

## 2004—International Symposium on Online Journalism

### Friday—Panel 2: Online News financial independence

*Has the business model come of age?*

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#### Panelists:

**Nancy Regent**, vice-president/managing editor, Hoovers.com (moderator)

**Peter Zollman**, founding principal, Classified Intelligence and Advanced Media Group

**John Granatino**, vice president of news and operations, Belo Interactive

**William Grueskin**, managing editor, The Wall Street Journal Online

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**NANCY REGENT:** I was just told that I can't move. So Adrianna, that's gonna be a problem for me, right? I have to stay stationary because of this mic. So I'm gonna do my best.

This next panel is on journalism online has a business model come of age. This is a question we've been asking for a long time. If I just asked our distinguished panelists – I said, "How early do you think we were asking this question?" And they said – No, no, no before that it was: How much is it gonna cost? And: Are you sure? And: Is it really gonna make money? So today we're gonna talk about that particular topic and I'm really pleased because these three panelists are very knowledgeable in this area.

Our first panelist – and this is how we're gonna do it – I'm gonna introduce all three, then they're gonna come up and give about a ten to twelve minute presentation and then I'll ask some questions and then I'll open it up to all of you. Does that sound ok?

All right, our first panelist is here from The Wall Street Journal Online – Bill Grueskin. He oversees a staff of over 60 editors, writers, and graphic artists. He joined The Wall Street Journal in 1995. Prior to joining Dow Jones, he worked at The Miami Herald as a city editor in Dade and Bauer counties. In 1992, he led local coverage of Hurricane Andrew and its aftermath and for its journalism, The Herald was awarded the Pulitzer Gold Medal for Public Service. He also worked as a reporter and editor at The Tampa Tribune, The Baltimore News American, and The Daily American in Rome, Italy. And an interesting thing to note – he started a newspaper for the standing walk Sioux Indian Reservation in South Dakota.

He has a Bachelor's degree in Classics from Stanford University and a Masters' Degree in International Economics and U.S. Foreign Policy, and also, from the Johns Hopkins School of Advanced International Studies. So we're very glad that he's here joining us today. Our second panelist is someone I've known for quite a few years – Peter Zollman. Peter is an Independent Consultant who works with the media. And he helps media all the way from newspapers – online, classifieds, T.V. to really develop an online strategy as well as to look at the classified advertising and business models. He's written a book; he's done a number of independent studies, and he's very knowledgeable in this area, and Peter we're glad to have to back in Texas.

And our last person here is John Granatino. And John is here from Belo News Operations. He's Vice President of News and Operations for Belo. He joined the company in 1980 where he was the Providence Journal Editor and served in a variety of positions, including Features Editor, State Editor and for four years, he was City Editor there. He was named the Director of Electronic Publishing at the Journal in 1992 and he spent eight years launching numerous electronic services. The online company created by the Journal's Dallas parent Belo was formed in 2000 and he is the Regional Director of Websites for the Eastern and Texas Clusters. Thank you for joining us today, John.

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So I'm gonna ask for you to start with Bill. Do you two want to sit down while we're doing the presentations and then you can come back up.

**WILLIAM GRUESKIN:** Thank you, Nancy. And I've got... I've got two pieces of bad news for everybody. First one is I don't have a Power Point for you so (laughter) so you're gonna have to look at me. And secondly, I've been to enough of these conferences as have my colleagues at the Journal and the standard question, the standard discussion is: Can a subscription model work online? And I'm happy to talk about that later; I've already talked to several of you about it; we can talk about it in the Q & A. But I kind of think most people pretty much made up their minds as to which way they're going and it's getting kind of late to change that at this point. So I thought would talk in my ten minutes or so about something that's near and dear to my heart and it's more kind of a cultural issue than a pure business issue. It talks about the changing – what I want to talk about is the changing role of editors – the way that we used to know them – and particularly editors who are now responsible for running a business because in many ways, if you're an online editor now, you have a big role of whether or not this business succeeds or fails. And I'm going to talk to you a little bit about what the differences are. And there's three big ones that I found in my three years with the online Journal – that the differences are and what I found in terms of what I do and what that means for The Wall Street Journal Online as a business. And I come to it as Nancy said I got my start in print journalism. I spent over 20 years in print journalism ever from North Dakota to Miami Herald. I spent five years on the page one desk of The Wall Street Journal which has gotta be one of the cushiest and best editing jobs in America. They have eleven editors editing a total of three stories a day, five day a week. (laughter) Don't tell anybody. Why I would ever leave that – I'm not sure, but then when this opportunity came up in the summer of '01, I thought it was too good to pass up. And what I found is that it's changed my very idea of what it is editors do and in a way it's now trying to translate back into our print newsroom. And even after three years, I'm constantly surprised by what a difference it is in terms of what I do and what people expect from me.

Difference #1: For the first time, I know what our readers are reading. I know what they care about; I know what they click on – and beyond that, I actually have some control over that. Now, again, this comes from a print background where when I was with Miami Herald, there was one reporter who was notorious. Anytime he would get a page-one story, a bouquet of flowers would arrive on his desk; he'd start getting a couple of phone calls. He'd be high-fiving everybody talking about all the impact they had. Turns out the flowers were from his mother and the phone calls were from the credit collection agency (laughter) but that didn't matter because he was getting impact; people really cared what he did. We all took him down to one of the bar and it was an excuse to buy him a beer. Now, of course, I have access to some wonderful data. We use revenue science – which used to be called digiMine which shows daily, weekly, monthly data checks. We also use clickability for our most popular stories, but we have now access to hourly data. And I'm like a crack addict with these things. I am obsessed with knowing what is it that our readers are reading, what is it that we can be doing on the site to get more people reading it, and ultimately, how are we serving them? And I'll give you just a couple of quick examples of how we've used it in real life and why this has a business application.

We started doing interactive graphics on our site two or three years ago. We are not a video or audio heavy site. But we like doing a lot of informational graphics. And we rolled them out and people kind of got used to them, and they did ok. Then we did one about two years ago that looked at property values around the country and we looked at twenty housing markets. And you could drill down into each one and you could see where it happened with the price of houses, you could see mortgage rates, the underlying labor market. I looked up the data a

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couple day later, I called our (inaudible) and said there's something wrong with your accounting system because this pop-up graphic, I've got nine times the amount of traffic of anything we've ever done. They went back; they ran the numbers through and it was right. And what we found is there's certain key words and for WSJ.com readers, it house value of mortgage rates and I think we could do a story on mortgage rates in Persia under Alexander the Great and I would still get a huge amount of traffic. (light laughter) There are certain key things that people just focus on and it's fascinating as an editor and a journalist to actually start understanding what it is.

