

13th Annual International Symposium on Online Journalism

Day 2, April 21, 2012: Morning Session - 9:00-9:30 a.m.
Online Journalism Startups Win with the Network Effect

Chair: Dan Gillmor, Founding Director of the Knight Center for Digital Media Entrepreneurship at Arizona State University

Keynote Speaker: Bob Metcalfe, Professor of Innovation and Murchison Fellow of Free Enterprise, University of Texas at Austin, Cockrell School of Engineering

Q&A: Dan Gillmor and Bob Metcalfe

Dan Gillmor: It's a pleasure and honor to introduce Bob Metcalfe. On the principle that you are journalists, I assume you've read the bio, the brief one about Bob. I want to just tell you a brief story that many of you may not have heard. And this is going back to pre-history in the Internet which is 1995. And Bob had a column that was a must read in a magazine called InfoWorld, which was called From the Ether, as I recall. And Bob was watching the Internet get big and lots of people using it and announced in late 1995 in his column that the Internet was going to essentially collapse in 1996, and I even think you predicted the day and said, "If I'm wrong, I will eat my words." So, the appointed day arrives and the Internet was still working. And in 1997 at the World Wide Web Conference in Silicon Valley, Bob shows up and mulched the column in some liquid and proceeded to eat his words. And it was.... Actually, it told me a couple of things about Bob. One is that he is willing to take risks and in ways that are really worth it, and as you know from his bio. Secondly, he doesn't mind being wrong as long as he's interesting, which is always true. And the third one was it took some integrity to come back and actually eat his words. [chuckles] So, I'm really honored again to see Bob. It's been a long time. And thank you for joining us.

[Applause.]

Bob Metcalfe: Eating that column was the biggest publicity stunt that I ever pulled off. [laughter] My readership hit a million right after that. I'd much rather be consistent. No, I'd much rather be right than be consistent. Anyway, I've spent all night working on this talk with the aim of answering the question, how do you monetize journalism? And I want you to know that I failed. [laughter] I know. [laughs/laughter] But fortunately, Dan Gillmor is here, and after my remarks, he will during the Q&A session reveal the answer to that question. [laughter] You'll also notice.... [some feedback] Uh-oh, yes. You'll also notice that I'm not using PowerPoint. I was on the board

13th Annual International Symposium on Online Journalism

of the company that developed PowerPoint during the eighties. We sold it to Microsoft for \$14-million in 1987. So, I've not been using PowerPoint for a very long time. [laughter] And by the way, had I known the audience was going to be so big, I would have used 5 x 7 cards. [laughter] No.

So, I think what I'd like to comment on is disruptions. And I guess I want to bring consolation to journalists that, you know, you shouldn't take this personally that the disruption of industries is pretty common. The Internet has been disrupting industries for a long time and posing many of the same challenges to other people. For example, mail. The U.S. Postal Service is in deep yogurt thanks to the Internet. The telephone industry is completely gutted and flipped over. Television. Newspapers, the topic here, we've been losing circulation since 1984, I think, was the peak year of daily newspaper circulation, 1984. That was also the year of the debut of the modern Internet, 1984. A version of the modern Internet. So, there's a bunch of disruptions continuing now. The next big three, now that we're done with journalism, is our energy and education and healthcare. So, I'll return to the topic of education in a moment.

So, how to monetize journalism. So, I have three kinds of answers. One is we need to focus on the third kind of content, which you probably discussed at length, but I'll touch on it. We need to figure out how to get the readers to pay. And third, Dan Gillmor will give you the answer at the end of my talk. [laughter]

I tweet. I've been tweeting a couple of years. I've tweeted 7,421 times. I follow only 49 people, which means I don't pander in order to get followers. And I now have—the big moment is coming—I have 9,981 followers as of this morning, so the big 10,000 is a few days away. And how much money do you think I've made from all of this tweeting that I've been doing for a couple of years? Zero. On the other hand, I was recently invited to write a book review for the Wall Street Journal. I read the book. That took a day. I wrote the review. That took a day. And then, my editor said, "Where should I send the check?" And I wasn't expecting a check. That's the first surprise. He [asked] why was I doing this? I wasn't doing it for the money. Anyway, the check arrived. It was \$500, which I've done the math. That's \$31.25 an hour, which is about a fourth of what the University of Texas pays me to be a professor, which is way less than I used to make as a venture capitalist. So, that monetization, while a surprise, was not very impressive.

