

**School of Media, Culture, and Creative Arts  
Department of Internet Studies**

**The U.S. newspaper industry's relationship with  
online media 1980-2005**

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**This thesis is presented for the Degree of  
Doctor of Philosophy  
of  
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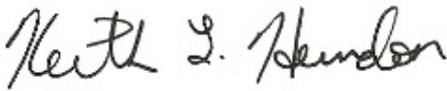
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## Declaration

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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## **Abstract**

The U.S. newspaper industry's relationship with online media 1980-2005

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This thesis examines from a historical perspective the issues and forces that shaped the U.S. newspaper industry during the formative years of the online era, specifically 1980 through 2005. The thesis explains this period as one of extreme change and transition as it explores the years leading up to the mid-1990s when newspaper publishers first confronted the Internet and adopted it as an online distribution platform. The thesis also discusses the early 2000s as the time when an Internet-based media economy emerged to the detriment of newspaper business models. The thesis relies on the tenets of media industries scholarship, and in doing so, provides a thorough examination into the business relationships that existed between newspaper companies and online media forms during this period. Using numerous examples, the thesis details how newspaper companies viewed online media forms, how they deployed them, and for what purpose. The analysis of this activity provides insight about how the decisions made during this period influenced the newspaper industry's economic condition at the end of the decade.

The thesis explains from the perspective of the newspaper industry that the Internet arrived as part of a progression of technologies that had influenced the media during this period. Beginning with videotext through to proprietary online systems, the thesis demonstrates that these earlier platforms had informed newspaper companies how online media operates as a communication platform. The thesis discusses the importance of interactivity as a practical attribute of online media, but recounts how cultural and organizational artefacts kept newspaper companies from embracing interactive functions as they developed online products. As interactivity increasingly led to user empowerment during the Internet era, the thesis reveals how the reluctance of newspaper companies to cede or share content control with their audience placed them at a competitive disadvantage and contributed to discrediting the newspaper industry's overall business model.

## Acknowledgements

This thesis would not have been possible without the motivation, mentoring and instruction from my supervisor, Dr. Matthew Allen. Throughout this academic journey, Dr. Allen never ceased in providing encouragement. He was called upon to be critic and counsellor, but it was his tremendous skills as a teacher that fostered the confidence necessary to reach this stage of the process. Although the nature of our work together will change, it will not cease and the friendship we share will endure.

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One does not reach the level of doctoral study without a foundation of scholarship from earlier academic work. Several scholars provided that foundation for me and must be recognized: Dr. Donald Maletz, University of Oklahoma; Dr. James Gentry, formerly of the University of Missouri; Dr. Kent Middleton, Dr. Thomas Russell, Dr. Wallace Eberhard and Mr. Conrad Fink, all from the University of Georgia. These fine academicians challenged me to perform at a high level. My life was enriched from the effort they made on my behalf.

Lastly, there is no way to express fully the contribution made by my wife, Avonne, through her never-wavering support of this personal goal. We have been together for nearly 25 years and her capacity for indulging my dreams never ceases to amaze me. The sacrifice in pursuing this degree was that the time spent in libraries and in front of computers was time away from her. Avonne, I love you and thank you for the life we share.

*“If we did all the things we are capable of doing, we would literally astound ourselves.” - Thomas Edison*

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## List of Acronyms

|      |   |
|------|---|
| ANPA | American Newspaper Publishers Association |
| AOL  | America Online Inc.                       |
| ASNE | American Society of Newspaper Editors     |
| CNN  | Cable News Network                        |
| FCC  | Federal Communications Commission         |
| HBO  | Home Box Office                           |
| HCI  | Human Computer Interaction                |
| HTML | Hypertext Markup Language                 |
| ISP  | Internet Service Provider                 |
| MIT  | Massachusetts Institute of Technology     |
| MSN  | Microsoft Network                         |
| NAA  | Newspaper Association of America          |
| NCN  | New Century Network                       |
| NCTA | National Cable Television Association     |
| VDT  | Video Display Terminal                    |
| VIA  | Videotex Industry Association             |

# Introduction

A Pittsburgh newspaper published a column in 1903 contemplating what newspapers would be like in the year 2000. The author's forecast was "technologically naïve" considering that radio and television were yet to be introduced. He also idealistically predicted there would be no wars to cover, but speculated that "all sorts of other events will be followed and reported, irrespective of distance."<sup>1</sup> However, the column was "uncannily prescient" in suggesting that readers in the twenty-first century would have little interest "in what the editor thinks."<sup>2</sup> But the most relevant aspect of this column was not something written, but implied. The turn-of-the-century futurist never questioned the newspaper industry's survival. He simply took for granted that newspapers would be around in that distant future.

This proved to be a valid assumption. The newspaper industry has survived the more than 100 years since that column appeared. Should such a column be written today, however, the author would face the future of the newspaper industry with much less confidence. The success of the Internet and the newspaper industry's own missteps have caused industry executives and analysts, journalists and scholars to re-examine the position of the printed newspaper within the media landscape. Newspaper companies struggled to remain competitive in the online era and faced deteriorating financial trends—precarious circumstances made worse by a deep economic recession. Newspaper companies—having lost half of their advertising revenue since 2000—now search for new business models that will stave off extinction.

This thesis examines and reports from a historical perspective the issues and forces that shaped the U.S. newspaper industry during the formative period of the online era, specifically the years 1980 through 2005. The thesis explains this period as one of extreme change and transition and will seek to ascertain how the decisions made during this period influenced the newspaper industry's circumstances at the end of the decade.

Looking back from today, this period can be seen as the time when the Information Age transformed from rhetoric into something tangible. Digital computer technologies emerged and were married with telecommunications

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1. Littlewood, "A View from 88 Year Ago of Newspapers in Year 2000," 62. [The 1903 article was attributed to T. Barron Russell, an editor at *The Pittsburgh Gazette*.]

2. Ibid.

infrastructure to form information networks. The early closed, proprietary systems demonstrated the potential of computer-based communications. However, the open architecture of the Internet represented a paradigm shift that altered the balance of power between information providers and their consumers. The thesis explores the years leading up to the time when newspaper publishers first confronted the Internet, the years when the Internet was adopted by newspapers as a distribution platform, and the years immediately following that period when an Internet-based media economy emerged to the detriment of newspaper business models.

The research for this thesis uncovered an ongoing analysis of the newspaper industry's past and speculation about its future. Material from industry and mainstream press and scholarly journals provide a constant commentary that reveals an industry anxious about what always seemed to be described as a precarious future. The industry's self-doubts, however, were tempered by the equally constant successes of a business model that generated large profits even as underlying business fundamentals such as the share of the advertising market and circulation were declining.

The variety of material demonstrated that the newspaper industry in the United States of America has a tradition of introspection. From an academic perspective, this tradition is manifested within the disciplines of media history and media industry studies. The following section of this introduction discusses this thesis within the context of those disciplines and is followed by an explanation of the supporting methodology. This introduction also includes relevant background information regarding the newspaper industry in order to place this thesis in a proper historical context. Finally, the introduction explains the organizational structure of the thesis and provides an outline of each chapter's content.

