PONTIFICAL COUNCIL FOR SOCIAL COMMUNICATIONS

Thank you so much for letting me join your conversation this week. It is an honor to be here in Vatican City with such a tremendous group of individuals from around the globe.
As you well know, news consumption and the news business are going through incredible change -- Change not seen since the invention of the printing press. What I've been asked to share with you today is some of what our research has revealed about the changing news consumer and how those changes are affecting the news business and the newspaper industry in particular.

Our research focuses on the U.S. but many of these same trends are on likely occurring in your countries or are on the brink of emergence—and so may give you a sense of how to prepare. With that . . . .

The Changing News Consumer -- and these figures come from early this year.
SL2: People today are what we refer to as News Grazers. The Notion of a Primary News Source – of going one place to get your daily dose of information --- is Obsolete

- 92% use multiple platforms daily –
- 46% use 4-6 platforms (not outlets). --- go to LTV for one kinds of news, cable TV for another, print paper for analysis -- and are comfortable doing so.

So people aren't completely abandoning older forms of news, but are adding to them – and splitting their time.

When we asked about news websites specifically,

- Just 35% have a favorite site. --- pretty incredible figures—not committed to one brand but will turn to who can give them what the want when they want it. But --

SL3: Not Aimless Wanders. Some limits to how far away they will roam.

- Majority 2-5 sites

SL4-: --Online Habits –Frequent
- Social

- 57% - share links to news stories

This is an important point. Consumers are a part of the process—are engaged in consuming, sharing and adding to the story. One way to think about it is that if the old traditional media (print and TV) was a lean back experience (I'll lean back while you tell or show me what I need to know) – news today is a LEAN IN experience.

It also means that news outlets have much less control over what happens to information once released.

SL 5 Search-based – seek and find

- 56% - news aggregators or portals VS 38% - newspaper sites; 46% TV
- This has had a huge impact in revenue and content creation
- And has lead to what we talk about as **the unbundling** of news --
- Each story competes with all other stories about that same subject. Think about when someone wants to know about the HINI epidemic, they type that in their search engine and one news outlets story competes with all others on that subject.
- Affects how news organizations in the U.S. write, package news,
- Its not all the NYTimes has to offer, but does the NYTimes have what I need to know right now about this particular subject or news event.

SL 6 – Quick – very quick (3'6'')

Compares to time spent with daily print newspapers – where people even recently were averaging in the U.S. 27 minutes each weekday and 57 minutes on Sunday.

SL 7 – MOBILE

- 33% of cell phone users - 25% of Americans - access news on their phone
- Still developing but likely amplifies all of these consumption habits –
- Another component that we are keeping a close watch on. And that is the culture of App's – mobile applications. App's may bring a movement away from approaching the Internet as a wide sea to be searched and toward creating your own walls of information. Storing what you want and going directly there.   Which could also have financial impacts that I'll address later.
    - Still early stages – to soon to tell.

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These Consumer Changes Lead to Multiple impacts on newspaper industry in the U.S. – and around the world.

The biggest single impact has been one of economics. Yes, audiences are down, but it's the economics that have crumbled. Let's look at some numbers:

(And if you have trouble seeing the exact numbers on some of these charts, I don't think you'll have trouble interpreting the trend lines.)

II. Newspaper Declines --Audience
SL 8 – Print circulation losses in 2009 were unprecedented: 10.6% daily and -7.1% Sunday (Sept – Sept. 30)

- Lost another 9% in the first part of 2010.
- Since 2000 –they've lost more than 25%

More importantly, while the losses before the 1990s, came from second papers in a city going out of business, rather than the surviving papers losing circulation, these are circulation losses suffered at the papers that remain.

But countering this to at least some degree, newspaper Web site audiences continue to grow.