So, what's going on? What's going on is the Internet is, well, disrupting media and journalism in particular. And I think the way that it's doing it is that the Internet is getting faster and faster and faster and reaching more people. In the seventies, the first Internet ran at 10 characters per second and all those characters were uppercase. I remember the big day [of] the media revolution when we went to upper and lowercase. And then later, someone introduced that ribbon that could be red or black ribbon, so we had color suddenly. But then it went on from there as you well know. So, the

13th Annual International Symposium on Online Journalism

speeds went up and the quality of the media went up. It got hotter and hotter and hotter, and that is what's threatened media.

So, for example, the Internet — the Ethernet, which is the underlying plumbing of the Internet, it carries all the packets around that does all this disruption of journalism. The current version of Ethernet, my baby, is now running at 100 gigabits per second, 100-billion bits per second. And that's not even the most impressive number about this plumbing. The more impressive number is that last year, 2011, according to the International Data Corporation, 1.2-billion new Ethernet connections were shipped. 400-million of those wired and 800-million of those Wi-Fi. So, since there's only 7-billion of us on the planet, where are all those going? Pretty soon, everyone's going to have one or two or five or something. So, I think that's the much more important number than the speed, is the number of people we're reaching. And I'll come back to that point in a moment.

So, speaking of media, I not only wrote a column for InfoWorld, I was the CEO and publisher for three years. That was a print publication. When I arrived in about 1991, we were doing 50-million a year. We had about.... Our print run was 350,000 a week. We had a 20% operating profit. And I noticed that there was separation of church and state. One of the principles of this magazine and of its owner, International Data Group, was strict adherence to the separation of church and state, so much so that I was not allowed, as publisher, to go down to the seventh floor where we kept the editors ... even to turn in my column, [because] I was writing a column. That turns out to be unstable to be publisher and to write a column, because I kept savaging our advertisers, and they didn't appreciate that. InfoWorld today.... Oh, so we got up to 100-million in revenue in about three years. That was really cool. We would sell a single page of advertising for \$32,000. And my column was on the back page. So whenever my page number was a three-digit number, we were rolling in dough. Those were the good old days. InfoWorld today is no longer in print. It still exists online, and I think its revenues are way less than a tenth of what they used to be because of the problem that you're all familiar with, which is the revenue from online advertising doesn't seem to match that from print.

So, I'm writing this column. Let's say, an independent survey showed I had 629,000 U.S. weekly readers, but then I was syndicated in 90 countries. So, let's say, a million readers. And I asked them one week during the beginning of advertising [on the Internet].... So, advertising wasn't the first method of monetizing the Internet, but it was coming on in the middle nineties. So, I asked my readers how much they'd be willing to pay for my column. And I got a ton of response through email. So, this was before basically the web. So, I got a ton of emails and with various numbers in it. Some of them were just snarky, hostile emails as usual, but eventually I got enough of them that there were numbers, and I took the average in a very systematic and scientific way, throwing out the emails I didn't like...[laughter]...and in any case, it was a pitiful 20 cents. That is, in general, my readers said that they

13th Annual International Symposium on Online Journalism

didn't care for my column all that much and that they'd maybe be willing to pay 20 cents for it. OK. Multiple 20 cents times a million. So, that would have been \$200,000 a week for writing that column. Now, that's monetizing journalism. We never actually tested that, so we continued to monetize with advertising. The magazine was controlled circulation, so we had no circulation revenue. We just sent out a qual card and annually got our customers to estimate what they bought in various categories, and then we admitted a select number. About half those who applied got to be a subscriber to the magazine, and then we sold their attention to advertisers because of their buying power. So, that was the method of monetizing InfoWorld.