But there's more macrowaves as well. One of the things that we see on the side all the time beyond this screensaver is anytime we have a really big story on the site, and it can be Iraq, it can be Martha Stewart, it can be the Dick Grasso resignation from The New York Stock Exchange. We see, as I'm sure all of you do, we see a big spike in traffic, ok? It's to be expected; people come to the site; we know you're there. Then of course after the story dies down for a couple days, it comes back down, but you know what? It never comes down to where it was. It always ends up 2%, 5%, 10%, 15% above where it was. And we have a new normal. And suddenly – and what does that tell you? Well, it tells you people have these sites and in with the case of the Journal people subscribe to them; yet they don't necessarily use them everyday, yet once you get them in, and assuming once you have enough hooks there, some of them start realizing: yup, this is something I have to bookmark. This is something I have to make part of my daily routine. Maybe, this is my new home page. And that is such an interesting thing for us to know.

Now when we have a big break in a story, we go all out. Now of course, journalists won't always do that, but we do it in ways and we're always looking for ways in which we can do it, in which we grab people, which we – we use this as an opportunity to show them to show them cool things that we didn't do a few months ago – maybe we didn't do until this week. But something that we just came up with. And it changes the culture of the newsroom in terms of how we think about big stories. It's not just how you cover a story; it's how are you gonna get those readers to kind of come back and come back again. And I find it fascinating to be able to do that and tweak things on the site and be able to do it.

Now, it's almost kind of an in-house show for the WSJ.com newsroom how much I care about this and I want to temper it a little bit with two key things. First of all, we are journalists and there's things that we cover, there's things that we care about that are important and as part of our public responsibility and we're gonna do it no matter what. And of course, Wall Street Journal print edition writes about a lot of stuff that has very small audiences. And part of our strength is that if you wanna see what the porkbelly futures are for July, if you want to see how many options Steve Baumer has on a stock, you can find that somewhere on The Wall Street Journal online. And I don't expect any one of those pages to get a lot of traffic. The concern is that the fact that we have it is part of the reason why people use our site. And beyond that we don't want to become like a Nielsen-driven T.V. executive and constantly be worrying about what story's gonna get what kind of play. You could get obsessed with it as well. On the other hand, if you can find ways to use your data, you make it a better business. And one of the reasons it's becoming a business issue for WSJ.com is – and who would have thought this possible two or three years ago – we're actually running into inventory problems now. On certain parts of the site we need more pageviews for the advertisers who want to be there. And so that's important for us; it's important for us in the short-term standpoint – we obviously want to deliver pageviews of the ad department can sell without doing a purely quid pro quo. At the same time, it's important in a broader sense because we know people who mostly more likely to re-subscribe to WSJ.com are people who use it on a regular basis. I mean we can track it; it's almost a perfect correlation – people who rarely use it – we have a lot harder time getting them to re-subscribe.

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People who use it regularly and who personalize our homepage – their re-subscription rates are something like 90 to 95%, which is, you know, about as close to perfect as you get. So the more that I can do as an editor to drive traffic to the site, the more I can see what people wanna read and what it is that we do that gets them to read is important. And that's something very different from anything I could have imagined as a print editor.

Difference #2: And I've heard this from a couple of my colleagues over ribs last night. Suddenly, I have to be involved with the business side of the operation. And I can't tell you what a seat change this is for me. In fifteen years at the Herald and at the Wall Street Journal print edition – anybody want to guess how many time I met with the ad department? (Someone in audience says, Zero!) Zero! I would give you a free subscription to WSJ.com – since you already subscribe, I'm not going to. (laughter) That's right. I never met with the ad department. In fact, I would – meeting with the ad department would have been seen as some kind of ruining my journalistic integrity or virginity or whatever the heck it was. It would have been seen as well, obviously the ad guys want you to do a story and so therefore, they can sell an ad against that story and we're gonna corrupt the idea of what we do. And the truth is in print journalism, the structures for what constitute advertising are pretty well laid down. And while there's a little bit of variance here and there, there's ad supplement and advertorials and that kind of thing, it's a pretty well set, pretty well-defined universe of what you can do. Online, everything's game as we all know. And what advertisers want and what they expect is an ever-increasing agenda and what works for them is also terra incognita for a lot of us. So I need to be involved with our ad department; I need to know what they feel they need to be able to do on the site. Well, I need to be able to tell them, "We can't do that." Or, "Well, we can't do that, but we can do this." I remember talking to Doug Feaver and to our colleague when – at The New York Times – when WSJ.com belatedly came into sponsored ads; we were always one of the last ones when it comes to ads by the way, but we belatedly came into it and I asked them what their experiences were with it and as we all know it's a nice revenue driver but there's more pitfalls – most famous thing The New York Post story – you all know about that one, right? There – a couple heads of the mafia figures were stuck in the suitcases and thrown into Hudson River and apparently alongside, there was a Samsonite ad. (laughter) So we ended up coming up with structures on what Overture, which was our partner in this could do, and there were certain pages where we just wouldn't allow certain kinds of ads. There's certain kinds of news pages where we just know that there's no way they can set the algorithms in such a way that we're not going to have some kind of embarrassing situation. And but that was because we only had a dialogue. I think that they trust me and I trust them. I know that they had an agenda – they're trying to drive up revenue and I have to support that agenda because if we don't have revenue, I don't have a job. And at the same time, especially as a subscription site, we have certain – I hate to sound like Hebrew National – we have certain higher standards that we're allowed to impose. We don't allow any pop-up ads for subscribers. We don't allow any interstitials and that's not happenstance that's because we have a constant dialogue with the ad department. That's, as I say, something I would have never even thought of when I was in the print side. And it also benefits them to a certain extent because if advertisers feel that they're in a low quality environment and that the ads aren't being overwhelmed, they can charge a higher CPM and ultimately, that's gonna drive a higher revenue towards them. That's #2.

And the final difference is something that's a little more amorphous, but I think that it's in many ways may be the most important. As I tell my staff, the business of our website is our business and you would think that would be easier because we're Dow Jones, we're the Wall Street Journal and supposedly our staff more sophisticated view of the business world, but not necessarily. And this comes as quite a shock, because the online Journal, as many of your sites did too, went through a big boom in hiring. We had reporters in Paris, and London, and Hong Kong; we had

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this huge staff all around the world – back in '99-2000 and then there was a sharp cutback in 2000-2001, when it was clear that the existing revenue structure wasn't gonna support that and when it was also clear that what a lot of those of those people were doing wasn't really generating very much value for our readers. So people already have a little bit of a cause-effect understanding of what revenue means for our site, but now WSJ.com is finally profitable, now that we're what I think can be called a financial success, I see a much different issue coming to fore which is a credibility issue. It's a credibility issue with other people in Dow Jones – particularly a credibility issue with the print Journal. During the Internet bubble, it was ok for us to be put out a lot of red ink and we were losing millions and millions of dollars as many of you were as well. Basically, all of those sins were covered up by a huge boom in tech and financial advertising in the print Journal that covered up a whole lot of sins. And as that drew away, the fact that we were losing money was costing us credibility with our colleagues and the print Journal. And we at the online Journal are trying to get ourselves inclined even more towards working closely with our colleagues in the print Journal as are some of the other sites. Print Journal reporters are doing exclusive content online whether they're feeding the scoops, whether they're working closely with – on interactive graphics. And are full financial independent. If we're contributing to the bottom line of Dow Jones, we have credibility that we didn't have a couple of years ago. That's very, very important in a day-to-day relationship. And I feel personally responsible for how we're doing on that. I can tell you as City Editor at Miami Herald, I never felt responsible for any business thing; in fact I tried to avoid even having responsibility for it. (light laughter)

So, those are the three kinds of things that I come at this with. And as I say, while it's not perfectly in tune to the title of this, I hope the message is that: it comes through to us, it can come through for you, too. One – you need editors who know your readers and who are passionate about serving them. Two – you need editors who will work with the ad department in both an offensive and a defensive way. And three: you need editors who care about your business because if you don't, you're not going to have credibility with the rest of your company. And you need it. That's it. (applause).