- Monthly unique visitors were up 14% from 2008 to 2009 (65 - 74 million).
  - o Though on the negative side most of it tends to from one time searches to specific articles (the search-based) rather than those who log in daily.
- And most people still get newspaper content – even if from alternative means like quoted material in blogs. (Baltimore Study)

Now let's look at the revenue side:
SL9 – PRINT AD REVENUES declines are more than double the audience declines

- U.S. Newspaper exec's have learned the last few years to never say, "it can't get any worse . . "
- **FELL 26% in 2009 alone and 41% in two years - from 2007 – 2009;** Dropped another 7.6% in Q2 of 2010 versus Q2 2009

SL 10 Where did the declines come?
The biggest single factor is classified ads.

- Down 56% 2007 - 2009: (some papers had 90% profit margin for these ads)
- Retail is also down -- 32% since 2007
- Losses not as great in 2010, but still in decline

Industry estimates that about half of the losses in 8 and 09 were tied to the recession, but the other half were structural and are not returning.
Ad dollars are not moving online the way audiences are. In 2009, total online advertising fell for the first time since 2002 – fell by 5%.

Three reasons for this:

SL 11

1. **Decoupling of news and advertising** . . . Advertisers don't need media as middle player – as go between. LINEAR Relationship now jumps over.

2. Dollar for Dollar value is miniscule.
   - Add dollar online amounts to just a fraction of value in the legacy –
   - Rate for an online ad fell 48% in 2009.
   - There is just too much available space on the Web. Can't sell it all

3. The main type of ad used—displayed ads – don't work. There is no natural relationship between ads and news content. If reading about china, an ad for mouthwash gets in the way—AGAIN LEAN IN. People are really good at ignoring them.

SL 12: After 15 years of transition, Newspapers still get about 90% of their AD revenue from print product –

Here is where the hopes for Mobile and Tablet devices come in.

- LOCATION BASED ADS
- Tablet Subscriptions
- Verdict still out. Still little money there.

III. How Has The U.S. Newspaper Industry Responded?

For a few years, took the attitude of "Wait and see—dollars will surely follow" And here the newspaper culture really hurt them in the end – for it is not a culture of experimentation.

Google's motto is fail often; but newspapers don't want try something new until they already know it works. And for a while, Profits still large enough to allow for that. Also – advertising folks were not hired for their creative juices.

Lost housing market; classifieds;

Didn't work too well. 13 newspapers filed for bankruptcy from 2008 - 2009

SL 13 HUGE CUTBACKS IN NEWSROOM STAFF

- Newspaper staff down by more than 30% since 2000. Close to 6,000 jobs lost in 2008 and another 6,000 in 2009.
- We estimate that U.S. newspapers are spending about $1.6 billion less on the annual news budget than were spending three years ago.
- A year ago, Half the states no longer have a newspaper staff in Washington, DC

SL 14– Cutbacks in Content :

- Feature section disappearing
- Cutting out certain print edition – less lucrative advertising days (Monday/Tuesday)
- Copy Desk---39% web content may or may not copy edited before posting

OK so finally s little Good News – had to get there at some point!

In the last year the industry has begun a lot of experimentation.

SL 15: Finally taking steps to break the mold.

- Partnerships – with other papers and other types of news outlets
    - o 3 FL papers sharing content; NYTimes West Coast paper w/ non-profit start-ups
- Pro-am

    - Seattle Times partners with 19 different neighborhood-based citizen news sites. (Citizen news sites --- don't have capacity to produce full news)
- Freelance reporters
- Non-News revenue streams – biggest area of new revenue
    - delivery service/ printing press

Also, hopefully awaiting to be **saved by the Tablet**. Not only for the potential of new ads, but the TABLET unlike the Web is beginning as a **closed system**. News owners say one of their biggest mistakes was not charging for online content to begin with. People got used to getting it for free. Tablets are pretty much subscription only.

(a note to those of you from countries where the Internet is still emerging.)

But while news outlets experiment, they can't lose sight of the changing relationship with citizens.

SL 16 In the broadest sense journalism has changed from being a product to being a service. It is no longer enough to produce the news. Must do more.

I close with this slide of what we've identified as
SL 17 Eight functions of Journalism in the 21^{st} C

*****QU is whether the industry can adapt and find new means to sustain itself, before losses are too great to keep operations afloat.**