So now, we have the problem that news is now being.... We have more news than ever now. I guess that's the problem. We have an abundance of news, so when supply is high, prices go down, and so that's our problem—we have too much news. And yet, we complain about it, especially people who are serious about journalism. So, I use Google News. I guess you must have heard yesterday that more people get their news online than in print now. I guess for a few years that's been true. I go to Google News three or four times a day. I'm sure you do. But what's wrong with online news, aside from the fact that we can't monetize traditional journalism? There's a serendipity. Have you heard the serendipity objection? You know, if you get that Google News thing and you only see this certain stuff that you're looking for, [then] you miss all the serendipity that you used to pick up on that broadsheet daily newspaper. But I think that's a red herring. Serendipity is easy to program. We can generate all the serendipity you want. I don't think that's a real objection.

Then there's personalization. You can now make the news very personalized. Of course, the criticism there is that that's narrowing. Somehow we're all going to immediately go to the extremes of discourse, because we only read what we agree with. And plus, to solve that problem, that is, solve the personalization problem, we have to know who the reader is and then use that information, and that suddenly becomes a violation of privacy. So, we're a little bit trapped there.

And then there's my favorite method. I think we need to get our readers to pay for quality journalism. That is, I don't think advertising is the ultimate answer. It's certainly the current answer. And that requires micropayments, being able to pay for little bits and pieces. Like paying 20 cents for my column would be a good example of a micropayment. One of the problems, I think, with getting people to pay has been the frictions in payment, and those frictions are going down. So, we can hope that eventually those frictions will reach a low enough level that people will pay for an article. And maybe not even 20 cents, maybe 2 cents or .2 cents, but eventually micropayments, I think, will be in the vicinity of the answer.

13th Annual International Symposium on Online Journalism

I have four minutes, so it'll be over soon. Don't worry. [laughter] So, there's this law called Metcalfe's Law. It's about 25 years old, widely disputed, and I love—a little bit like eating my column—I love disputing my law, standing up for it against an onslaught of one professor after another. My law basically says that the value of a network grows as the square of the number of users. And the implication of that is a graph which shows the cost of delivering the network is sort of linear like this, but the value is quadratic, and eventually, that is, the number of users times the number of users they can reach, which is about N-squared, that curve eventually overtakes the linear. And then there's that point up here called the critical mass point, and that phenomenon, the critical mass point, recurs over and over again in networks. Networks are generally difficult to use and not worth it until they reach critical mass, and then that quadratic takes off. And that's where we're going to monetize journalism, is past critical mass, and the trick is getting past critical mass.

So, do you all know the difference between word of mouth and virality? I think a lot of people confuse that, and it's at the core of getting above critical mass. So, word of mouth is when people say they like your product and they recommend it to their friends. And it's really good to have word of mouth, but it's not as powerful as virality. I guess I'm bringing coals to New Castle. Are you all reading your email? [laughter] Or are you typing down everything I say? I can't quite tell.

Man: Writing it down.

Bob Metcalfe: Yeah. OK, good. I'm glad. [laughs/laughter] Well, you see, I teach now, and I'm frequently in a room like this full of students, and they're not writing notes down of what I'm saying. [laughter] I have a guest — frequently, I have guest speakers, and then I go into the back of the room and look down on all of the computer terminals. [laughter]

Rosental Calmon Alves: That's dangerous.

Bob Metcalfe: Virality is when it's in the interest of your reader to get her friends to read too. It's in their interest to do it. It's not just sharing the good news of how good your publication is, but there's some mechanism in the publication that makes it in my interest for you to be a member. So, for example, Facebook as great virality. I've got my pictures of my children, and you can't see them unless you're a member of Facebook, too, so it's in my interest to get you to be a Facebook user, and then suddenly it's 800-million or whatever the number is now. So, getting virality into the publication will build the readership and eventually, in ways that I have not figured out, we are going to monetize that.

