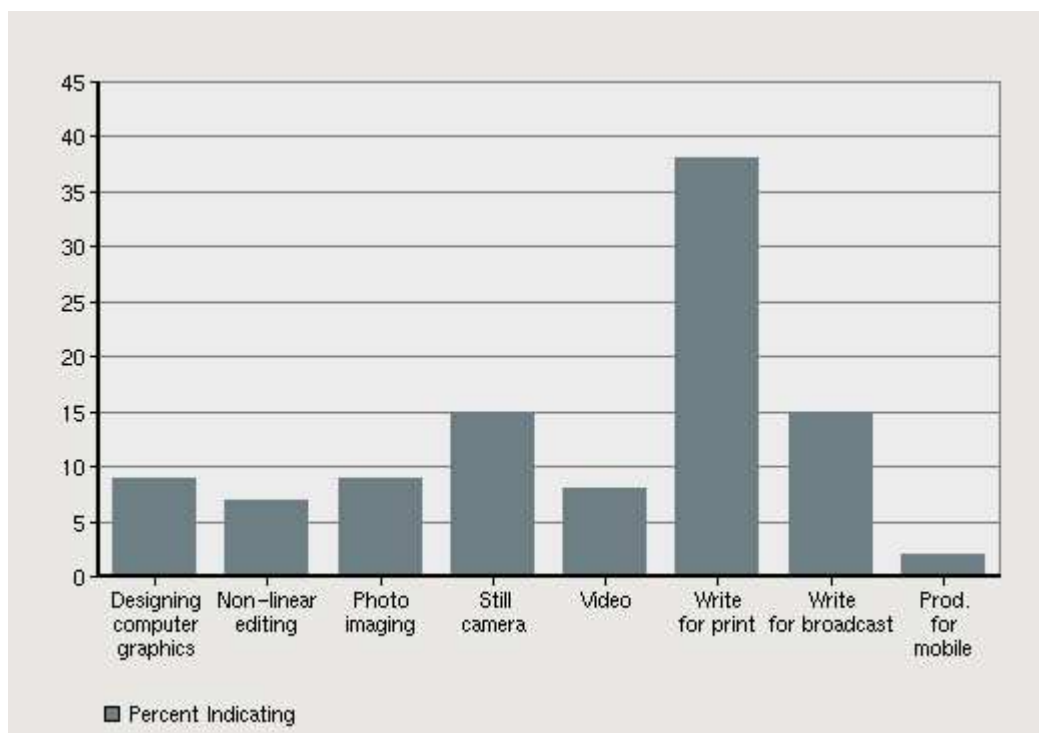
For now, though, these new working journalists still spend most of their time in traditional journalism roles. Fewer than two in ten (18%) reported holding a position that asked them to produce photos and graphics for the Web.

Less than one in ten (9%) said they designed and created computer graphics and just 2% were responsible for producing content for mobile devices. In comparison, a much larger percentage (38%) said they wrote, reported or edited for print publications.

That adds up to relatively small percentages of journalists taking on responsibilities that would ultimately help news Web sites reach their full potential, particularly in the area of multimedia.

### Technical Work Performed on Job

An Overview of Jobs for 2006 Bachelor's Degree Recipients



Design Your Own Chart

Source: Annual Survey of Journalism and Mass Communication Graduates

### Handing the Reins Over to the User

Just as journalists are being trained to produce content more amenable to the Web, the Web sites themselves are taking more advantage of the new technology.

For the 2007 report, the Project evaluated a range of news Web sites from both traditional media (newspapers, radio and cable) and online-only outlets, including blogs. (See [last year's report](#).) One finding from the report was "that the participatory nature of the Web is more theoretical than a virtue in full bloom."<sup>22</sup> New data in 2007 suggest many new steps have been taken, especially in the area of allowing users, rather than editors, to be in control.