## **Media History as Research**

McLuhan, sometimes described as the father of media studies, is an essential figure in the discussion of media history. He is recalled for inextricably linking human history with the development of communication technologies over time. Sparks explained that McLuhan "claimed that the invention of print brought about cataclysmic change in human culture and that the invention of electronic media started a major revolution that we have yet to complete."<sup>3</sup> McLuhan did not live to

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3. Sparks, *Media Effects Research: A Basic Overview*, 243.

see the emergence of the Internet, but his observation that “the medium is the message”<sup>4</sup> is viewed by some as a “prophetic vision” of how the Internet blurred the lines between content creation and its distribution.<sup>5</sup> McLuhan, as Sparks noted, “never did content analyses, surveys or experiments to test his ideas.”<sup>6</sup> His contribution to media history as a discipline is derived from the concept that great insight can be achieved by studying qualitatively what has come before. Hodge observed that McLuhan’s “initial object of study was not the revolutionary coming of the new electronic media but the previous revolution, the coming of print and its 400 years of dominance.”<sup>7</sup> Hodge noted that “McLuhan’s grand narrative of the history of media took place against the background of a conventional history,” which provided a framework for his theories.<sup>8</sup> McLuhan’s specific influence on this thesis is found in Brooke’s observation that “McLuhan routinely criticized our culture for forcing new media into doing the work of the old.”<sup>9</sup> The inherent tension that arises from such activity is explored throughout this thesis as the newspaper industry tried to forge a relationship with online media. McLuhan stated: “When faced with a totally new situation, we tend always to attach ourselves to the objects, to the flavor of the most recent past. We look at the present through a rear-view mirror. We march backwards into the future.”<sup>10</sup> For media history, McLuhan’s words are a guide for not only interpreting the topic of study, but in producing the history itself. His work illustrates how to discern and comment on future media developments by rooting those observations in what can be gleaned from previous media developments.

In this light, media history research can be deployed as a tool for use in broader media and new media studies. Peters commented “that the strength of new media studies and media history lies in their merger.”<sup>11</sup> Media history is not without the same shortcomings that are inherent in any history. Kyrish observed that “a major difficulty in learning from the past is that we already know how it turned out.”<sup>12</sup> She cautioned that historical reviews can be limited because “implications of past actions can only be confirmed through—and because of—the passage of time,” explaining

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4. McLuhan, *Understanding Media: The Extensions of Man*.

5. Hodge, “How the Medium is the Message in the Unconscious of ‘America Online,’” 341.

6. Sparks, *Media Effects Research*, 237.

7. Hodge, “How the Medium is the Message,” 341.

8. *Ibid.*, 345.

9. Brooke, “Cybercommunities and McLuhan: A Retrospect,” 23-24.

10. McLuhan, as quoted by Brooke, “Cybercommunities and McLuhan,” 23.

11. Peters, “And Lead Us Not into Thinking the New is New: A Bibliographic Case for New Media History,” 15.

12. Kyrish, “From Videotext to the Internet: Lessons from Online Services 1981-1996,” 5.

further “that knowing about past outcomes makes it extremely difficult not to see those outcomes today as inevitable and therefore knowable.”<sup>13</sup> The media historian must strive to see the period reviewed through the lens of those living the events and understand that those participants did not have the benefit of complete foresight.

Regarding this point, Stöber discussed the limitations of those living in the moment of what is later studied as history. He wrote: “Suppose contemporaries of Gutenberg had been asked about the social consequences of Gutenberg’s invention” of moveable type. He concluded that “no contemporary of Gutenberg would have had any chance to imagine newspapers and magazines.”<sup>14</sup> This same concept applies to modern inventions as well. People at the start of the personal computer era did not grasp the extent to which the device would affect society. Kaletsky noted “that even as late as 1980, no one would have put any significant probability on computer sales exceeding car sales by a factor of ten to one.”<sup>15</sup> These examples—the invention of moveable type and the introduction of the personal computer—are two of the most significant events in media history. Understanding that the full comprehension of those innovations eluded their contemporaries underscores the burden of media historians. When examining human reaction to events and circumstances, it becomes imperative to account for context. Otherwise, media history research becomes a tenuous exercise.

Researchers cannot escape the fact that current knowledge serves to bias and prejudice history. Researchers must accept the reality that as knowledge changes over time so does the understanding and interpretation of history. Peters noted this, stating that “the way in which scholars understand history colors and shapes the evolving and contingent enterprise of understanding media.”<sup>16</sup> Even with that caveat, however, Peters believed that media history serves as an important component in understanding the development of new media, which makes it an integral part of new media studies as a discipline. He wrote: “to study new media is to ride squarely atop the ever-unfolding crest between the past and the present.”<sup>17</sup> This thesis acknowledges the juxtaposition of past versus present, and features new media as an essential element of its narrative. However, this thesis is not new media history per se; it was approached from the perspective of the newspaper industry. Therefore, the

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13. Ibid.

14. Stöber, “What Media Evolution Is: A Theoretical Approach to the History of New Media,” 484.

15. Kaletsky, *Capitalism 4.0: The Birth of a New Economy in the Aftermath of Crisis*, 122.

16. Peters, “And Lead Us Not into Thinking the New is New,” 14.

17. Ibid.

thesis is a narrative history of the newspaper industry's reaction to the emergence of new media and chronicles the newspaper industry during a period of transition.

By approaching its subject as media confronting transition, the thesis aspires to fulfil an assumption expressed by Gitelman who wrote that "looking into the novelty years, transitional states, and identity crises of different media stands to tell us much, both about the course of media history and about the broad conditions by which media and communications are and have been shaped."<sup>18</sup> Furthermore, in considering the newspaper business collectively as an industry, the thesis identifies with emerging scholarship specific to media industry studies. Media industry studies can be understood as a subset of the broader cultural industries genre and considers history as a significant component of the discipline.<sup>19</sup>

As a media history undertaken in the spirit of media industry scholarship, this thesis found inspiration in the works of Winseck and Light. Winseck researched the early telegraphy era between 1840 and 1910 in Canada, Britain, and the United States, while Light explored facsimile as a 20<sup>th</sup> century medium. Winseck wrote that "contemporary discussions of new media, information services and convergence proceed if these are entirely new phenomenon" but noted that his research found "a similar pattern of events" in telegraph industry's history.<sup>20</sup> Similarly, contemporary discussion of the newspaper industry's relationship with online media often begins with the emergence of the Internet, but this thesis examines a much longer and more complex history.

Winseck's work revealed that "newspaper publishers were among the first and most generous investors in setting up telegraph operators, providing the largest source of revenue, and establishing organizations ... to exploit the potentials of electronic communications."<sup>21</sup> Just as Winseck recounted the newspaper industry's efforts in telegraphy, this thesis will do the same for an era that began 70 years later. And it will attempt to deliver on the same goal: "If recognizing historical patterns provides any guidance for the present, perhaps the history of electronic communication presented in this paper can provide some insights into the nature of media evolution today."<sup>22</sup> Such work creates a forum for exploring how media

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18. Gitelman, *Always Already New: Media, History and the Data of Culture*, 1.

19. Holt and Perren, *Media Industries: History, Theory, and Method*, 2.

20. Winseck, "Back to the Future: Telecommunications, Online Information Services and Convergence from 1840 to 1910," 137.

21. *Ibid.*, 140.

22. *Ibid.*, 153.

industries react to forces of change and for understanding how those reactions are manifested in product decisions over time.