**NANCY REGENT:** I asked Bill to sit up here while Peter's setting up I'm gonna ask a few follow-up questions? Is that all right, so Peter can go ahead and get started. Tell us how you arrived at profitability.

**WILLIAM GRUESKIN:** Well, the old-fashioned way. We cut costs and increased revenues. (laughter) Cost-cutting is kind of an easy way to get profitability but it doesn't get you that far. And we actually haven't really had to lay anybody off our staff for two-and-a-half years, I'm happy to say. How did we get profitability? We do a few things: one is – as you know, we're a subscription site; when the site started and for many years, it was \$59 a year for people who don't get the print Journal and \$29 for people who do. We raised that by 33% so it went up to 39 and 79 in '02 and we did it right in the middle of the financial recession on Wall Street and right in the middle of some huge employment problems around the country, but we felt that we were really undervaluing what we had. And what we saw was subscription growth has definitely cooled down. We're now growing more like 3 or 4% a year; in the heyday we were growing in the double digits. But the revenue growth from subscriptions obviously has gone way up; it's up – well you can do the math – if you raise the subscription by 33% and you're growing your base by 3 or 4%, then you can see we're growing by about 40% now. And, in addition to that, we've been the beneficiaries of the big ad comeback. And we just reported our quarterly results and our ad revenue for first quarter '04 was about 40% higher than for first quarter '03 which was kind of the industry standard right now. I mean, most websites for '04 are showing very nice numbers compared to '03 but we see that going forward and we see our ability to that without adopting ad models that we think would be trouble for our readers.

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**NANCY REGENT:** Tell those of us in the room who are interested in this particularly how do you get your staff to buy into the fact that they need to talk to the ad folks?

**WILLIAM GRUESKIN:** Because there's certain things we won't do unless we have ad support for them. And that doesn't get so granular that we get down to certain stories. It's not like we say, "Well, gee, there's a story about Pfizer, let me call the guy who sells to drug companies and make sure that it's ok." We don't do that, but we started a health edition in WSJ.com and it's the same subscription price, has actually mostly the same content that you see elsewhere in the site, but it's designed on a very nice page, very accessible, with some original content, and some very specified e-mails and that kind of thing. And that was something that we talked to the ad department about in kind of a global way: Is health advertising something that you're interested in? Is this something that you see as something that would be good for you? And we also talk to the marketing department as well because we want to make sure that they saw it as something that would grow circulation. There are things that we do that we don't get any support from on the business side, but we do because they're important to do journalistically.

**NANCY REGENT:** But if you take a step back, how do you get the staff to understand: one – that a health edition is needed? How do they understand the customer and what the customer wants? Because it sounds like you're in conversations with the ad department to get to that.

**WILLIAM GRUESKIN:** Yeah, the conversations with the ad department on something like the Health Edition are not that direct that we give them the parameter of whether we're gonna go forward with it or not. But I do encourage my editors to be in touch with people on the ad department again not to get down to the story by story basis but to understand what they hear from their advertisers in terms of how people use the site. Sometimes it's just hearing them vent about things that other sites – that ad salespeople from other sites get to do that they don't, but ultimately, the buck stops with me and the general manager, and we're the ones that make the decisions about where the ads go.

**NANCY REGENT:** Have you made decisions not to do things in light of conversations with customers?

**WILLIAM GRUESKIN:** Um, with customers, by customers you mean advertisers or subscribers?

**NANCY REGENT:** Or things that you do on your site and they're just not interested in it; we're not gonna do that.

**WILLIAM GRUESKIN:** There are things that we do that get very little traffic and then we sort of make a second decision which is: Are they not getting traffic because they aren't interesting? Are they not getting traffic because they're poorly designed? I mean there's one interactive graphic that we started a while ago on personal finance and it got very little traffic and we were thinking about killing it and then we gave it to our design guys and asked them to redesign it and the traffic went up by a factor of four or five. So sometimes you have to look at it and not say, "Well, it's getting bad traffic; do we kill it?" Maybe it's getting bad traffic because you're not playing it right, because it's designed in such a way that it's too hard for people to download it.

**NANCY REGENT:** Ok, we have one question from the audience. You want to stand here? Say your name?

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**AUDIENCE QUESTION:** Yeah, George Sylvie, UT Journalism School. I just want you to elaborate briefly on you third, on your final summary point about the credibility issue – how this brings you credibility with the print Journal newsroom. I don't think – because you're so attune to advertising – I would think you're on the advertising side of the game. How does it win you credibility?

**WILLIAM GRUESKIN:** Well, when I say we're attune to advertising – I want to stress this point – maybe I haven't made it clearly enough – we're attune to making our business successful and, but it doesn't get to the point that advertisers determine what we do and what we don't do on the website. Most reporters understand that they need to have ads between the stories in order to get a paycheck at the end of the day. And the key is – and maybe I didn't say this clearly enough earlier – in the print world, those structures are defined very, very closely because they have the benefit of having been doing it for the last 160 or 170 years. In the online world, the size of ads whether they cover up copy, whether you've used interstitials whether you have audio and video – those are things that are all being sorted out. There's obviously a lot of pressure from the ad side. The benefit that I personally have is that as a subscription site, we have two big sources of revenue and we know that if subscribers feel that the ads are becoming too intrusive to the content, then we'll start losing subscribers so it's really not that much of an issue.

**NANCY REGENT:** Ok, Bill, thank you. Everybody hold your questions. Peter – Murphy's Law has just taken place, right? So you're gonna wing it?

**PETER ZOLLMAN:** I've decided to go without.

**NANCY REGENT:** Ok. All right. So, Peter Zollman.

**PETER ZOLLMAN:** Bill said I came without a Power Point and everybody cheered so I figured (laughter) *there's* my Power Point. I'm doing the same thing. I'm gonna talk about financial independence. It's great to be here. This is my second or third time at this conference and you've outgrown the room, which is a good thing. It's a phenomenal program; it's an excellent panel. It's good to see John again and meet Bill Grueskin.

I'm gonna tackle things from a little different perspective because this is a symposium about online journalism and what I'm really talking about is not the online journalism – it's the paying for it. If we're in a hundred yard dash, we've probably gone 5 to 10 yards down the path of determining what are the business models, what is the future and so forth and so on. I've only go about 12 to 15 minutes. Let me start the timer. And I sometimes do this in an hour, sometimes do it in 90 minutes, sometimes do it in 2 day workshops so I'm gonna try to blast through very, very, quickly.