The Bivings Group, a communications firm that creates Internet programs, studied the Web sites of the top 100 highest circulation newspapers based on the Audit Bureau of Circulations' March 31, 2007, report. The authors found that most of the sites had added features that can be personalized by users.<sup>23</sup>

Among the findings:

- Virtually all (97%) of the sites offered RSS (Really Simple Syndication), a technology that allows users to subscribe to regularly updated Web feeds, up from 76% in 2006.
- Eighty-eight percent now allowed readers an opportunity to post comments on blogs hosted on the newspaper sites, up from 67% in 2006.
- More than half (51%) included a "most popular" articles listing determined by reader usage, a number that increased from 33% the year before.
- Forty-four percent offered readers the ability to bookmark news articles, compared to just 7 percent in 2006.

A third (33%) allowed readers to make comments on news articles, up from 19% in 2006.

The advent of the consumer-as-editor is not limited to news Web sites. In the fall of 2007, CBS.com announced it had launched EyeLab, allowing users to edit its programming, including news shows.

"Online video is not just about TV shows as we know them, and EyeLab content is not for TV," explained George Schweitzer, president of the CBS Marketing Group.<sup>24</sup>

According to a July 2007 survey conducted by Avenue A|Razorfish., personalization of online media is now a mainstream activity.<sup>25</sup>

Six in ten consumers (60%) reported their home pages had been customized with specific content feeds or scheduled updates.

More than half (56%) said they use RSS feeds. Most of them, however, do not appear to be regular RSS users. Just two in ten said they used RSS either "all the time" (7%) or "most of the time" (11%). Most (37%) indicated they used RSS just "once in a while."

The survey also found that a majority (55%) shared bookmarks with others through user-generated sites like del.icio.us. Nearly two in ten (18%) indicated they had done this either “all the time” (6%) or “most of the time” (11%).

The same consumers also said they were making purchases based on personal recommendations from online retail sites like Amazon.com. More than six in ten (62%) indicated they had bought an item as a result of a customized suggestion from a Web site based on their previous purchases.

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Heading into 2008, Web 2.0 and citizen media have taken root as significant elements in the news of the future. And they have become a true competitor to traditional media.

In 2006, citizens made it clear that they wanted a voice. In 2007, more ways of doing that began to emerge and that voice became stronger. Now, 2008 looks to be the year the mainstream press tries to lure citizens toward creating the content within their own outlets.

As with much of the Web, though, the growth in citizen-based content brings with it questions about the future. And, as with much of the Web, the answer to one fundamental question — financial viability — remains uncertain.

## **Web 2.0**

A new buzzword in 2006, Web 2.0, or the second generation of the Web, has become common language and an accepted part of the online experience.

The term, put simply, refers to online media that operates as partnership, or interactively, with the consumer. Anything that involves users posting video, writing a blog, reviewing products or connecting with friends on a social network site is a Web 2.0 activity. YouTube, the video-sharing site, or Facebook and MySpace, the social networking giants, are among the success stories of Web 2.0. So is Wikipedia, the citizen encyclopedia site.

How many people are actively living in the Web 2.0 universe?

As of spring 2006, according to a study from the Pew Internet & American Life Project, 37% of all Americans who go online were engaged with user-generated content. Nearly four in ten adult Internet users had uploaded video or photos, blogged, posted comments to an online news group or Web site, remixed a song, or created some other form of media.<sup>1</sup>

The percentage is even higher for teenagers. According to survey data collected by Pew Internet in the fall of 2006, 64% of 12- to 17-year-olds say they have created content for the Internet, up from 57% in 2004.<sup>2</sup>

## **Is it News?**

The technology of Web 2.0 has not only set new standards for community interaction among people online, so-called “netizens,” it is also challenging the definition of journalism as citizens take on the job themselves, often as publishers without editors.

Over the past few years, user-news sites like Digg have turned the tables on traditional media by allowing visitors to choose and share what they define as news.

Fans of these sites show a taste in news often quite different from what traditional media offer. A snapshot study by the Project in the summer of 2007 found the top stories on popular user-driven news sites – Digg, Reddit and Del.icio.us – were very different than those of the mainstream media.

In the week studied (June 24 to June 29, 2007), the release of Apple’s new iPhone was the most popular story on Digg, while the mainstream press focused on the immigration debate in Washington. Coverage of the war in Iraq accounted for 10% of all articles in the traditional press that week, but across the three user-news sites that PEJ studied, it made up just 1% of all stories.