Light wrote that the field of “new media studies, with its frequent comparative historical focus, opens a door for scholars to revisit and to question the historiographical boundaries of the old media studies – what technological systems have received disproportionate attention, and what new histories of old media might be written.”<sup>23</sup> Although this thesis is undertaken from the perspective of an old medium, it honours Light’s premise by explaining how technologies such as videotext and cable television were deployed by newspaper companies in a quest to exploit online media. As Light found with the gaps in media history regarding facsimile, the discussion of the newspaper industry’s online experience is often limited to the Internet era – downplaying the fact that the newspaper industry’s online era had begun more than a decade earlier. To provide the level of insight suggested by Winseck and Light, media history must draw its perspective of many sources and disciplines. The following section of this introduction, explains the methodologies deployed in pursuit of the goal.

## **Methodology**

In discussing how to approach media history, Gitelman suggested that researchers first think about several broad questions that “have practical ramifications for the ways that media history gets researched and written.”<sup>24</sup> Gitelman’s questions included:

Is the history of media first and foremost the history of technological methods and devices? Or is the history of media better understood as the story of modern ideas of communication? Or is it about modes and habits of perception? Or about political choices and structures? Should we be looking for a sequence of separate “ages” with ruptures, revolutions, or paradigm shifts in between, or should we be seeing more of an evolution? A progress?<sup>25</sup>

When considering these questions as they applied to this thesis, a research framework emerged. The thesis examines newspaper companies through the choices they made and the structures they created in response to technology developments during a defined period of the online era. The actions of one newspaper company can

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23. Light, “Facsimile: A Forgotten ‘New Medium’ From the 20<sup>th</sup> Century,” 371.

24. Gitelman, *Always Already New*, 1.

25. *Ibid.*

be separate and distinct from the actions of another newspaper company, but they, nevertheless, are members of the same industry. Therefore, in keeping with the media industry construct mentioned previously, the thesis also examines these responses collectively as the newspaper industry.

This thesis broadly belongs in the genre of historical institutionalism in that the newspaper industry is a societal institution.<sup>26</sup> It also contains some elements of a comparative historical analysis in that it studies “historical sequences and take seriously the unfolding processes over time.”<sup>27</sup> However, this thesis does not rely extensively on a comparative approach in order to minimize recognized shortcomings. As Chapman noted, not everyone “will agree with the choice of people as influences. Others may see different points of comparison ... [and] comparative statements can become too simplistic, tenuous or generalized—that is, open to intellectual challenge as being inaccurate or misguided.”<sup>28</sup> Therefore, this thesis addresses the topic as an expository analysis and provides depth to the narrative through the liberal use of examples and quotations. It strives to place the material in the proper context of the period under review, while reserving the right to explain when newspaper industry assumptions or executive observations may have been proven wrong at some later time.

Holt and Perren recognized that media industries study is interdisciplinary drawing from work undertaken in many fields including: “film and television studies, communication, law, public policy, business, economics, journalism and sociology.” They also promoted the notion that relevant material can be gleaned “far beyond the traditional purview of academic study,” noting that “discourses in the trade papers, the popular press, and academic publications are supplemented by writing in digital communities, online journals and the blogosphere.”<sup>29</sup> This thesis follows such an interdisciplinary approach and has drawn material from all of these sources. Holt and Perren asserted “this range of perspective is both a necessary component and a constitutive element of” media industries study.<sup>30</sup>

The thesis has deployed primary sources to provide industry background, examples of industry activity and direct insight from participants, while material from secondary sources such as academic research is used to provide analysis where

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26. Pierson and Skocpol, “Historical Institutionalism in Contemporary Political Science,” 693-721.

27. Mahoney and Rueschemeyer, *Comparative Historical Analysis in the Social Sciences*, 12.

28. Chapman, *Comparative Media History*, 2.

29. Holt and Perren, *Media Industries*, 1.

30. *Ibid.*

appropriate. For primary material, the thesis has drawn heavily on articles published in *Presstime*, an industry magazine published by the Newspaper Association of America (NAA). Other examples of industry and trade publications include *Editor & Publisher*, *News Inc.* and *Online*. The thesis also includes primary material from a number of industry reviews such as *Columbia Journalism Review*, *American Journalism Review* and *Nieman Reports*. Primary material was also found in a variety of newspapers and consumer magazines as well as material published directly by companies such as press releases and financial documents. The primary research also includes the received wisdom about newspaper and Internet companies that is derived from stock market data and market analyst observations.

Secondary material was gleaned from numerous scholarly journals and books. Examples of the journals consulted include *Journalism Quarterly*, *Newspaper Research Journal*, *Journal of Media Economics* and *New Media & Society*. The efforts of dozens of scholars are featured in this thesis; however, the works of Pablo J. Boczkowski and Sandy Kyrish were essential to defining its historical framework. A bibliography of all sources cited is included at the end of the thesis.

Boczkowski's influence on the methodology deserves a special mention given that he observed that a "misunderstanding ... quite pervasive in both academic and popular discourse" is that the newspaper industry's move to the Internet "was some sort of revolutionary occurrence and without any roots in the past." He argued that "it was a far more evolutionary process influenced by a history of tinkering with multiple forms and many facets of consumer-oriented electronic publishing."<sup>31</sup> This thesis serves to corroborate this line of reasoning as it will—through an organized review of pertinent events—illustrate how deliberate the newspaper industry's approach to online delivery actually was.

Within a media industries perspective, it also is essential to the methodology to be clear by what is meant when using the phrase "newspaper industry." Smith explained that "one writes 'the newspaper,' but of course the newspaper exists in three or four quite different varieties."<sup>32</sup> Smith was counting nationally circulated newspapers such as *The New York Times* and *The Wall Street Journal* as well as metropolitan and small town dailies. There are other types of newspapers such as weeklies and those focused on specific topics such a community within a larger city,

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31. Boczkowski, *Digitizing the News: Innovation in Online Newspapers*, 50.

32. Smith, "Transition to Electronics: From a Bright Past to an Uncertain Future," 11.

entertainment or regional business news. For the purposes of this thesis, however, the term “newspaper industry” is used to refer to the collection of companies that publish daily newspapers either nationally or regionally.

As a media history, it is also necessary to define the period under review. The thesis starts in 1980, which is recalled as a symbolic beginning of the “Information Age.” This period coincided with the introduction of technologies promising to deliver interactive media to the consumer market. Cable television was emerging as a wire of connectivity to the home to compete with telephone companies; the personal computer was being hailed as a tool that would reshape society. Led by the venerable Knight-Ridder Inc., the newspaper industry emerged in the early 1980s as a pioneer in early online media. The year 2005 was chosen as the end point for the thesis because it is recalled by many as the time when the traditional newspaper business model was discredited. Near the end of 2005, Knight-Ridder, the one-time online pioneer, announced that it was selling all of its newspapers and closing the company.

However, the years 1980 through 2005 only should be considered as an organizational rather than definitive framework and should not be mistaken to mean explicitly chronological. While the thesis spans an approximate quarter century, it does not rigidly follow the happenings according to a prescribed set of years. The material would have been unworkable in such a format given that there are few precise beginnings and endings. For example, the newspaper industry’s deployment of videotext systems overlapped in the early 1980s with the industry’s investments in cable television projects. Another example of overlapping can be found when partnerships with companies such as Prodigy and America Online were underway as experiments with the Internet were launched.