So, I have one minute left. I wanted to notice education. So, education and journalism are very similar. They involve informing people, and they're in the public interest. And education is right this second being disrupted. It's

13th Annual International Symposium on Online Journalism

education's turn. So, professors are very soon going to have the same problem that journalists have, I mean, if not already. For example, a professor at Stanford, Peter Norvig, had a course in artificial intelligence and neural—he has a course—artificial intelligence and neural networks at Stanford, and he decided to put it on the Internet on a learning platform. A few weeks later, he had 120,000 students registered for the course, delivered the course, eventually gave certificates of completion to 20,000 people. Not 20 is a lot less than 120, but it's a lot bigger than 42, which was the number he had the preceding semester. So, what did Professor Norvig do? He left Stanford University, and he now has a startup whose purpose is to deliver his education around the university.

So, I remember Polaroid and Kodak. You remember in the photography business? What happened to them? Well, now there's Harvard and MIT and Stanford, all of which are getting *Phoenixed*. [laughter] So, the largest university in the United States is not the University of Texas. We have 51,000 students here. We are not the largest university in the United States. The largest one is Phoenix University. They have about ten times the number of students that we do. But here's an even more stunning number—the University of Texas is not even the largest university/college in Austin. We have the Austin Community College, which is now bigger than the University of Texas in Austin. And the size, we can all.... The Ivy League will certainly look down its nose at Phoenix and the Austin Community College, but what they are doing is they haven't read Christianson's book on disruption, and you always get disrupted by these junkie competitors who come up from below, which has happened in journalism. We have all these bloggers, which as you know is just low-grade journalism. [laughter/laughs] And now, we're about to have all these low-grade professors who are going to be disrupting the whole idea of having a degree.

So, MIT has a similar course with circuits and electronics—6002X. 100,000 people have registered for that course at MIT, which by the way is more than the number of bachelor's degrees that MIT has awarded since inception in 1861—85,000 bachelor's degrees. One course, 100,000 attendees on a learning platform.

Dan, would you now like to reveal how we're going to monetize journalism?

[Applause.]

Question and Answer Session:

Dan Gillmor: I will say actually after leaving the newspaper business, something that's not in my bio in your program is, having gotten involved in several startups in online media, one that failed miserably and embarrassingly that had a lot to do with journalism, another that did well

13th Annual International Symposium on Online Journalism

enough to get acquired that had nothing to do with journalism, probably not a coincidence, [and] also not a coincidence that I was much more in charge of the first one that failed than I was with the second one.

Bob Metcalfe: But wouldn't you agree that startups are going to answer this question?

Dan Gillmor: Startups are going to... I think everyone in this room gets it now [that] we're going to see a million experiments and a few of them are going to work, and we don't know what they are yet. We're seeing it. But Bob, talk about, you've been involved in entrepreneurship and in fast-changing climates for a long time. What are the things that those have in common that might help them in their things that they're starting? What should they be watching for, embracing, and worried about as they get involved in the startup culture?

Bob Metcalfe: I think one of the dangers is a word called *dignity*. So, you are all dignified journalists ... or a lot of you are. And we're dignified. We have a tradition. We have principles. We have, you know, commitment to public interest and objectivity and practices. We know about sources and checking and all sorts of [things]. And the startup world does not respect any of that. And so we can get in a huff about it and [say], you know, "That's not really journalism." I was on a panel with a New York Times reporter who wanted protection for his sources, but not the sources of bloggers, because he was a true journalist as opposed to, who were these people writing these blog thingies? They were not entitled to source protection, but he was. So, I guess my warning there is the dignity thing, where we are special, and we are just going to monetize what we've always done. It's going to be just like it's always been, only we're going to have a new monetization model. That is not likely to work out. The startups will savage that idea. What will result will be better, but different.

Dan Gillmor: So, what we had in the past for newspapers was essentially monopoly broadcast, oligopoly, now a free-for-all. What's the...? You're an investor. You're on a lot of boards. You've seen a lot of stuff come through your firm when you were doing — was it Polaris, I guess? Did you see anything? And what have you seen that gets you excited about monetizing information in a general sense?

Bob Metcalfe: Well, alas, we did not invest in Google, and we did not invest in Facebook, and we did not invest in Twitter, but those are stunning phenomenon. Actually, we are all suspicious, right? They bought Instagram for a billion dollars? [audience reacts] So, we have 80-million amateur journalists, photo journalists out taking pictures with Instagram and that's worth a billion dollars? That's exciting stuff. I have no clue as to why it works. But I was at dinner last night. We were all sitting out. "What is that about? What is it?! The photos don't even look good." [laughter]

13th Annual International Symposium on Online Journalism

Dan Gillmor: Well, is it a bubble? Are we in a new bubble?