PEJ’s one-week study also found the sources for stories on these sites tended to differ from the mainstream press. Blogs by non-journalists proved to be the most popular source, making up 40% of the stories. Nearly 31% of stories originated on sites such as YouTube and Technorati that also offer citizen-generated content.

Mainstream media, by contrast, made up just 25% of articles on these sites. Wire services, such as the Associated Press Reuters, accounted for 5% of them.<sup>3</sup>

Indeed, citizens are playing a more direct role in making new media sites both competitors and partners with traditional online news sites. Let’s consider the types of citizen media one at a time.

## **Video and Social Networking sites**

Perhaps no segment of online media underscores the growing role of citizens more than online video and social networking sites.

YouTube, founded by Chad Hurley, Steve Chen and Jawed Karim in February 2005 and purchased by Google in November 2006, is by far the most popular online video site, with a 28% share of the total video market, according to the most recent figures published by comScore.<sup>4</sup>

Though YouTube is ground zero for citizen-generated video, there are other video sites that attract significant audiences.

According to data from Quantcast, a Web analytics company that tracks the U.S. audience for more than 20

million Web sites, other popular video-sharing sites are DailyMotion.com, Metacafe.com, Break.com, Heavy Networks, Revver.com and Veoh.com. Like YouTube, these generally showcase slick professional productions alongside homemade videos of all styles and lengths.

## Select Video-Sharing Sites

Property	U.S. Monthly Audience	Site at a Glance
<b>YouTube</b>	44 million	Launched in December 2005; acquired by Google in November 2006 for \$1.65 billion; involved in continuing suit with Viacom for copyright infringement.
<b>Metacafe.com</b>	9.7 million	Silicon Valley-based site launched in 2003; specializes in short-form original content.
<b>Break.com</b>	3.6 million	Founded in 1998 in Beverly Hills, Calif.; content focused mainly on males aged 15 to 35; holds partnerships with TiVo, NBC Universal and others.
<b>Veoh.com</b>	2.1 million	San Diego, Calif.-based company founded in 2004; distributes video content in its original form; requires a software download, unlike YouTube.
<b>Revver</b>	481,401	Based in Los Angeles; regards itself as the first video-sharing site "powered by advertising," with revenue split with users who submit content; as of September 2007, paid out \$1 million to more than 25,000 amateur videographers.

Source: Data according to Quantcast, December 3, 2007

Social networking also continued to grow in both variety and audience size in 2007.

In June, according to data from comScore, the total worldwide number of unique visitors 15 and older to MySpace grew 72% over the same month in 2006, to 114 million unique visitors. Facebook had less than half that audience, with 52 million globally, but grew 270%.<sup>5</sup>

And there are other players now, as well. As an example, Twitter, launched in 2006, combines traditional social networking features and micro-blogging, a feature that allows users to publish short postings from either a computer or phone. These postings can then be seen by the general public or restricted to certain users. According to Katie King, lead digital strategist at of Marsteller Interactive's Washington D.C. office, Twitter, along with Facebook, is being extensively used as a news distribution platform as well.

These citizen-based Web sites began largely as places to post compelling material, much of it from the mainstream media with added content from users. As popularity grew, these sites began rivaling news sites for breaking news. Newsmakers themselves, from the Pentagon to the presidential candidates to humanitarian and activist groups, began placing content directly on YouTube and MySpace as a way of countering what might be in the mainstream press or even beating the press to the punch.

## Blogging

The most well-known form of Web 2.0 activity, blogging, appeared in 2007 to be growing as quickly as ever. But the evidence suggests most Americans are not turning to blogs for news.