While 1980 represents the year that newspaper companies began deploying online technologies, the genesis of these projects was in the electronic publishing activity of the 1970s. The end point of 2005 reflects the announcement that Knight-Ridder would be closing the company, but the actual closure did not occur until the following year. Also, it is only through a contemporary lens filtered through the knowledge of what has transpired in the newspaper industry since 2005 that Knight-Ridder’s announcement can be recalled as a capstone event.

The unifying thread of the period under study is the emergence of interactive technology—first in propriety forms and later through the open network standards of the Internet. Therefore, by deploying a systematic review of primary sources and

scholarly literature, the thesis examines how the U.S. newspaper industry responded to ‘Information Age’ rhetoric and reacted to the emergence of interactive technologies throughout this period.

Kyrish referenced the work of Fischhoff and his concept of “creeping determinism,” which she described as “the human tendency to mentally reorganize historical outcomes into a linear and seemingly preordained process.”<sup>33</sup> A thesis deploying an expository style produces a linear narrative by its very nature, but the analysis explains that the history of the newspaper industry during this period was anything but preordained.

To create a foundation for examination and analysis, the thesis explores statistics and rhetoric that illustrates the condition of the newspaper industry at the beginning of the period being studied (1980) and at the end (2005). This industry and market background information is presented in the following section.

## **Industry Perspective**

The newspaper industry at the beginning of the 1980s was very prosperous with overall revenue at an all-time high following several years of double-digit growth. Total advertising revenue had climbed from \$5.7 billion in 1970 to \$14.8 billion in 1980, which made newspapers the leading advertising medium. The number of newspapers had remained essentially flat during the 1970s and total circulation also remained flat at around 62.2 million daily copies. Sunday circulation, however, had increased from 49.2 million copies in 1970 to 54.7 million in 1980. Newspaper industry employment had grown by 47,000 jobs in the 1970s bringing the total in 1980 to 420,000 workers.<sup>34</sup> The industry added another 12,000 workers in the first year of the decade providing a strong boasting point for the industry’s lead trade group: “With this latest spurt, newspapers passed steel mills, automobile/car body plants and auto parts manufacturers to assume the lead among the biggest U.S. manufacturing employers.”<sup>35</sup> As radio emerged as a national media phenomenon in the late 1920s, the Great Depression ravaged the newspaper industry. Between 1929

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33. Kyrish, “From Videotext to the Internet,” 5.

34. Newspaper Association of America (NAA). <http://www.naa.org>. [NAA was formed on June 1, 1992, by the merger of seven associations serving the newspaper industry. The associations included the American Newspaper Publishers Association, the Newspaper Advertising Bureau, the Association of Newspaper Classified Advertising Managers, the International Circulation Managers Association, the International Newspapers Advertising and Marketing Executives, the Newspaper Advertising Co-op Network, and the Newspaper Research Council.]

35. *Presstime*, “Newspaper Jobs now Total 432,000; Most in Nation,” 50.

and 1933, newspaper advertising revenue declined 45 percent. Several hundred newspapers ceased publication, which forced thousands of employees out of work.<sup>36</sup> Buoyed by the demand for information during the Second World War, the newspaper industry recovered from the Depression era. It withstood the introduction of commercial radio in the 1930s, the rapid expansion of television in the 1950s and 1960s and the stagnant economy of the 1970s. It entered the 1980s believing and acting as a formidable media industry competitor.

In January 1980, the chief executive officer of Gannett Inc. and also the leader of the industry's trade association, described the coming decade as one of "challenge and opportunity for newspaper people." He summarized three distinct trends:<sup>37</sup>

There will be more diversity of news and views than ever, and more competition too. There will be more leisure time than ever for our audiences, and the interests of those audiences will be more specialized. There will be more new technology, which will give us the means to better fill the needs of those audiences.<sup>38</sup>

This thesis is particularly concerned with Neuharth's third trend, in which he anticipated an increased use of technology. The statement demonstrated the industry's early belief that its mission included deploying new technologies—whatever they may be—in order to serve its readers.

Neuharth's comments also illustrate how newspaper industry leaders were at the leading edge of the rhetoric. The basic premise of a technology-driven societal revolution became a common theme in popular literature and culture during the early 1980s. The revolutionary rhetoric is reflected in the works of such authors as Alvin Toffler<sup>39</sup> and John Naisbitt.<sup>40</sup> These works, espousing a coming period of significant technological change, became foundational material for later authors such as Nicholas Negroponte<sup>41</sup> and Esther Dyson.<sup>42</sup>

The industry's early rhetoric also exhibited an understanding that new technology represented potential new competition, but it was expressed in ways that

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36. Emery and Emery, *The Press and America: An Interpretive History of the Mass Media*, 4<sup>th</sup> ed., 119-123.

37. Neuharth, "Opportunities for Newspapers will Abound in Exciting '80s," 2. [Allen H. Neuharth was chairman and president of Gannett Inc.]

38. Ibid.

39. Toffler, *The Third Wave; Previews and Premises*.

40. Naisbitt, *Megatrends: Ten New Directions Transforming Our Lives*.

41. Negroponte, *Being Digital: The Road Map for Survival on the Information Superhighway*.

42. Dyson, *Release 2.0: A Design for Living in the Digital Age* and *Release 2.1: A Design for Living in the Digital Age*.

reflected confidence that newspaper companies would accept change and adapt to new market conditions. Consider the following excerpt from an essay published in early 1980 by the industry's trade association:

The new technology we've discussed will change our business more drastically than the conversion from hot-metal printing or any other technological evolution that we've experienced. But unlike those evolutions, if we don't take advantage of these new opportunities, those outside the newspaper business will. Many people believe that the 1980s will deliver society into the 'The Information Age.' If newspapers are alert, new technology has taken us to the threshold of a business limited only by our imaginative and creative capacities.<sup>43</sup>

From this point in time, newspaper companies engaged in a myriad activity as they attempted to exploit new technology or defend against it.

The thesis explores the newspaper industry throughout this period as its companies launched and cancelled videotext projects, entered and abandoned cable television partnerships, lobbied to keep the telecommunications industry out of online information, partnered (briefly) with proprietary online services, and, finally, confronted the emergence of the Internet. Examining these topics as distinct milestones in the history of the newspaper industry provides insight and understanding about the industry as its underlying business model deteriorated throughout the period.

The industry's early efforts with videotext were deemed failures by many when they proved expensive relative to the audience they attracted. In search of a new online strategy, newspaper companies turned to partnerships with proprietary online systems that emerged in the late 1980s and early 1990s. But these efforts, too, were criticized as limited in scope. Critics contended that newspapers needed to do more to secure its future. Maney summarized this perspective: "The newspaper industry is a deer frozen in megamedia's headlights, soon to be creamed if it doesn't get moving."<sup>44</sup> Rather than bold initiatives, however, newspapers companies committed to their online alliances with companies such as Prodigy and America Online (AOL) until the Internet erupted.

As newspaper companies migrated to the Internet as an online platform, they confronted many of the same issues that had bedevilled earlier online projects. The

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43. Watts, "The '80s: Telecommunications," 41. [Douglas Watts was a member of the American Newspaper Publishers Association's legal staff.]

44. Maney, *Megamedia Shakeout: The Inside Story of the Leaders and Losers in the Exploding Communications Industry*, 167.

thesis examines the newspaper industry's approach to the open structure of the Internet and explores how the Internet led to new investments, partnerships, and acquisitions and caused the industry to reconsider fundamental business processes and procedures.