The question I raise is: how will we make money and what will the future hold? I certainly don't have all the answers; if I did, you know I'd be way too busy to be at symposia where you don't get paid, right? I'm gonna try to blast through very briefly on a few topics. The first one is the whole question of profitability. Are newspaper websites going make money? Are they making money? When will they make money? How will they make money? And all of those things. And the short answer is: Who knows what profitability really is. For example, there are very few news organizations now where the newsroom costs are partly deferred partly covered by the online side. Bill has his own online newsroom, but I don't know if WSJ.com to which I proudly subscribe actually contributes back to the cost of operating the newsroom much as the newspaper does. So there's one question. At The New York Times, they literally pay a royalty for the rights to the copy. Most news organizations that's not true.

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Here's another question: What's profitable and does it really matter? You know a lot of newspapers – especially the smaller they go – the higher the margin of profit so a small newspaper, if you launch a website or if you launched a website, and it's making 20% profit, it dragging down the profit margins of the rest of the operation because they're operating at a 30 to 40% margin. There are now a lot of small market newspapers that have, you know, \$50,000 a year in revenue on their new website and they have \$35,000 a year in expenses so they have a 30% profit margin and they're profitable – they're making all of \$15,000 in a year; they're spending nothing, they're making nothing, but they're proud of it because they're profitable. (laughter) and that's a 30% profit margin and they're very pleased. Then you take a different site – same size newspaper – selling about \$2,500,000 worth of advertising against expenses of over \$2,000,000. Now those are very high expenses and that's only a percentage of 20 points versus 30 points, but it's also a \$500,000 profit and my submission to you is that eventually they are building a business for the long term, whereas the guys who don't even have a full-time person working on their website don't have anybody selling it, don't have any audience development, don't have anything other than the barest of minimums – they're not building a business for the future. I'd rather take the latter thank you very much. The other thing is it is clear to me even now that online newspapers and online media and online journalism is just scratching the surface of revenue development. We have just gotten started. I had one of my clients said to me about six months ago, he said, "You know, now we are starting to make money so fast, raking it in so quickly that we don't know what to turn next. And that's the fact; it's very hard to determine what are we gonna turn our focus our efforts on in terms of revenue generation. There are classifieds, and there is still a tone of growth to come there. Right now, the rates for classifieds are artificially low; they are depressed – they will come up – especially as the market shakes out. There are major advertisers who are just beginning to put 3% of their budget, 4% of their budget, 2% of their budget into online. That's gonna come up to 6, 8, 10, 12% and there are a lot more major advertisers who haven't started yet. There is online advertising for tiny advertisers and this is one of the most interesting phenomenon and I'll a little bit more about that, but Mom and Pops, who could never afford to advertise in the Austin-American Statesman or The Orlando Sentinel – they can afford to go online and spend money to get a very, very accurate depiction of what it costs them and what it returned. There will be a much higher accountability factor in a few years for all forms of advertising; there will be a much clearer understanding of the return on the investment in all forms of advertising – magazines, newspapers, television – because of the impact of interactive media – specifically the web, but also other interactive media. Because just as Bill can see immediately, we put up stories and this one drives traffic. We put up a story here – nobody looked at it. The same is true for advertisers. We ran this ad; we got business. Or we ran this ad and nothing happened. And in the new world in fact "we ran this ad and nothing happened" is ok – because if you run a google ad-sensor ad, you don't pay unless something happens. So you're not nearly as concerned about I'm gonna spend money and get no return. If you run contextual ads or certain ads that are pay-for-performance, if there's nor performance, you don't pay. And so for small advertisers. There is a very interesting model there. Revenue for content – that's just beginning. You know, there are only two successful subscription newspaper websites in the world – Wall Street Journal and the FT and I'll talk about that more in a minute. But there's paid newsletters, there are paid sites and there will more successful paid sites. There are e-mail newsletters that are sponsored. There are also cost savings that come about as a result of the Internet. For example, The Wall Street Journal in five to ten years will be one of the very, very few newspapers that has more than a page or a page and a half of stock tables. Those will go away. Now that's a huge savings for the newspaper company. I remember ten, twelve years ago the Atlanta Journal and Constitution cut back from five and a half... (tape ends).

... everyday stock tables to two and half. And they said they were saving \$1.8 million a year for each page they eliminated. So they eliminated three pages and they saved about 5.what? \$4

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million, \$5 and a half million because of interactive media. And they said we could give every person who calls and complains – this isn't before the days of the Internet – days of fax letters and audio text. We could place a fax machine at every person in the office, and every person who complains, and deliver a customized stock table report to them every single day for less than the \$5 and half million. So there were cost savings here. Who's profitable? Who knows. I will tell you this, though. Two, three years ago, everybody was saying: who's profitable? Oh, we're not making money. Or they are making money, but they're lying about it, some of which is true (laughter) a lot of which was true, you know fudging the numbers is a great thing and even

The New York Times digital has done that in some ways because they put in a lot of revenue that used to go to the news company that now goes to New York Times digital. That said, here are some phenomenal numbers that you should hear. Revenue for The New York Times digital company which is New York Times.com, Boston Globe.com – their New England newspaper group, but not their regional newspapers – revenue the first quarter was up 52.4% year over year. The profits were 8.4 million up from 3.2 million, so they had a profit margin of 32.6%. 32.6% - now you can bet that that is better than the profit margin at The New York Times by a radical margin. You can bet that that is way higher than the profit margin at The Boston Globe and it's bigger than probably the profit margin at many if not most of their regional newspapers – and if you think about that, that is not likely to go anywhere but up – especially in the long-term. You know, there may be drop next year if there's a recession again or you know, there's another war or an extended war or something like that, but that is not likely for the long-term to go anywhere but up.

Let me talk about registration for a minute. In a sentence, I'm for it. John Granatino's gonna talk about that some more. I could present dozens of examples. There are very few compelling reasons I can find against registration. There are lots of good reasons for registration. If you do registration on your registration website, make sure you do it for a reason. I had one client who said to me, "Well, we're gonna go to registration. What should we do?" And I said, "Well, before you do that, why are you gonna do that?" And he said, "Well because everybody's doing that." And I said, "And what are you gonna do with the data?" And he said, "Well, we need to start collecting the data." And I said, "Well, ok, that makes sense, but what are you gonna do with it?" He had no idea. "Where are you gonna store it?" He had no idea. He had no idea how this impacted his usage. He just – everybody's doing it, so we need to do it, too. There's a lot of that still in the Internet and it really is not a logical business reading.