Data from Technorati, a blogging search engine, found in the spring of 2007 that the number of blogs was doubling every 320 days. According to the research, there were 70 million blogs produced worldwide at that time.<sup>6</sup>

Despite the proliferation of blogs, survey data suggest most Americans have yet to accept them as significant news sources. According to a winter 2007 Zogby Poll, blogs were the lowest on the list of "important" sources of news, coming in at 30%, well after Web sites (81%), television (78%), radio (73%), newspapers (69%) and magazines (38%). More Americans, 39%, chose friends and neighbors over blogs as an important informational source.<sup>7</sup>

Other research found that Americans appeared to be more interested in blogs for their entertainment value than their importance as a news source. According to August 2007 data published by the marketing research firm Synovate, 49% of all Americans read blogs because they find them entertaining, 26% because of a particular hobby or interest and 15% for news and information.<sup>8</sup>

That appears to jibe with citizen bloggers' own interests. The Pew Internet & American Life Project found in 2006

that most bloggers wrote about issues other than news. Nearly four in ten (37%) said they blogged mainly about their "life and experiences," with issues of public life (11%) cited as the second most popular topic area. Just 5% said they concentrated primarily on news and current events.<sup>9</sup>

If citizens are gravitating to blogs more for personal pleasure, traditional media are working to connect them more to the news. Fully 95% of the top 100 newspapers included blogs from reporters in March 2007, up from 80% in 2006, according to research conducted by the Bivings Group.<sup>10</sup>

This increase is interesting given the controversial editorial issues surrounding blogging in traditional newspaper circles only a few years ago. But blogging appears to have become a compelling way to attract new audiences online.

In 2006, the latest year for which data are available, traffic to blog pages on the top newspaper Web sites surged. According to data from Nielsen//Net Ratings, the number unique visitors to blog pages on the 10 most popular newspaper sites grew 210% from December 2005 to December 2006. Collectively, those visitors made up 13% of total traffic to these Web sites.<sup>11</sup>

These readers are part of a growing overall audience for blogs.

July 2007 data from Synovate suggest that nearly half of all Americans report *ever* having read a blog, but the numbers are growing rapidly.<sup>12</sup> That is notably higher than the 39% the Pew Internet and American Life Project reported in the winter of 2006. And that number was up from the 27% Pew Internet found a year earlier.<sup>13</sup>

And that universe appears to be much larger among the young. According to Synovate's data, 78% of adults 18 to 24 years old have read blogs. These younger adults also were more likely to notice ads on blogs, 61% compared to 43% over all.

Only a small core of all adults, however, are regular blog readers, according to Synovate's research. Just 15% read a blog daily and only 5% more than once a day. In comparison, three in ten (28%) were monthly visitors. And the largest group of blog readers (39%) visited them less than once a month, according to the research.<sup>14</sup>

### **The Financial Future of Blogs**

While loyal blog readers generally go elsewhere for their news of the day, that may well change in the future.

The majority of Americans expect blogs to play an increasingly prominent role in bringing them the news. According to the Zogby Poll, 55% believe blogging will be an important aspect of journalism in the future. An overwhelming number (74%) saw amateur citizen reporters, as opposed to established media outlets, playing a key role.<sup>15</sup>

If they are right, independent bloggers will have to figure out a way to finance their work.

Heading into 2008, there are mixed signs about an emerging financial model. Advertising — and therefore ad revenue — is becoming more common, but whether this trickles down to contributing bloggers is less certain. Let's consider two of the more popular blogs in 2007, both of which showed signs of turning a profit.

The popular political commentary blog Huffington Post placed ads from CNN, the New York Times, Xerox, Audi and Discovery in 2007. Co-founder Ken Lerner expects the blog's audience to double in the election year of 2008, suggesting more ad revenue to come.

But profit or no, Lerner has no intentions of ever paying volunteer bloggers, who numbered about 1,800 as of late 2007, many of them famous names who submit essays without expecting payment. "That's not our financial model," Lerner told USA Today in September 2007. "We offer them visibility, promotion and distribution with a great company."<sup>16</sup>

In contrast, writers at Gawker, which focuses on media industry news, receive compensation for their blog postings. Gawker has more than 100 employees and contractors (many of them freelancers) and was estimated to generate \$10 million to \$12 million in profits annually, according to an article in New York magazine.<sup>17</sup>

Ad spending on blogs is expected to increase. According to data from PQ Media, a research firm, and MarketingVox, a marketing industry newsletter, marketers were projected to increase their spending on blogs by 730%, from \$36.2 million in 2006 to \$300.4 million in 2010.<sup>18</sup>

### **Wikipedia: A New Kind of News Source?**

Perhaps no site reflects Web 2.0's participatory nature more than Wikipedia, the free, citizen-written, online encyclopedia that relies on 1,000 volunteer administrators to create, edit and maintain its content.