By 2005, the newspaper industry had undergone significant changes, which were at least partly due to its response to the Internet. Advertising revenue peaked in 2000, and the subsequent years found the industry struggling with recession and increasing online competition.<sup>45</sup> The industry's advertising growth had lagged behind other media during the 1990s. In the mid-1990s, television—led by a surge in cable advertising—supplanted newspapers as the nation's largest advertising medium. By 2001, newspapers' share of the advertising market also had fallen behind direct mail.<sup>46</sup> The hope that online revenue would offset declines in printed revenue failed to materialize.

The erosion in advertising market share tracked declining circulation that plagued newspaper companies during the second half of the studied period. Similar to the 1970s, newspapers had managed to keep circulation stable during the 1980s. However, by 2005, total daily newspaper circulation in the U.S. stood at 53.3 million copies, a decline of more than 14 percent in 15 years.<sup>47</sup> At least 293 daily newspapers ceased publication during this period, largely in markets where economics conditions did not support more than one daily newspaper.<sup>48</sup> As the number of newspapers declined, so did the industry's total employment. The industry had remained a job creator throughout the 1980s with employment peaking at nearly 486,000 jobs in 1991. In the subsequent years, however, the industry lost more than 121,000 jobs due to production automation, expense controls and the decreased number of newspapers. Employment stood at less than 365,000 at the end of 2005, its lowest employment total since the 1960s.<sup>49</sup> When Knight-Ridder announced at the end of 2005 that it was selling its newspapers and closing the company, industry executives understood that their business had fundamentally changed. Newspaper companies had managed some success in attracting online audience, but they had no clear strategy for monetizing that audience and their business remained inextricably dependent on the printed product even though it was losing ground in the marketplace. In looking back to this

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45. Newspaper Association of America, <http://www.naa.org>.

46. Ibid.

47. Statistical Abstract of the United States, U.S. Census Bureau, 704.

48. Ibid., 705.

49. U.S. Census Bureau, <http://www.census.gov>.

period, 2005 represents a watershed moment. It was the point in the industry's history where tangible evidence—not only pundit's prognostications—suggested that the newspaper industry's business cycle had run its course.

### ***Predictions of Demise***

There had long been predictions that computer technology would lead to the industry's demise. Ted Turner, the founder of Turner Broadcasting and its Cable News Network (CNN), forecasted in 1980 that the daily newspaper industry would not survive the decade. In 1990, Turner admitted that his timing was off, but reiterated his basic prophecy: "It may take 10 or 20 more (years). Newspapers will eventually go."<sup>50</sup> By the mid-1990s, prominent industry insiders also were speculating about the end of printed newspapers. A Knight-Ridder executive working with new electronic platforms said print would be replaced with electronic editions by 2005, and a former editor turned Internet consultant predicted newspapers "will disappear over the next 15 to 20 years."<sup>51</sup>

Although the timing of these predictions did not come true, the increase in negative discourse about the future of printed newspapers underscored how the industry's reputation had shifted from Information Age pioneer in the early 1980s to flailing victim by the early 1990s—even before the Internet had emerged as a powerful new force in the media marketplace. A popular author described newspaper companies as belonging to the "mediasaurus," the soon-to-be extinct mass media, and charged that they were not investing enough money in new technologies to deploy them effectively.<sup>52</sup> A leading management consultant speaking at a newspaper marketing conference said "if this is the age of information, [then] this should be the dawning of a great era for newspapers, not their eclipse." But he concluded with an observation that the newspaper industry had a history of acting too cautiously, stating "I'm not sure that it's up to that level of craziness that's required for survival."<sup>53</sup> After decades of success and media industry leadership, newspaper executives were unaccustomed to such public criticism.

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50. Walker, "Another Role for Turner," D2.

51. Bogart, "Expect No Substitutes: Printed Newspapers Will Ride Out the Electronic Wave," 41. [Statements were attributed to Roger Fidler, a pioneer in Knight-Ridder's electronic endeavors, and Frank M. Daniels III, the former executive editor of *News & Observer* in Raleigh, N.C.]

52. Crichton, "Mediasaurus: The Decline of Conventional Media," <http://www.crichton-official.com/speech-mediasaurus.html>.

53. *Presstime*, "Peters: Get Crazy, or Else," 30. [Statements attributed to Tom Peters, a management consultant best known as the author of *In Search of Excellence: Lessons from America's Best-Run Companies*.]

In a lengthy rebuttal published in the newspaper association's trade journal, an editor wrote of traditional media: "Newspapers and networks may have been slow to react to the Information Age," but "they will ultimately be its architects."<sup>54</sup> This comment is illustrative of the newspaper industry's collective belief throughout much of the online era that it would figure out how to succeed. The attitude reflected the sensibilities of a profitable mature industry, but it also led to internal tension regarding the strategies and tactics that were undertaken in pursuit of online success. As the industry attempted to exploit opportunities in the online era, it struggled to define the inherent nature of the newspaper industry's business.

This manifested itself into ways. First, newspaper executives were challenged with thinking about their business holistically as information, not printed newspapers. Second, as negative advertising and circulation trends began to affect financial performance, newspaper companies engaged in a series of expense cuts and staff layoffs. This erupted into open discord between the industry's business management and many of its editors and journalists. These two topics are addressed in the following sections of the introduction.

### *The Nature of the Business*

As early as 1980, newspaper industry critics were cajoling executives to think about a broader market—an information marketplace rather than the specific product called a newspaper. It was similar to the horse and buggy analogy used when the car industry began. Were horse carriage makers only in the carriage business or were they part of a larger transportation industry? Would newspapers suffer the same fate as the carriage makers who refused to adapt to the encroachment of Henry Ford and the Model T? Compaine framed the industry's choices in defining its business as a series of questions:

The most important answer here must come to the question, "What is a newspaper?"

- Is it a format called "ink on newsprint?"
- Is it a delivery method of private carriers and newsstands?
- Is it a package of information?<sup>55</sup>

Compaine answered his questions by asserting that newspapers were "essentially an

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54. Peskin, "Slaying 'The Mediasaurus': An Editor Debunks Michael Crichton's View of Media Obsolescence," 52. [Dale Peskin was an assistant managing editor at *The Detroit News* and a former editor of the magazine for the Society of Newspaper Design.]

55. Compaine, "The '80s: An Overview," 6.

information package, one that just happens to be printed on newsprint for now.” He argued that a newspaper company must be viewed as “a collector and disseminator of information” and suggested the industry “stop using the phrase ‘newspaper’ and think of the business in information terms,” concluding that “it would be myopic to lose sight of the less-obvious competitors, which today may be known as banks, computer companies and catalog mail-order firms—or other creatures for which there is as yet no name.”<sup>56</sup> Compaine’s observations turned out to be very prescient as the unnamed creates he worried about in 1980 were formidable media competitors in 2005 with names such as Amazon, eBay, Yahoo! and Google.