Paid versus Free. Big debate. I got an e-mail with the subject line – I thought it was Spam – and I was wrong which is even more frightening. "You must not know very much." It was a guy who was unhappy with a column I had written in which I said, "Paid is a bad idea unless you're The Wall Street Journal or The Financial Times – just putting everything behind a firewall." There are things that people will pay for but you have to be careful about figuring out what they are, what the value is. He said, "Free doesn't pay salaries." And I thought to myself, "Oh yeah?" And I sent back an e-mail saying, "Oh yeah? There are thousands and I mean literally thousands of free print newspapers around the world including many with very strong editorial content, some have weak editorial content, but many have very strong editorial content; they're making it as ad-supported vehicles. Well, if you can do it in print, you certainly oughta be able to do it online because the costs are lower and so forth. Who's to say there's just one business model? It's too early to decide there's one business model. I don't think it's a good idea to go paid unless you have the unique extraordinarily high valued content that people want that you can then tell them that they can have it by paying you for it. You have to know what's unique, what incites people's passions: sports, money, mortgage rates, you know, home values – those things incite people's passions – and they're willing to pay for it. The dumbest example I've ever seen was the site where I had to register and pay to see their classified ads (laughter), this is a company

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that's proud of it. I think most sites and most content should be free right now – not all. You're building an audience and especially, you're trying to build a unique, distinct audience. If you just have the same people who are reading your newspaper, and you don't have anybody under thirty years old, and you're audience is dying out or moving away and so forth and so on, you're really not building a business for the future.

I want to talk about digital editions for just a minute. And I would have put up a slide of our report because we did a report on digital editions for a newsstand; it's a free report so you can download it from our website and it says AIMgroup.com. It discusses the reasons for putting up a digital edition of the newspaper. Now right now a digital edition is taking the newspaper and putting it online, which is sort of a backwards model. I mean it's a ridiculous idea on the surface, but there are a few good reasons for doing it. Number 1: it is a distribution channel and there are some people who want it. A lot of the newspapers and magazines that are doing this have found 2 to 3% circulation growth and that's a real number and that's a real value to people who want to receive it that way. Number 2: As Roger Fidler will no doubt tell you later that's just the first step in creating an interactive newspaper which is much different from today's websites that has flexible paper and that has updating on demand, updating more information and so forth and so on. The key is: you have to serve your audience and serve your advertisers with the news and information they want, when they want it on whatever device or platform they want it on. And right now, that's on newsprint, that's on a computer screen, but they're probably at least two or three people in this room with PDAs that get the news, there are people who get their news on mobile phones, particularly in Europe and Asia. That's a much greater penetration over there than over here, people who get it on television, news on demand, radio, who knows where it's going to be.

Let me talk for a minute about local search. And I did in a sense when I talked about the Mom and Pops, but this is a very scary topic for newspapers. Neil Buddy who was founder and editor of The Wall Street Journal online – his company and my company are putting together a report called: Local Search for Newspapers – all about the impact this will have and it is huge. There's Decks and Verizon which are two Yellow Pages company which have now made their yellow Pages interactive and searchable so if you want a 24-hour plumber in your zip code, you can just type in: 24-hour plumber, zip code and up come three or four. And those guys are gonna pay for performance. And that should be very frightening to newspapers particularly when it comes to the fact that I bought a car about three months ago and it occurred to be some weeks later – probably four to six weeks later – I never touched a piece of newsprint in the process, never touched a piece of newsprint in the process. Now I may be a little smarter and more savvy about online classifieds than the next guy, but I'm not that much smarter and I'm also 51 years old. There are more than a handful of people in this room who are more – 50 and up. The interactive media are younger than 50 and they are much more comfortable with it than newspapers. And that is going to be a difficult situation for newspapers in a few years.

Classifieds, another scary topic I spend literally two days and three days on this. I'm gonna blow through it in thirty seconds. Classifieds is a hundred billion – that's with a 'b' – dollar a year business internationally, globally, maybe more. And that's after the recession. When you look at dailies in the United States, when you look at weeklies, when you look at dailies in Europe, when you look at dailies in Asia, and Latin America and so forth and so on. Weeklies and a specialty publications and so forth, it's probably a good bit higher than \$100 billion and every cent of that is in play. Nobody knows where it will be in ten or fifteen years other than the model will be radically different than it is today. Who wins? I can tell ya I would not be betting on the newsprint mills. I don't think that is the future of classified advertising. Do I expect newsprints – newspapers – to dry up and blow away? No, but I don't think that's the future.

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I'm gonna do one last segment and then I'll wrap up. The Internet as a business process tool. Now we're talking about journalism and every publisher in this country talks about "my website." My website this, my website's losing money, I put two people on my website, I talk about three people on my website, my website this, my website that. First of all, the Internet is just the delivery truck; it's no different from the guys who gas up their truck and deliver the newsprint. It's not about the Internet; it is about delivering content and information. The Internet can also serve as a great business process tool for newspapers in journalism and in business. And I'll give you a real quick list of examples. Sale of subscriptions and I'm talking about print subscriptions, right? Newspapers are getting lots of print subscriptions from their website. Sale of online subscriptions. Sales of classified ads reduces costs, improve customer service and increases revenue. Sales of display ads, self-service display ads – that's a new thing – just getting started. But the advertiser instead of waiting for the ad sale rep to come in and design an ad for him or her, goes into the website and designs his own ad. They're finding – the research is very, very preliminary – but they're finding that advertisers who build their own ad, buy a bigger ad. Well, let's drive 'em to the website, then.

Customer service functions. You know, if I can instead of calling the newspaper and saying I want a vacation stop, if I can just go the web, not only is that better, cheaper, faster, but it's something I as a customer expect now; I demand that. And if they're not gonna provide it to me, it's unacceptable. In journalism, there are so many functions that the web can perform in the interactive media can perform. E-mail interviews. I do interviews now with people all around the world time and it's asynchronous; I don't have to get them on the phone. There are advantages; there are disadvantages but certainly that's one benefit. E-mail fact-checking – we got a call the other day – I'm being quoted in Workforce magazine. And they called up and said we just want to get the spelling of your name. And I thought, you know, it's good that they're fact-checking; I wanted to see whether they were gonna asked me to fact-check the quotes, which is really what I wanted them to check. But she could fact-check by going online and look or send me an e-mail – either way. Reader input, community tools for developing various communities of interest among your readers in your audience or audiences, having a board of advisors, if you're dealing with difficult topics, you can use the web and use e-mail and interactive media to develop information and tools among a community and audience. News gathering communications obviously. And finally, internal business functions. Electronic tear sheets and proofs. Saves the newspaper a ton of money which if we can eliminate those bodies over there, we can either increase the bodies somewhere else or more likely in today's corporate world, increase the margins. Newsprint auctions – saves the company money, procurement of various things. And browser-based products like front-end systems for classified ads and display ads and so forth. What it comes down to is that particularly local newspapers have to evolve, but also The Dow Jones has to evolve, from being just a newspaper to being an information company. And for the next few years, if you add a newspaper, now, the newspaper will continue to be the core product. But the information company aspect will grow and grow and grow in importance and the newsprint will probably diminish in importance.

If you think you've got problems? How'd you like to be in T.V.? Where I'm the guy with the remote control blowing away every thirty second commercial on my replay T.V. or my TIVO. O how would you like to be in radio where there's such audience fragmentation, you can't gather audiences anymore. How'd you like to be a recruitment advertising agency? What function do you perform anymore? So all of the media have difficult issues ahead. We have difficult issues but there are benefits and values in interactive media that can really help us deliver a product and deliver to an audience and to advertisers. (Applause.) Thank you. Sorry I ran long.