Wikipedia was launched in January 2001 by Jimmy Wales and Larry Sanger. With more than 2 million English-language articles as of January 2008, it has become a resource guide for many more, including journalists, despite questions and continuing controversy about its accuracy.

In 2007, there also are signs that Wikipedia is evolving into a new role: news source.

A number of media critics have noted Wikipedia's popularity during major news events in recent years, most notably the 2005 terrorist bombings in London and the Southeast Asian tsunami in 2004. But the site generated perhaps the most attention in 2007 in the wake of the April 16 shooting massacre at Virginia Tech University in Blacksburg, Va.

Wikipedia attracted more than 750,000 visits to its article on the tragedy in the first two days, an average of four visits per second, according to the New York Times. The Roanoke Times, the university's hometown newspaper, described Wikipedia as "the clearinghouse for detailed information on the event."<sup>19</sup>

Who uses Wikipedia? Survey research from the Pew Internet & American Life Project found that 36% of Americans who go online have consulted the site, with nearly one in ten (8%) doing so on typical day in the winter of 2007. The same survey also found that Wikipedia's highest use came from those with at least a college degree.<sup>20</sup>

The site also appears to be most popular among the youngest adult Americans (18 to 29 years old), as well as online adults with a broadband Internet connection at home. Younger Americans are among those most likely to consume news online or to have ever read a blog, according to Pew Internet data.

### Wikipedia Users at a Glance

<i>Do you ever use the Internet to look for information on Wikipedia?</i>	<i>Percent of adult Internet users who say "yes"</i>
<b>Men</b>	39%
<b>Women</b>	34%
<b>Whites</b>	37%
<b>Blacks</b>	27%
<b>English-Speaking Hispanics</b>	36%
<b>Age 18-29</b>	44%
<b>Age 30-49</b>	38%
<b>Age 50-64</b>	31%
<b>Age 65+</b>	26%
<b>High school diploma</b>	22%
<b>Some college</b>	36%
<b>College grad +</b>	50%
<b>&lt;\$30,000 household income</b>	32%
<b>\$30,000-50,000</b>	35%
<b>\$50,000-\$75,000</b>	39%
<b>&gt;\$75,000</b>	42%
<b>Dial-up connection at home</b>	26%
<b>Broadband at home</b>	42%

Source: Pew Internet & American Life Project Survey, February 15-March 7, 2007.

N=1,492 internet users. Margin of error is +/- 3%.

### Citizen Journalism Sites

Over the past few years, citizens have increasingly set up news Web sites to report on issues affecting their cities, communities and even neighborhoods.

Citizen-run sites like Newsvine aggregate news from around the country. Newsvine was acquired by MSNBC in October 2007 and has a monthly audience of one million unique visitors, the New York Times reported.<sup>21</sup>

Jan Schaffer, executive director of the University of Maryland's Institute of Interactive Journalism, estimated

citizen journalism Web sites in the U.S. at “more than 1,000, rapidly approaching 1,500” heading into 2008.<sup>22</sup> Content on these sites varies, from breaking news to school closings to city council hearings. Mixed in are wedding and birth announcements or favorite recipes.

What is the business model for these sites?

While some citizen journalism sites are selling ads, there are little data about how much revenue they generate from them. What we do know is that most are not earning enough to finance their sites. According to 2006 research from the University of Maryland’s interactive journalism program, just 21% of those who run citizen journalism sites reported covering their operating costs.

In the absence of revenue, most appear to be running on the owners’ blood, sweat and tears. According to the Maryland survey, 51% said it was not necessary to generate revenue to keep sites running -- 14% of citizen journalists reported it took less than \$1,000 to launch their sites and another three in ten (29%) put that number at less than \$100.<sup>23</sup>

But it takes more than direct dollars of investment — its takes time, which in the end translates into money. The collapse of Backfence, a two-year-old commercial network of local citizen-run sites, raised questions about the economics of citizen journalism. The site, backed by venture capital and launched in May 2005, ceased operations in mid-summer 2007.<sup>24</sup>

“Realistically, it’s going to take close to 10 years for the business models to be there and for there to be enough advertisers willing to give money to hyperlocal start-ups,” Vin Crosbie, managing partner of Digital Deliverance, a media consulting firm, told the Washington Post. “Backfence’s problem is that it was too early.”<sup>25</sup>

In the midst of the uncertainty that surrounds the business model for citizen journalism sites, nonprofits have become a more visible presence in online journalism. This is especially true at the hyperlocal level, where nonprofits have contributed money to encourage and support citizen reporting.