In the beginning of the online era, however, the newspaper industry was not all that concerned with its identity. There was a widely held belief among executives that the industry could draw from its historical experience with earlier electronic media—television and radio—as inspiration and guidance. Newspaper companies had been deeply involved in the early development of television and radio, especially in providing news content for these media. A trade journal wrote that the newspaper industry’s contributions to earlier electronic media “belie the parochial view that newspapers are modern-day luddites bent on impeding, if not destroying, any technology that threatens their ink-on-paper products.”<sup>57</sup> A newspaper executive recalled the early development of television when newspaper newsrooms had television cameras on reporters’ desks and easels for displaying newspaper pages on camera. “Nobody knew what television was in 1947,” he said, asserting that the online era warranted the same types of experiments. He added that newspaper companies had to learn if online media “is so different that it develops into entirely independent organizations [as broadcast did], or whether there’s enough similarity between newspaper editing that our organizations can evolve internally into hybrids.”<sup>58</sup> An important aspect of this thesis is in exploring how newspaper companies addressed these concerns through organizational structures and other business considerations.

In doing so, this thesis discusses newsgathering and the presentation of news as it relates to how newspaper companies dealt with online content. The advent of interactive technologies challenged many of the newspaper industry’s traditions,

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56. Ibid., 7-8.

57. Potter, “The Deja View: Publishers’ Roles in the Development of, and Adaptation to, Broadcast Offer Uplift in the New-Media Age,” 28. [Observations and statements attributed to Scott Whiteside, an executive for Times Mirror Co. and later at Cox Enterprises Inc.]

58. Ibid., 29.

processes, and procedures. This thesis, however, is focused on the *business* of newspaper companies as commercial enterprises and does not analyse their actions during this period from a journalistic perspective. However, understanding the newspaper industry requires an appreciation for its journalistic sensibilities, which are discussed in the following section.

### ***A Noble Institution***

Bovee said “the function of journalism is to provide people, individually and as members of communities, with the knowledge that will help them make good, timely decisions about what should or should not be done.”<sup>59</sup> No part of that definition ties journalism to any particular product form. Newspaper people, however, linked their product very closely to the definitions of journalism.

The significance of the journalistic mission is fundamental in how the industry thinks about itself and how it responds to challenges. Udell maintained that newspaper companies occupy a unique position in American industry: they are dependent on the free enterprise system for their livelihood, but they are protected by the free press provisions of the U.S. Constitution. He wrote:

It was in this context that the American newspaper developed; protected first in its right to seek truth regardless of the path down which truth leads; and second—as free private enterprise—motivated to profit by satisfying the needs of its customers.<sup>60</sup>

Journalists want their newspaper employers to operate as noble institutions at the vanguard of a constitutionally guaranteed free press. Publishers are fine with that perspective as long as profit margins are high enough to ensure economic freedom is not compromised. From the perspective of investors, however, the discussion about journalistic mission and product quality was much ado about nothing. A prominent investor asserted in the early 1980s that product quality may have contributed to a newspaper’s local market dominance, but once dominant in a market quality no longer was a factor in ongoing profitability. He wrote:

The economics of a dominant newspaper are excellent, among the very best in the business world. Owners, naturally, would like to believe that their wonderful profitability is achieved only because they unfailingly turn out a wonderful product. That comfortable theory wilts before an uncomfortable fact. While first-class newspapers make excellent profits, the profits of third-rate papers

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59. Bovee, *Discovering Journalism*, 51.

60. Udell, *The Economics of the American Newspaper*, 14.

are as good or better....<sup>61</sup>

The disassociation of newspapers as a unique societal institutions and newspaper companies as profit making businesses became more pronounced as time passed during the period under review.

As negative industry trends began to accelerate in the online era, publishers implemented stringent expense controls to maintain profit margins. The ensuing layoffs and budget cuts did not spare the newsrooms, which led to open dissent from journalists. Editors and reporters questioned the motives of their business managers, expressing deeply seeded beliefs the industry was compromising journalistic integrity in favour of profits. A leading industry analyst wrote that the business was “under siege,”<sup>62</sup> while the ombudsman at *The Washington Post*, described the industry in the mid-1990s this way:

We have publishers under enormous pressure to produce profits who are afraid to tell their newsroom people what the situation is. We have editors buffering reporters from the realities even as they bring about the cuts needed to protect profits. And we have journalists unwilling to hear these business truths and famously allergic to change.<sup>63</sup>

These comments underscored how difficult it was for newspaper companies—the business managers as well as the journalists—to adapt to a new marketplace. Throughout the period being studied, comments and examples of activities illustrated that newspaper companies were complex organizations steeped in tradition and conservative business practices.

Through its expository approach this thesis allows for the story of the newspaper industry during this period to unfold as the trajectory of online media increases. Given the long history of newspapers as a media form, this thesis examines events that occurred during a relatively short period of time. However, the significance of the changes that occurred during this period cannot be understated. For example, the investor who was very positive about the industry in the early 1980s had an entirely different outlook by the late 2000s, stating: “For most newspapers in the United states, we would not buy them at any price. They have the

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61. Buffet, “Chairman’s Letter – 1984,” <http://www.berkshirehathaway.com/letters/1984.html>. [Warren Buffet was chairman of Berkshire Hathaway Inc., which was the owner of the *Buffalo Evening News*.]

62. Morton, “When Newspapers Eat Their Seed Corn,” 52. [John Morton was a former newspaper reporter who became a financial analyst specializing in the newspaper and other media-related industries.]

63. Overholser, “Peril, Paranoia and Promise,” 54.

possibility of going to just unending losses.” The difference was that newspapers “were once essential to the American public” but lost that prominence to a variety of competing sources for news content including the Internet.<sup>64</sup> Therefore, such changes underscore the importance of studying this period to gain better understanding of how new technologies challenged the newspaper industry and contributed to the collapse of its long established business model. In the following section, the introduction provides explanations about the content that will be included in each chapter.

## **Chapter Summary**

Chapter One provides a discussion of important foundational concepts, while Chapters Two through Five explore the newspaper industry’s online experiences prior to the Internet. Chapters Six and Seven focus on the emergence of the Internet and its immediate aftermath while Chapter Eight and the Conclusion examines the state of the newspaper industry at the end of the period and the connections to the present day circumstances.

In Chapter One, several important concepts that underlie the overall thesis are discussed. The phrases “traditional media” and “new media” and words such as “interactive” and “convergence” are explored to understand how they have been defined by scholars and used in industry. A particular focus is placed on defining “interactivity” in the context of interactive media. For example, the chapter addresses the attributes that allow a medium to be considered interactive. The meaning of “traditional media” as it is used in this thesis is briefly presented followed by the more in-depth analysis of interactivity. The chapter explores the broadly used phrase “new media” and examines it as a concept now closely identified with the Internet. Finally, the chapter explores the conceptual meaning of convergence and the implications this concept held for the newspaper industry during this period. The purpose for including this terminology review within a media history is to provide a foundation and context for the discussions that follow.

Chapter Two provides examples from the newspaper industry’s early forays into electronic publishing—projects like StarText, Viewtron, and Gateway—and explores the expectations and concerns associated with these initiatives. Reviewing

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64. Patterson, “Buffett Sees ‘Unending Losses’ for Many Newspapers,” par. 2. [Statement attributed to Warren Buffet, chairman of Berkshire Hathaway Inc.]

the partnerships and the underlying technologies that gave life to these projects as well as the attitudes of consumers and industry leaders provides an understanding of the gap that developed between the hype surrounding their development and what actually happened once they were deployed.