**NANCY REGENT:** Peter, what mistakes did we see early on and what have we learned from those mistakes in developing business models?

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**PETER ZOLLMAN:** Well, I bet that there are 95% or 98% of the publishers who if they could go back, would say we're never giving this away for free. And setting expectations up of free may have been a mistake. But, you know, we've developed a medium from scratch in essentially six years, maybe seven. If you didn't make mistakes, you weren't doing anything. And so I don't think it's important to look back at the mistakes. I think what it's important to do is realize there is just a tremendous amount of growth and learning ahead and nobody's got this all figured out yet. There seems to be a settling in and a complacency right now, but I don't think that people have it all figured out, and I think it's unfair to expect that everything is established as it will and should be.

**NANCY REGENT:** John, are you about ready?

**JOHN GRANATINO:** Anytime.

**NANCY REGENT:** Ok.

**JOHN GRANATINO:** Good morning, everybody. And especially, good morning to the audience out on the Internet. My name's John Granatino, nice to see you all. For all of its twists and turns, the online industry has had quite a run, moving from a 0 to a billion dollar industry just less than a generation ago to about a \$7 billion industry this year. Sure there was that first bubble a few years back, but even with that, online news operations are growing, the content is becoming more sophisticated and our audience numbers are going through the roof. And yet for all that progress, a single misstep can bring this whole house down. That's because the value trend line of the audiences that we're developing is declining. If we continue to deliver unknown, untargeted audiences to advertisers, we will find ourselves relegated to a world of commodity impression buys where only volume counts. For companies like Belo which own local media properties in twenty cities around the country, a commodity buy based on volume is not a fight that we can ever win against the likes of yahoo, and msn, and AOL. Belo Interactives Registration Initiative is one component of a plan to capitalize on the power of one to one marketing, made possible by the Internet. At the same time, it creates opportunities to glean greater value for the audiences we build with our websites. This morning I'll share with you Belo's targeting options developed from registration. By the end of the presentation, I hope you will have a sense of how we are using the data that we collect to serve our visitors and to serve our advertisers and that you will gain some ideas about your own registration strategies.

We're gonna start with a little bit – just a little bit – about Belo, for those of you who are not familiar with our company. And then I'm gonna go over our four key registration goals, give you an advertiser case study and then present a few streams of results –at we've gained from registration.

Belo Interactive is the Internet subsidiary of the Belo Corporation which is based in Dallas. It's the company's ninth largest media company, with nearly 150 years of building loyal audiences. We have major newspapers in Dallas, in Providence, and Riverside and we have T.V. stations in some of the fastest growing growth markets in the country, including Seattle, Phoenix, Houston, Dallas and on and on.

Belo is number one or two in all its broadcast markets and its newspaper sites or newspapers are well-known as destination locations for journalists; in fact both on broadcast and print, Belo is regarded as a destination location and what we'd like to do at Belo Interactive is make it as well a destination for interactive journalists.

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Belo Interactive attracts on average about 5.5 million visitors, generating over 110 million page views each month. DallasNews.com and ProJo.com in Providence are the number one local news and information sites in those markets and at many of our T.V. station sites, T.V. station locations in Phoenix, Seattle, Austin, Portland, Houston, St. Louis, we're the number one T.V. station and website as well. In 2003, Belo Interactive had revenues of 25 million dollars, which was up about 30% from the previous year. And our newspaper sites are well profitable and have been for several years. Our T.V. station sites are not – major reason for that are lack of classifieds advertising at T.V. station sites. But 2004 is a key year for us; it's the year that we've projected that overall in aggregate, Belo Interactive will be profitable. And after the first quarter, we're well on track for doing that.

Although we take the greatest pride from the continued loyalty of our customers (inaudible) of sites, there's no question about that there's a special honor in being recognized by our peers for journalistic excellence and meritorious performance. Belo is a journalistically driven media company which I don't mind telling you is refreshing in this day and age. In the last month alone, two of our T.V. stations have won Peabody Awards which is the pinnacle in the broadcast world. Our newspaper in Dallas has won a Pulitzer Prize and our newspaper in Providence was a finalist in the second Pulitzer category. At Belo Interactive, we've won thirteen Edward R. Murrow Awards in the last three years as well as last year, the prestigious Sigma Delta Chi award from the Society of Professional Journalists, one by our website in Portland, Oregon.

So why am I going on in a presentation about changing business models, why am I going on about this? Well, for one simple reason if we do not enjoy financial success, I am not going to be able to hire the number of experienced journalists to work on the sites.

When we went into registration, in 2001, three years ago now – April 25<sup>th</sup> will be our three years since our very first registered user signed on. We had some very specific goals in mind. First, we wanted to identify and value our customer segments. Secondly, having done that, we wanted to increase audience loyalty and their value. Third, we wanted to be able to migrate our audiences from our T.V. stations and newspapers, those audiences to the websites and back again from the websites back to our traditional media. And finally, and most significant for our business model, we wanted to change the way advertising is bought and sold online to make it more efficient, more effective, so that we would not fall into the trap of a lower CPMs for commodity big buys.

At the base of this strategy is registration. In October 2000, we started planning – thanks to the initiative of our then president, Jim Moroney, who's currently the publisher of the Dallas morning news and if you ever wanted a case study for how to have good convergence between a newspaper and a website, have the president of your online site company become the publisher of the newspaper; it works every time (laughter). B.I. was one of the first to register its site visitors and to deliver targeted e-mails to registered visitors who opted into our e-mail program and to offer – we were one of the first as well to offer targeted advertising online. Our registrants are asked basic information to start with like e-mail address and -- to set a name for themselves and then there is quite a bit of information and after doing a lot of research and talking to many focus groups, we decided to opt for more rather than less because we figured we had one good shot of a lot of these people and let's get it I now. It takes three minutes of time and then they never have to do it again. So, we ask things like: what's your social – (laughter) no, we don't ask that. We ask things like your birth and interests and topic of interest and some of your traditional media habits – like do you subscribe to our newspaper, do you watch our T.V. station, family income. We ask a lot of things, addresses – we do ask addresses and phone numbers and people by and large give us all of it; we only require a certain amount of it. But it's a different world now than it was six or eight years ago when there was higher level of suspicion –

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the people who were the key Internet users six or eight years ago are different than the people today. People today are pretty much everyday consumers and they're used to being asked these kinds of questions all the time for the products and services that they buy. Today we have more than 6 million registrations. And 1.9 million of those registrations say, "go ahead, send me e-mail and here are the topics that I'm interested in." And we use that as the basis for one of our targeted advertising programs.

So the first goal was: identify and value you customers. Who are – learn who are you heaviest users both in term of recency, and frequency and find out what you can about them. We found that our most frequent users represented a very small group of 5% of our users that do 50% of the page view consumption. And I think you'll find that most of your sites – it's gonna be pretty close to that. It's even more dramatic at sites that have heavy use of bulletin boards, where a very, very small number of people do a very, very large amount of the activity on the site. As we've heard time and again to day, the internet users still tend to be higher income and slightly younger than print readers although which each passing year, the difference between the two is disappearing and to a very large degree, these people do not subscribe to the newspaper. That differs from market to market. In Dallas where we have a couple of national franchises like the Dallas Cowboys, we have probably a higher percentage than normal of people coming to our websites from outside the market. And a city like Providence is a much higher degree of people coming to the website who already subscribe to the newspaper.