Bob Metcalfe: We're in a bubble. This is like dot-com two. And they don't call it dot-com. Have you noticed they don't use the term dot-com? Because it would remind us of 2000. [laughter] So, we're in a minor bubble. So, after a few of these big IPOs, what will happen is the Microsoft's and the Google's will roll forward over these startups, the way Microsoft, you may remember, rolled forward and killed all of the startups in its ecosystem. That'll happen. So, there's a bit of a bubble. The way I can tell it's a bubble, I do startups here at UT, and 18 of the 20 startups are websites. And they're all interesting and everything, but there's definitely a bubble. Everyone wants to do a website now.

Dan Gillmor: Yeah. We have someone who has a question.

Laura Lorek: Hi. Congratulations. You're just over 10,000 Twitter followers in this class, so...

Dan Gillmor: I figured you guys would fix that.

[cheers/laughter/applause]

Bob Metcalfe: It happened? It happened?

Rosental Calmon Alves: Yes.

Bob Metcalfe: Wait a minute. Let me take a look at that. [laughs]

[laughter]

Dan Gillmor: Bob has to tweet the good news.

[laughter]

Bob Metcalfe: Yeah, excuse me while I tweet that. [laughs]

Dan Gillmor: While he's doing that, why don't you ask...?

Man: You were complaining that they were...

Dan Gillmor: He can multitask while we have a question.

Bob Metcalfe: No, that's not true. Oh, no, this may not be updated though.

Man: Oh, yeah.

Bob Metcalfe: Oh, yeah. OK, yeah, I see.

13th Annual International Symposium on Online Journalism

[laughter]

Laura Lorek: Right. Mr. Metcalfe, my name is Laura Lorek and I run Silicon Hills News, and we've had the pleasure to write some stories about you.

Bob Metcalfe: I retweet you all the time.

Laura Lorek: Yes, thank you so much! It's the network effect in practice there. But what I wanted to ask you about is, you have one semester startup. There's Tech Stars. There's Capital Factory. There's all these incubation programs to create the next great website or, you know, Instagram, whatever, but there's none focused on journalism. Do you think we need to have Tech Stars for journalists or an incubation program, where we're, you know, all sitting in a room for three months figuring this stuff out?

Bob Metcalfe: Well, Professor Alves has a course in journalism, entrepreneurial journalism. That sort of incubatory. We had.... Last semester, we had a company—I think it may still exist—called Purple Site, which was a political news site, I mean, right down Main Street. And it was called Purple because they wanted to be fair and balanced. So, the red and blue mixed together is ... purple. [some laughter] And so, we had a journalism activity among our 20 companies. It was a website.

Laura Lorek: Do you think that kind of — that'll help create the next...?

Bob Metcalfe: Yeah. It's a great idea to have a journalism incubator. Incubator is a startup....

Rosental Calmon Alves: Let's work on that.

Bob Metcalfe: Let's work together on that. So, startup incubators are all the rage now. There are about 12 in Austin alone. And these are various institutions that provide warmth and protection for early-stage startups. And they're all the rage now. I'm a little frightened about that, because right after something is all the rage, what happens next usually? When the journalists get finished writing articles about how great it is, then they start writing articles about how overblown it is, [laughter], and then they all go like this... [motions downward]. But I think incubators are a great idea. Journalism, where would that be? Where would be the best place to have a journalism incubator?

Laura Lorek: Here at the University of Texas.

Several: Yay!

Bob Metcalfe: Yeah. But we could use — we can probably use 10 or 20 of them spread out all over the world probably.

13th Annual International Symposium on Online Journalism

Laura Lorek: We'd start it here and then the incubator can be its own business.

Dan Gillmor: There's a bunch of stuff going on in that category. I mean, as everyone here knows, [there is] the Knight News Challenge and a bunch of things in that general group. The idea of putting people together in one room, you know, an incubator for community journalism in a community, a physical community, is kind of an interesting thought, though hard for me. I don't have your answer on the monetization.