Through the exploration of Knight-Ridder's Viewtron project and others, the thesis establishes a historical foundation for the newspaper industry's early role in developing interactive media. Examining the newspaper industry's decisions to shut down much of this high-profile activity provides insight regarding the influence these projects had on future industry decision-making. Initially, many leaders viewed the closing of these videotext projects as a referendum on the ability of printed newspapers to compete with online media. Later, the financial losses incurred by these projects were recalled as excessive and contributed to the industry's reluctance to take risks when confronting decisions regarding new technology.

Chapter Three also examines activity from the early 1980s, but focuses on the newspaper industry's flirtation with cable television. It is important to examine the influence a burgeoning cable television industry had on the decisions made by newspaper companies regarding technology and electronic distribution in the early 1980s considering that newspaper companies spent more of their capital resources on cable television ventures than on any other form of emerging technology during this period. This chapter explores how the early development of cable television resonated with newspaper publishers who adopted the notion that a wire into every home could be a way to protect their interests in local markets.

As cable television expanded, however, these investments became very expensive for the newspaper industry to maintain and cable television operators became reluctant to share channel capacity and revenue with newspaper companies. When this period of cable investment ended, the newspaper industry's involvement was not cast in the same light as the decision to close videotext projects. With cable, newspaper companies were seen as backing away from a distribution platform rather than a new full-fledged medium, which made strategic sense to the business and investment community. The newspaper industry experience with cable also fostered a sense that the competitive effects of cable television had been overstated and it bolstered the newspaper industry's belief in its own competitive position as it decided to directly address incursions by the telecommunications industry.

Chapter Four examines how the newspaper industry reacted to the possibility

of direct electronic competition from the nation's telecommunications industry. Newspaper publishers already viewed the phone companies' Yellow Pages directories as advertising competition, but the prospect of those vast encyclopaedic listings ported into an online database seemed like an unfair advantage. This chapter explains how the newspaper industry sought to derail that threat, and in doing so, provides additional insight into the newspaper industry's evolving perspective of its market and competition in the early years of online media.

The newspaper industry committed to an unprecedented political lobbying campaign to pass legislation or affect regulation designed to keep the telecommunications industry out of the local market information services. The industry's effort is recalled as a successful undertaking from a lobbying perspective, but its political victories ended up casting the newspaper business as defensive and protectionistic. Moreover, critics contended the newspaper industry was spending to wage political warfare when it should have been spending on technology research and development to prepare for a next generation of online media.

Chapter Five explores the newspaper industry's relationship with a new breed of upstart companies that ushered in the era of proprietary online systems. Prodigy, America Online (AOL) and others presented newspapers with the opportunity to participate in the online market with relatively little capital investment. Newspaper companies could focus on creating content, while the online systems provided the platform. Although newspapers had made the phone company giants their public enemy, this chapter relates how publishers embraced these proprietary systems companies. After a decade of investing in interactive ventures with little return, newspaper companies liked the idea of sharing risk with these new companies. As the newspaper industry envisioned it, the online marketplace would largely resemble its offline world. In this market, large media companies centrally created the content, controlled its distribution and relied on advertisers to pay for it all. Newspaper companies understood the proprietary online services model because it so closely reflected their own.

Chapter Six recounts that as the newspaper industry began its major push into the online world with its proprietary online service partners, the Internet burst into the consumer market. The chapter explores the newspaper industry's reaction to the World Wide Web as it established the Internet as a formidable media distribution platform. The chapter examines several of the projects undertaken by the newspaper

industry that illustrate its response during the period that led up to the Internet industry's financial bubble collapse in 2000. In explaining how this profound transition unfolded, this chapter looks first at the development of Mosaic, which was critical to the overall acceptance of the Internet as a mainstream platform.

The focus then turns to the newspaper industry's migration to the Web, and highlights the New Century Network (NCN) initiative. The chapter examines the decision to close NCN and includes retrospective comments from participants and observers about what its failure said about the newspaper industry's ability to navigate the changing marketplace. The chapter also addresses how the industry wrestled with numerous issues involving content, structure, and business models, with a particular emphasis on the classified advertising component.

In Chapter Seven, the Internet's post-bubble period is explored as a time of extreme change for the newspaper industry. The newspaper industry had believed it would lead media's digital transition and influence the process on its own terms. The emergence of the Internet challenged those assumptions and the newspaper industry was marginalized as new companies transformed the Internet into their own version of what an online media platform should be. The chapter begins by discussing the AOL deal to acquire Time Warner in the context of other media mergers and how such activity led to a new perspective of convergence.

The chapter uses the activities of Media General in Tampa, Florida, as an example of how convergence became a pragmatic approach undertaken by traditional media organizations in response to their new environment. However, convergence activities had minimal impact on the financial performance of newspaper companies, which came under increasingly harsh investor scrutiny in the early 2000s. At the outset of the decade, newspaper companies struggled to understand the valuations investors awarded to Internet companies with no record of success. The chapter explores the Internet investment bubble for the effects it had on the newspaper business and discusses the reaction to the investment collapse. For a brief period, the sell-off of Internet investments led to a sense of vindication in the newspaper industry.

But the wild swings in the stock market, notwithstanding, this period represented a turning point for the newspaper industry and its investors. The long-term economic prospects for newspaper companies were diminished by the emergence of Internet competition and many investors wanted newspaper companies

to embrace sweeping business reforms and articulate a long-term vision for economic viability. The chapter examines the decision of Knight-Ridder's management to close the business. The event serves as the capstone for the thesis as it is recalled as signalling the beginning of the end of the newspaper industry's long-established business model.

Chapter Eight looks back throughout the entire thesis and presents a summation of key themes that emerged from 1980-2005. This chapter recalls the industry's relationship with online media in a systematic way so that it is more clearly understood how the industry arrived in its current state. The chapter connects the lessons of history by reviewing key themes and revisiting several ideas presented in Chapter One regarding new media, interactivity and convergence in light of the material discussed throughout the thesis. The overall thesis illustrated how the newspaper industry's approach to online media left it vulnerable as the market shift to the Internet accelerated in the 2000s. Unpositioned to substitute revenue losses from the printed newspaper with gains in online revenue, the newspaper industry found its business model in ruins. The rise of the Internet is often blamed for the newspaper industry's predicament, but as the issues summarized in Chapter Eight underscore, this thesis reveals a reality that was much more complicated.



## **Chapter One:**

### **Interactivity, New Media and Convergence Explored**

This chapter explores key concepts central to the overall thesis and examines how these concepts have been defined and explained in both scholarly research and through industry practice. Reviewing scholarly research and highlighting pertinent observations from that research and from within the newspaper industry—based on trade journal accounts—provides an understanding of how the newspaper industry dealt with changing technology as it attempted to adapt to its marketplace. This thesis examines the business relationships that existed between newspaper companies and interactive media forms from 1980 until 2005. It details how these companies viewed such media forms, how they deployed them, and for what purpose. A study such as this cannot be undertaken without first understanding the technological dealings, real or imagined, or the conceptual basis on which interactive technology was developed and understood—and in some cases misunderstood—in the newspaper business. Therefore, it is crucial to explore and explain some of the terminology used throughout the thesis. The phrase “interactive media,” for example, has usage implications as does the term “new media.” This chapter explains why the two phrases are not mutually exclusive.