Audiences come to us to satisfy a wide variety of information needs unlike niche sites, which pick one topic and try to deliver that to you. So they come to us for a wide variety of needs – news, weather, sports, entertainment, local bulletin boards and so on. This gives us a strong local audience with a wide variety of targeting capabilities depending on the section they happen to be visiting. In our local markets, we're significantly deeper than national sites. This is some of the background information that we've gleaned from registration. And this not unlike the information you can get from almost any kind of survey but it goes a lot farther than this.

Once we've identified our audience segments, then the next thing we've wanted to do is to grow the value of those segments to us. That's because an undifferentiated person who's visiting our site of whom we know nothing, we can only sell certain kinds of advertising to them and all too often it looks like the remnant advertising that advertisers expect to pay less than a dollar CPM. But is this person's registered, if we know something about them, if we can target an ad specifically to them, if on top of that they say, "Sure, send me e-mails," suddenly they become much more valuable to us in a financial sense.

So to get there, we had to walk them up or walk them down the chain of value from trial, on the part of new visitors, to various retention programs to loyalty. And the basic tactics to get them there would include of course, the quality and immediacy of the news report, and in fact, immediacy on the Internet is almost everything in terms of growing audience and growing audience loyalty. We find that the more we update those site, the more loyal these visitors are, and they have come to expect, especially in these T.V. markets where T.V. stations have local competitors, our sites are often the only T.V. sites that are being updated throughout the day and into the evening and on weekends. And that has given us gains and audience that we would not have otherwise enjoyed.

But news is not the only way to inculcate loyalty on the part of customers. Promotion, when you own a T.V. station or a newspaper on the market, that's a powerful bit of marketing muscle. And if you can direct that in the direction of the website, then you're doing well.

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This is what passes for a technology slide by Mason's. I'm not technologist; it's pretty general. It's not enough to register people and use that information. That's declared data – declared information by them and tells us a lot about them. We have to understand what their behavior patterns are as well. And this is where audience management systems come into play. By tracking people, not by their name, but by tracking this specific user who is going through the site and seeing that he or she visits this order of pages three times a day, or once a month, or whatever it is, we develop behavioral profiles of these people and when we match those behavioral profiles with the declared data that we've learned about them from their registration, that makes all the difference. It also requires the significant investment in the ad serving capability that you have because once you have this information, it's only useful if you can then deliver an advertisement specifically to that person the next time he or she comes to your site. That's why the managing and delivering of audience profiles is so important. Registration and behavioral data – they're not mutually exclusive but they're very powerful in combination. So for an example, in traditional site targeting before registration, you are able to deliver ads in a way that doesn't look all that different from how newspapers can deliver ads to newspaper readers. An ad can be put in the main news section, it could be – if you're trying to reach males 18-34 – maybe you'll put it in the sports section. If you're trying to reach females – oh, I don't know – maybe you'll put in the features section, and so on. There's a real problem with that because of the people who come to our sports section online, 30% of them are female so if you an advertiser trying to reach males 18-34, you'll probably reach a good number of them but you'll also reach a lot of people that you weren't trying to reach and that's waste and it's not very efficient and it's not a good economic model for as addressable a medium as the internet is.

So when you add the new targeting capabilities, suddenly you can – sure we can target on the basis of what section you're visiting, but we can also target on the basis of – do you intend to buy an automobile? If you visited our automotive section at any of our websites three times in the last month, you've become part of an automotive – intent to purchase automotive profile that we have and we can now sell that to advertisers. If you're interested in travel and you're of a certain age and certain gender, we can deliver ads to you specifically on that basis as well. Much, much more valuable than just scatter-shooting ads onto a page and hoping that it reaches the people that you intended to reach.

Migrating audiences – so having identified your audience and having taken steps to advance them from trial to loyalty, we can now be much more sophisticated about migrating our audiences. This Venn chart is intended to represent the overall audience that is interested in news and information about Dallas. The yellow segment is newspaper readership and the blue segment is online registrations. The area in the middle represents duplicated audiences that are consuming both media. For the website, the newspaper readership represents an opportunity to grow to reach. So if we can sell an advertising campaign on a website and include with it a campaign in the newspaper, we've extended the reach of that campaign and the area in the middle becomes a bonus of frequency – for those advertisers who were looking for frequency and who have purchased both.

Having measured our audience, having improved its value, having enhanced our reach in frequency through partnership with affiliated newspapers and T.V. stations, we're ready to increase the impact of our advertiser's sales' messages. In some ways, we want to be similar to traditional media, for instance, by defining specific audiences, but we also want to increase the results our advertisers can expect through the efficiency and performance that an addressable digital medium can offer. Where the real gain for us would come however, was in developing unique solutions for our advertisers, solutions that print or broadcasts could never offer, owing to the restrictions of both of those mediums.

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This is the key part of the presentation and the reason to get involved in audience management and registration. We are able to deliver targeted messages directly to the advertisers' most valuable customers no matter where those customers travel throughout our sites. So as example, traditional placement if you decided you wanted to reach males 18-34, and in the sports section, and you've taken that banner out – that Comcast banner out, you'll reach those males, but you'll reach a lot of other people. You'll reach kids, you'll reach females who – you'll reach people who aren't in the age group – not very efficient. Imagine instead, precision placement that hits the exact target every time. The client's message will only reach the most valued customer segment no matter where the customer travels on the site. So in this example, she may be a person interested in travel and on this particular date she's not visiting the travel section. She might be visiting food or classifieds or the main news section and an ad targeted to her, to her profile follows her around without her knowing, without it being visible to her. All she knows is that her advertising suddenly seems a lot more interesting because it reflects her interests.

Here's an example of the impact of these kinds of improvements. This advertiser in Mitsubishi dealership wanted outreach visitors to the automotive section of DallasNews.com in the past thirty days and so these campaigns were served in the ways I just described. They had a response rate of almost 8% which is about four, five times what they would normally expect from – actually many more times than that – from an advertising campaign online. Their credit applications doubled during the period of this campaign. The searches on our site – on our cars.com affiliated site for Mitsubishi automobiles increased by 17% during this same period and the campaign generated 44% of the calls to the dealership at a time when there were eight other promotions going on at the same time. (light laughter) And we were able to track that by having specific 1-800 phone numbers designated to each of the promotions.

So to wrap up with results here, when you're dealing with untargeted audiences – when that's all that you can offer to your advertisers, you're dealing in a world of commodity impressions which drives down price, you're dealing in a world of lower performance, of low consumer relevance – consumer seeing ads that he or she may have no interest in seeing, and you're dealing in a world of unknown audience reach. By comparison, when you're reaching targeted audiences, you have powerful delivery combinations of reach and frequency, you have efficiency, you have superior performance, you have relevance to your audience and you have delivered the reach and frequency that your advertisers demand.