The biggest boost in 2007 came from the John S. and James L. Knight Foundation, which as of mid-June had awarded just under \$4 million to various sites devoted to citizen-run journalism.

Other nonprofits have become more directly involved in online journalism.

In early 2006, Dan Gillmor, a former San Jose Mercury News columnist and author of “We the Media,” launched the nonprofit Center for Citizen Media in cooperation with Harvard University’s Law School and the University of California at Berkeley. The center was founded with three main goals, according to Gillmor:

- Conduct research and analysis on citizen journalism
- Provide tools and practices for journalists
- Offer education and training to both citizens and professional journalists who want to work with citizen journalists<sup>26</sup>

Among others, the center has collaborated on the Citizen Media Law Project, designed to help citizen journalists understand cyberlaw. As of January 2008, the center’s Web site also hosts Gillmor’s blog on citizen media.<sup>27</sup>

Another group, the Sunlight Foundation, was founded in 2006 to help educate citizens about transparency in government, funding Web projects that combine both citizen journalism and activism. The site’s Exposing Earmarks campaign led to legislation that gives the public access to an online database of how federal money is spent. The Sunlight Foundation also has helped establish Congresspedia, which calls itself the “citizens’ encyclopedia on Congress that you can edit.” Launched in April 2006, the site includes articles and research on members of Congress and the Senate. Content is written by citizen journalists, although, unlike Wikipedia, a paid editor supervises the site.<sup>28</sup> Contributors are also required to register before submitting articles.

Though the foundation purports to be bipartisan, questions have been raised about its principals’ liberal leanings. MediaShift blogger Mark Glaser, for instance, pointed out in April 2007 that its chairman, Michael Klein, who had given the foundation \$3.5 million, had donated far more to Democratic causes in the past than to Republican ones.<sup>29</sup>

### Getting a Read on ‘Citizen J’

To get a better sense of citizen journalism Web sites, a team of researchers from Michigan State University, the University of Missouri and Ohio University have embarked on a two-part study titled Tracking and Analyzing Community News Models, funded by the Pew Charitable Trusts and the Knight Foundation. The first phase, conducted in late 2007, was an audit of various features on 64 citizen journalism sites in 15 metropolitan areas. Phase 1 examined the sites for such elements as the posting of outside material, the use of links and the extent of advertising. The sites studied ranged in their reach from covering an entire metro area to a smaller city to even a



single neighborhood. (Click [here](#) for the full report).

The fact that 15 metro areas now include at least this many local citizen news sites and local blogs is something of a finding. The phenomenon is becoming more robust.

The other discovery was that, for all that citizen journalism might imply openness and interactivity, the majority of sites analyzed tended to demonstrate the instincts of “strong gatekeepers” who control the content and are somewhat more difficult to interact with than the ideals of citizen journalism suggest. Now, instead of professionals, those gatekeepers were the bloggers or citizens who ran the sites.

The majority of sites did not allow users to post news and feature stories, information about community activities, letters to the editor, photographs or videos, the study found.

The one form of openness was that the majority, indeed almost all, did allow users to post comments about the material on the site, but the staff reserved the right to edit or otherwise screen the comments to meet its standards of civility.

Among other trends that emerged: Most offered only limited ways to interact with staff, were low-tech compared with mainstream media sites and had spotty advertising. Many of these sites were also very young, established only in the last six months, which may explain some of the lag in technological sophistication. One area where they seemed comparable with established media outlets was in direct links to additional information.

The researchers differentiated between citizen sites that post original news stories and those that operate as journalism blogs. They found over all that the news sites were more welcoming to other citizens than were blogs, although even here user-content was not the norm.