Bob Metcalfe: Well, I'm running my own little incubator with Twitter. So, I have a publication.

Dan Gillmor: OK. Let's get another question here.

Beth Alder: Hello, Mr. Metcalfe. My name is Beth Alder. I'm a journalism student at San Diego State. The question I have for you is, in my studies, I've heard a lot of differing opinions about the role that bloggers are playing in the journalism world. Some in favor and some against. As a blogger myself, as well as traditional journalism student, you know, I'm looking to bridge that gap. So as a media professional, what advise would you have for people who are looking to bring blogging into the traditional journalism world so it's not looked at as that thing that's low-grade journalism and that it's a respectable part assisting in the journalism process?

Bob Metcalfe: I think that has really already happened. Because I think blogs, not in their current form, but they are rapidly evolving, you know? But I think they have already become respectable journalism. They are not well monetized yet. Most of them are hobbies. Well, there's a few exceptions. There's a long tail, so there's a few really big blogs that probably are profitable and then there's a gazillion that aren't.

Dan Gillmor: You find a niche that can be supported by advertising. But typically as you heard yesterday with the Philadelphia people, it's a variety of businesses that surround the blog that end up being where the revenues come in, not just that. Can we get one more question here?

Beth Alder: Thank you.

Ken Martin: I'm Ken Martin. I have the Austin Bulldog, a 501(c)(3) non-profit for investigative reporting here in Austin. You haven't said anything about monetizing non-profits. We're all.... There are 60 members of the Investigative News Network, and there's two around the country, one in Canada, one in Puerto Rico, and the other 58 here in the U.S. What do you have to say about monetizing non-profit journalism?

Bob Metcalfe: I don't see the distinction between for-profit and non-profit. It's not a big distinction in my head, so maybe I was talking about non-profit

13th Annual International Symposium on Online Journalism

too. I view that as a small variation. Maybe it isn't. But it's just a method of finance. So, I guess non-profits look to get their money from the government and foundations, and for-profit try to get the money from readers and advertisers. Is that the difference?

Dan Gillmor: Different tax purposes.

Bob Metcalfe: Well, that's not the first order of distinction. If I were to start dividing journalism, my first division would not be between for-profit and not-for-profit. I think they have essentially the same problems.

Ken Martin: All right. I think maybe what I heard you say about being dignified certainly applies to my operation. Maybe we need to be a little edgy or something. [chuckles]

Bob Metcalfe: Well, there's sort of a false dignity that some of us have. We're in love with the past, and we have a notion of dignity. And then this raucous world of the Internet with all these blogs, they don't care much about what we look back on.

Dan Gillmor: Then, we'll be dignified at lunch having old copies of Bob's columns mulched up for [lunch]. Yes.

Jonathan Groves: I'm Jonathan Groves with Drury University. I've been fascinated by disruptive innovation. I was curious what disruptive journalism ventures have caught your eye and think hold the most promise moving forward?

Bob Metcalfe: I don't have a better answer to that than the last time I was asked that question, which is Google and Facebook and Twitter, to me, are it. Now, you look inside of Facebook and you look inside of Google, you see lots of journalistic entrepreneurship going on in various — in the blog world too. But there's no particular publication that I would identify as....

Jonathan Groves: I guess for those of us that, you know, are single person operations or one or two or three, that's where I was thinking. I mean, with Google and Twitter, they're so large, they have that advantage. For those of us who are trying to make our way and cover our communities and connect with our communities, what are the models? Have you seen anything?

Bob Metcalfe: But a lot of those one, two, and three people journalistic enterprises are inside of Google.

Jonathan Groves: Inside. I see what you're saying.

Bob Metcalfe: Inside of Facebook, inside of Twitter, experimenting, looking for their audiences and seeking monetization. And you have noticed we have not answered that question here just now. [laughter]

13th Annual International Symposium on Online Journalism

Jonathan Groves: Thank you.

Dan Gillmor: And on that ambiguous note, let's thank Bob Metcalfe.

Bob Metcalfe: Thank you.

[Applause.]