Some more results for Belo Interactive, e-mail revenue in 2003 more than doubled from 2002 and in 2002 was more than a million dollars and this year we're budgeted to more than double again. We've delivered about 1500 e-mail campaigns of targeted e-mails to customers in the last year and a half and we have over 700 existing e-mail clients. Our average CPM for a targeted campaign is more than double in untargeted CPM and we've delivered 150 targeted campaigns so far and best of all, I can pay for a larger news staff if they don't drum me out of the news business for knowing all this business stuff (light laughter). Belo spends its money disproportionately on journalists so success in targeting leads to success in content.

One last slide, the DallasNews.com's targeting revenue grew 143% from the first quarter of 2003 to the last quarter of 2003 and this is a percentage of total DallasNews.com revenue that is actually targeted revenue so in 2002 it was about 8%, in 2003 it was about 12%, in 2004 the budget is for it to be more than 20% and you have to remember that this isn't just an improvement of 20% over 8%, it's 20% of a much larger pie because our budget for 2004 revenue is much larger than the budget for 2003 revenue.

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Thank you very much for the opportunity to speak here and I turn it back over to our moderator. (Applause).

**NANCY REGENT:** Thank you, John. It's lunchtime and I know everybody's hungry so we only have time for a couple of questions, but I'm gonna ask our panelists to please have a seat, If you have a question, please come to the mic, state your name clearly, and one burning question?

**AUDIENCE QUESTION:** I have a question. John, I have twelve dollars for you that I want to give to the Belo Corporation for the University of Texas football newsletter, but you guys stopped taking my money; why was that?

**JOHN GRANATINO:** We're rethinking our newsletter. We'll get back to you there; we'll get back to you.

**AUDIENCE QUESTION:** I mean as far as targeted audiences and people wanting to pay for quality stuff; you guys were doing it already and I wasn't the only one – just like (inaudible) You know I wasn't sharing it with my buddies. We all – I knew four guys that – I was wondering why you guys –

**JOHN GRANATINO:** It's not an audience-related reason at all. The technology that we were using to deliver our newsletters was awful. And we could not – we were growing faster than the technology was allowing us and we needed to rethink it. In the process of which we got involved in all this and so now we're coming back to newsletters. We'll be right back at ya. So, I'll be happy to take that in advance. (laughter) Just get a receipt. (laughter).

**NANCY REGENT:** Ok, Emily Foster from Hoovers.

**AUDIENCE QUESTION:** Well, I was curious – you were talking about how it's hard to compete with T.V. advertising, you know, like people have the remote in their hands and they can skip the ads. I'm online all day; I never click on an ad so what's – how can you actually get people more interested in who is sponsoring the news. I mean, maybe sponsored pieces? I mean, The Wall Street Journal does some – you mentioned some health pieces and some other special reports, but how can you get the reader interested in who's behind them?

**NANCY REGENT:** Ok, you wanna start with John?

**JOHN GRANATINO:** Sure, well I'm a personal believer that the world of creative production and online advertising is abysmal and I think that's part of the problem, I think – in fact just to deal with that problem, we've recently put much more emphasis in our company on that and hired a person whose fulltime job is to improve the quality of the creative. A second aspect has to do with what I was talking about – delivering advertising that the customer actually cares about. If you're just delivering any old ad to that customer, and it has nothing to do with their lifestyle, or their interests or their purchasing decisions, you're just asking for them to disregard the advertising. I think that's the key thing.

**NANCY REGENT:** Bill?

**WILLIAM GRUESKIN:** I second what John said. (laughter) Yeah, I mean if you give – first of all, I think you've also got now this idea that if somebody doesn't click on ad, then the ad has no value. I mean, a lot of what our ad department's doing on the online Journal – we're certainly not the first and only ones to do it – is they're doing branding campaigns where you'll see – we had one for Porsche the other day – where you just saw Porsche ads everywhere. And if you

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spent three or four minutes, the box or message got through to you. Now does that mean that you had to click on the ad and then give them your name and phone number or is it – you know, in the same way that when you see a T.V. ad, if you see an ad for a Boxer, you may not call up Porsche for that day but it puts it in your head so. I think part of it is also getting away from this idea that an ad's success rate is determined by how many times somebody clicks on it.

**JOHN GRANATINO:** Right. Nobody can click on a billboard or a T.V. ad but there's plenty of money spent on advertising in those media for that reason – for branding.

**AUDIENCE QUESTION:** That's true. If I can just follow up really quickly, there is one of the most effective forms of advertising people are finding out is actually people advertising inserted into videogames. Apparently that seems to be very effective. I see the horrible future when I see –

**NANCY REGENT:** I didn't understand you – in what?

**AUDIENCE QUESTION:** Into video games. Product placement. Actually, the person playing the game can actually open the refrigerator and pick up a coca-cola. But do you foresee in the future that kind of product placement being somehow – is there a way of inserting that in the news? That would be horrible! But so you see that?

**PETER ZOLLMAN:** I wouldn't do it in the news. There's plenty of other space in the page. It doesn't have to be in the news story; I would draw a very strict line between what – what customers expect to see from their news stories, and what customers expect to see adjacent to their news stories.

**WILLIAM GRUESKIN:** Yeah, I don't think any credible site is gonna be adopting direct internal ad placements in stories.

**PETER ZOLLMAN:** That said the google ad-sense program which is contextual advertising that Bill spoke about a little bit and I touched on for three seconds is considered #1: very effective, #2: it is also considered very ethical because it's identified as advertising, it's adjacent to but not within the content of the editorial and it is served based on what you're looking at. I'll give you a different, very quick example, of – yesterday, I was coming to Austin so I went to weather.com – see what the weather was going to be like. Right there under the weather, it said, "Traveling? Check flight information." I clicked on it. Guess whose ad came after that? Not Southwest – Marriott. That's targeted; that's interactivity. That's what this medium can be and should be about. I didn't mind the Marriott ad although I wasn't staying at a Marriott and I appreciated they know where I am because my zip code's already embedded in their code – they knew I was going to Austin, Texas so they told me if you're traveling...

**JOHN GRANATINO:** Next time you're coming to Austin go to KVUE.com (laughter) – they'll give you weather information.

**NANCY REGENT:** Ok, we have time for one last question. Will you state your name please?

**AUDIENCE QUESTION:** Yes, Gary Kebbel from AOL. First of all, I just want to say this has been a great panel; I really enjoyed this. And I have a quick question I think for John. I'm wondering if you had any research that shows from your advertisers before you started the targeting program and after – the same advertiser – after the targeting program who was in it and do you have any results comparisons from you know, advertiser A before targeting and advertiser A after targeting.

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**JOHN GRANATINO:** We do; I showed you one relatively easy to get example. We have through our audience development department a whole press kit of five, six, seven examples of that. I'd be happy to send them along or go to [BelInteractive.com](http://BelInteractive.com) I think you can get access to them there as well. I invite you to do that.

**NANCY REGENT:** Ok, will all of you please join in thanking our great panelists this morning.  
(Applause).