Just 27% allowed users to upload material to the site.

At the citizen news sites, four in ten allowed users to post text stories and half as many (20%) to upload of photographs. A little more than a quarter (28%) allowed the uploading information of community events; 16% provided for uploading of audio files; and 12% allowed uploading of video.

Blogs were even less open. A mere 10% allowed text-based posts from visitors, and half of that (5%) allowed photo or video posting. Not one of the blogs studied allowed audio posts of any kind by users.

What about at least commenting on the content or contacting staff? Here again citizen journalism seemed no farther along than (and at times behind) mainstream journalism. The 2007 PEJ Report included a [content study of 38 news Web sites](#) and found the participatory nature of the Web was more theoretical than tangible. Since then, many mainstream news outlets have taken additional steps to bring users and their original content into the news process.

All 64 sites allowed users to post comments, reserving the right to screen or edit as needed, but only 20% of news sites and a mere 8% of blogs offered reader forums. Another early tactic to give users a voice with an online poll proved no more popular than forums (20% of news sites and 5% of blogs).

When it came to contacting staff directly, nearly all (96%) of the news sites allowed e-mail messages to be sent to the site administrators, compared to 75% of the blogs. The vast majority of the sites did not provide a telephone number or address for the administrators.

Citizen-based sites also seem behind the curve in the methods of distribution they offer. As with most mainstream sites in the 2007 PEJ study, RSS feeds were extremely common. Only four blog sites and one news site did not have RSS feeds. However, the use of other distribution systems was rare. Less than 10% of blog sites (8%) or news sites (4%) offered podcasts, and only slightly more (13% of blogs and 8% of news sites) allowed visitors to e-mail stories to other people. And mobile delivery, the latest techno gimmick, existed only on one blog site and one news site.

One major shift in mainstream news Web sites in 2007 was in breaking down the “walled garden,” which allowed linking to outside organizations or stories both on their home pages and even more so inside stories [link to appropriate place in report]. With the idea that a new role of journalism is to guide people to the information they want, and that people are going to get to these other places anyway, many mainstream news Web sites are consciously choosing to help send people elsewhere.

According to this analysis, most citizen-run sites are working toward this model as well.

All of the home pages had one or more external links, but the types of link varied greatly. Forty percent of the blog sites and 24% of the citizen news sites had links to traditional news media. Thirty-four percent of sites linked to other news sites, but a larger percentage (58%) linked solely to citizen blog sites. Some of the citizen-run sites linked to commercial news sites (14%) and commercial blog sites (19%) that were not connected to a traditional

news organization. These appear to be for-profit, stand-alone Internet news and blog sites.

## Percentage of Citizen-Run Sites with at Least One Link to Various Types of Sites

	Blog Sites	News Sites	Total Sites
Link with traditional news organizations (newspaper, TV, etc.)	40%	24%	34%
Link to citizen news sites	28%	48%	34%
Link to citizen blog sites	60%	56%	58%
Links to commercial news sites	20%	4%	14%
Link to commercial blog sites	27%	4%	19%
Number of sites	39	25	64

Source: Project for Excellence in Journalism

Looking at revenue streams, the picture was more varied. Advertising was much more common on citizen news sites than blogs. The majority of blog sites (58%) had no ads at all, while the majority of news sites (64%) had three or more display ads on the home page. Classifieds ads appeared on 44% of the news sites, most offered at no cost. (Only 3% of the blog sites carried classified ads.)

The second phase of the study will expand on the first by tripling the number of markets to be examined and adding an analysis of the content found on the citizen journalism site. In addition, some of the sites in Phase 1 will be examined to see if they have changed.

This study cannot answer why the sites were generally more restrictive than citizen journalism advocates might like, and several possibilities present themselves.

The nature of the sites might reflect their early development. Having an interest in citizen journalism does not guarantee knowledge of technology nor the funds to invest in needed software. Young sites also are likely to have fewer volunteers than sites that have established themselves. Another possible explanation is simply the lack of time to invest in the more complicated technology.

Or, it could be that these citizen journalists share some of the concern expressed by more traditional journalists in serving as hosts for information over which they have no editorial control.

## Footnotes

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