Newspapers’ Web Revenue Is Stalling

By STEPHANIE CLIFFORD
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Newspapers, already facing a grim economic forecast, are digesting another piece of bad news: the growth in online advertising they saw as their salvation has slowed to a crawl.

In the last few years, newspaper companies have been rapidly expanding their Web presence — adding blogs, photo slide shows and podcasts — in the belief that more features would bring more advertisers. But now, after 17 quarters of ballooning growth, online revenue at newspaper sites is falling. In the second quarter, it was down 2.4 percent compared with last year, to $777 million, according to the Newspaper Association of America. It was the only year-over-year drop since the group began measuring online revenue in 2003.

Overall online advertising, however, is strong. Display advertising, the graphics-rich ads that newspaper sites carry, grew 7.6 percent in the second quarter, TNS Media Intelligence reported.

Newspaper executives say the new features have drawn bigger, more engaged audiences, which they hope will translate to more advertisers. Unique readers in August were 17 percent higher than a year earlier, at 69.3 million, according to a Nielsen Online analysis of newspaper sites for the newspaper association. They also point to other factors for the decline, including the economic downturn and the continued flight of classified advertisers away from papers and their sites.

But the advertising glut, particularly in display advertising, on which companies had based their optimistic projections, has shrunk. As newspapers keep adding pages, they are forced to sell ads at cut-rate prices.

Large papers like The Washington Post or The New York Times can sell premium ad space on, for example, a newspaper’s home page, for $15 to $50 for every thousand

impressions. But these and other papers of all sizes have increasingly relied on
middlemen — known as ad networks — to sell less desirable space, typically for around
$1 for every thousand impressions. The networks usually charge advertisers double that
or higher, industry insiders said.

While some publishers rely on ad networks, others are devising strategies to avoid them.
With networks, “unwittingly, I think, the publishers commoditize their own inventory,”
said Paul Iaffaldano, the general manager of the TWC Media Solutions Group, which
sells ads for the Weather Channel and Weather.com.

A recent study from Bain & Company and the Interactive Advertising Bureau examining
seven high-end publishers (their names were not disclosed) found that about 53 percent
of the ad space on newspaper sites went unsold without networks last year, up from 50
percent in 2006.

Given the choice of showing an ad-free page and making no money, or using an ad
network and making a few cents, many publishers choose networks. In 2007, 30 percent
of the ad spaces sold on their sites came from networks, up from 5 percent in 2006,
according to the Bain study.

“If we sold every scrap of inventory, we wouldn’t use ad networks, but right now it
makes some sense for us,” said Jeff Webber, the publisher of USA Today.com. At
Gannett, which owns USA Today.com, online revenue in the United States rose a modest
3 percent in the second quarter. Results from other chains have been grimmer. In the
second quarter, online revenue dropped about 12 percent at A. H. Belo, 8 percent at E.
W. Scripps newspapers, 4 percent at the Tribune Company, and 9 percent at Lee
Enterprises, all compared with the same period last year.

Denise Warren, the chief advertising officer of The New York Times Media Group, said
NYTimes.com used ad networks despite some concerns. She said they were useful when
traffic spiked; this September, for example, the financial crisis spurred lots of page views.

“We couldn’t sell that inventory because we didn’t know it was going to exist, so if we
have an ad network we’re able to have all those extra C.P.M.’s,” she said, using the
industry term for cost per thousand impressions.

At The New York Times Company, online revenue grew a healthy 13 percent in the
second quarter. More recent figures indicate sluggishness at the company’s newspaper
sites, however. At The Times’s News Media Group, which includes newspaper sites like
The Boston Globe, The New York Times and regional newspapers, online revenue grew
only 0.9 percent in July and 7.9 percent in August, well below the usual double-digit
growth.

Ms. Warren said that the two months were anomalies, adding that growth in display
advertising at NYTimes.com alone had been much higher, though she declined to specify
a figure.

As for the new blogs and video, “those investments will definitely add to advertising
revenue,” she said, but “those things are just getting started right now.”

Steve Stup, the vice president for sales at Washingtonpost.Newsweek Interactive, said he
began using networks this year only because the site had unpredictable traffic because of
the elections. He said some advertisers might start to see networks as an inexpensive
substitute for dealing with papers directly.

“It’s still a situation where if advertisers even perceive they can reach their audience,
they might be inclined to go with a network, and that’s a concern I have with networks," he said.

This has meant a spurt in networks, which are popular with marketers looking for direct response, like eBay and E*Trade. There are now more than 300 networks, most offering custom ads, and they are popular venture-capital investments and acquisition targets. Last year, Microsoft bought the network DRIVEpm, Yahoo bought Blue Lithium, and AOL bought Tacoda.

“The ad networks have actually been using the presence of publisher inventories as part of their selling story to ad buyers,” said John Frelinghuysen, a partner in Bain’s media practice. Many publishers join only the networks that do not disclose what sites they include, but even so, savvy advertisers can guess.

In response to the downturn, some publishers are exploring a larger, counterintuitive strategy: instead of creating more ad space, they are limiting it.

“We’re going to reduce the number of ad sizes we use and the number of units,” said Christian Hendricks, the vice president for interactive media at McClatchy. “It is a case where yeah, you could probably sell another advertiser by creating another ad space,” but that could hurt the revenue over all, he said. Online revenue at McClatchy rose 12.5 percent in the second quarter; a year earlier, revenue dropped 2.2 percent.

McClatchy also tries to avoid ad networks. “We don’t want to get in the habit of filling every little space we have with remnant,” Mr. Hendricks said.

Mr. Frelinghuysen said limiting the ads on a page can be smart. “That high level of unsold inventory often creates a real challenge in terms of sustaining pricing or growing pricing,” he said. “In most media, especially in television, the traditional model has been that you drive sellout, and that gives you the ability to drive pricing over time.”

Some sites unaffiliated with newspapers have also limited inventory and banned ad networks, and many report good results.

Weather.com limits its ad spaces so it can sell out each day, and it does not use ad networks, Mr. Iaffaldano said. Prices there have increased 10 to 15 percent over last year, he said.

Forbes.com stopped using ad networks this year, as did ESPN.com and CNN and other Turner sites. (Turner and Forbes then created their own networks, which they say are different from the remnant networks because they focus on narrow subjects.)

“As more and more sites like ourselves forsake networks and are public about it, the ability for the agency to think for themselves, or even suggest to a client, that they’re going to get quality impressions, will get harder and harder,” said Jim Spanfeller, the chief executive of Forbes.com.

At CNN.com, where display advertising rose 17 percent in the second quarter, the site does not use networks and limits space.

“We want to get as much value for our product as possible, and that means not having an endless supply of inventory,” said Greg D’Alba, the executive vice president and chief operating officer of CNN Advertising Sales.