Keyton explained that “a concept represents a number of individual, but related things,” adding that concepts provide “an abstract way of thinking that helps us group together those things that are similar to one another and, at the same time, distinguish them from dissimilar other things.”<sup>1</sup> She also observed that “concepts become constructs when linked together in meaningful ways.”<sup>2</sup> In keeping with this definitional model, Chapter One explores several key phrases within their own conceptual framework. This approach provides a foundational understanding that is useful later in the thesis when each of these concepts come together in the form of the larger construct. First, the meaning of “traditional media” as used in this thesis is briefly presented followed by a more in-depth analysis of interactivity, which includes how that concept relates to what is referred to as “interactive media.” The chapter next turns to the more broadly used phrase “new media” and examines it as a

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1. Keyton, *Communication Research: Asking Questions, Finding Answers*, 41.

2. *Ibid.*, 43.

concept now closely identified with the emergence of the Internet. Finally, the chapter explores the conceptual meaning of convergence and the implications of this concept within the media industry.

## **Traditional Media**

The term “new media” emerged as a way to illustrate a difference in the media it described and “traditional media.” Therefore, before exploring what “new media” are, it will be useful to explore what they are not. The term “traditional media” applies to those media that predate the era of online networks. They generally include books, newspapers, magazines, and television, as well as recorded music and radio. Most scholars apparently believe the term is so widely understood that they frequently use it without providing a definition. When an explanation is offered, it is often presented parenthetically: “Traditional media (e.g., television, radio, and newspapers).”<sup>3</sup> One succinct definition has been offered as “‘traditional’ media—[is] all media except the internet.”<sup>4</sup> However, this definition is too contemporary to be used with clarity as it ignores the 1980s and early 1990s when videotext systems and proprietary systems such as Prodigy, America Online, and other electronic bulletin board services and CD-ROM compilations were factors in the media landscape. These types of media products existed before there was a consumer Internet, yet they were different from traditional media.

How else have scholars understood traditional media? Rice discussed traditional media from the perspective of societal acceptance and described them as media that operate within expected norms:

... much of what we feel is natural about traditional media ... is in fact an artifact of a wide variety of components, such as material production, access mechanisms, social conventions, etc., available and developed at the time. Over time, and with continued use and structuration, this artifact becomes idealized, so that primarily positive social aspects are associated with familiar media....<sup>5</sup>

Dizard took a mass media approach in defining traditional media, suggesting that it included “broadcast TV, film, radio and print.”<sup>6</sup> He wrote that traditional

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3. Kioussis, “Interactivity: A Concept Explication”, 370.

4. Deuze, “The Web and its Journalisms: Considering the Consequences of Different Types of Newsmedia Online,” 205.

5. Rice, “Artifacts and Paradoxes in New Media,” 24-32.

6. Dizard, *Old Media New Media: Mass Communications in the Information Age*, 194.

media represent the “... mass-media pattern, which consists of one-way products delivered from a centralized source.”<sup>7</sup> Dizard excluded cable television from his list of traditional media, but it could be argued that cable television—in its early development—fit Dizard’s definition because cable was a delivery mechanism to send a television signal to those households that could not receive reception otherwise. However, over the years—especially the past decade—cable television companies have deployed technology that allows two-way communication through various programming guides and on-demand programming services.

Given such nuances, explaining the phrase “traditional media” can be difficult. Much of the literature assumes, by not offering a definition, that there is a near-universal understanding of what is meant by the phrase. Steuer discussed traditional media in sensory terms, explaining that it encompassed media “relatively low in breadth, relying primarily on the visual and auditory channels.”<sup>8</sup> Implicit in this description is the idea that traditional media resides lower on the media evolutionary scale given that their formats are rigid, thereby limiting the way users can engage.

Jones offered an intriguing delineation of media based on the underlying fundamentals of their associated business models. He suggested that printed media such as newspapers “sold space,” which he explained as “trading on the attention people would pay to the spatial organization of the printed—mediated—word.”<sup>9</sup> He contrasted that model with “electronic broadcast media,” writing that such media “sold time,” or the amounts of it that someone would spend with “the temporal organization of radio and TV.”<sup>10</sup> He wrote that Internet-based media, “sell attention, without regard to space and time,” suggesting that this model values “connection and linking.”<sup>11</sup> This notion—that traditional media’s model of selling space or time could be supplanted by a new model that, in effect, depends on an end user’s level of engagement—is important to keep in mind as the definitions of “interactive media” and “convergence” are explored. Steuer’s sensory approach and Jones’ business model approach downplay the influence of content and place a higher premium on interactivity when explaining the differences of “traditional media” and “interactive media.” Interactivity will be explored in greater detail in the following section.

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7. Ibid., 11.

8. Steuer, “Defining Virtual Reality: Dimensions Determining Telepresence,” 73-93.

9. Jones, “*The Bias of the Web*,” 181.

10. Ibid.

11. Ibid.

## **Interactive Media**

Scholars have found that defining “interactive media” is a more complex task than explaining “traditional media.” The phrase “interactive media” is fraught with ambiguity because the concept of interactivity is broadly applied, and often in incongruous ways. Before tackling how to explain “interactive media,” it is necessary to review what the scholarly literature suggests about the concept of “interactivity” and how it has been applied to the study of media. As Downes and McMillan noted, “scholars have employed the term [interactivity] to refer to everything from face-to-face exchanges to computer-mediated communication.”<sup>12</sup> And as was noted above in regards to traditional media, Downes and McMillan determined that “much of the literature, both popular and scholarly, uses the term ‘interactivity’ with few or no attempts to define it.”<sup>13</sup> Downes and McMillan attempted their own definition, but found that there was no single way of describing it, concluding that “varying levels of interactivity exist” and that application of the term depends on such factors as user perception, the timing and direction of communication, the responsiveness of the communication and the levels of control a user is allowed to exert over the process.<sup>14</sup>

### ***The Emergence of a Buzzword***

Downes and McMillan conducted their work in the field of computer-mediated communications, and in an era marked by the advent of the personal computer, the concept of interactivity within computing is a prevalent topic in that field’s scholarly research. Since the emergence of the Internet, interactivity is now a topic associated with research throughout many fields of study in media, information, and communications. Nevertheless, increasing usage of the words “interactivity” and “interactive”—even in popular literature—diluted their meaning and led some researchers to question whether the concept they represent could be defined without first explaining the context in which the words are used. Schultz explained:

Interactivity has almost turned into a dull buzzword. The term is so inflated now that one begins to suspect that there is much less to it than some people want to make it appear.<sup>15</sup>

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12. Downes and McMillan, “Defining Interactivity: A Qualitative Identification of Key Dimension,” 157.

13. Ibid., 157-158.

14. Ibid., 173.

15. Schultz, “Mass Media and the Concept of Interactivity: An Exploratory Study of Online Forums and Reader Email,” 205.

Continuing with the same idea, Cover wrote:

“Interactivity” as a buzzword, a consumer sales motif, an intellectual concept and technologically-constituted feature of a new media has for some time now been considered a cliché, an overkill term, a marketing concept misapplied to products or mediums which are not definitively interactive....<sup>16</sup>

Such comments are common in scholarly journals. Therefore, it is important to explore how the meaning of interactivity evolved from a scholarly concept to a phrase ridiculed by its overuse in the popular journals and press. An understanding of this evolution will help to apply the concept of interactivity within the context of this thesis—especially in terms of how the newspaper industry would come to view interactivity as media technologies advanced.

### ***A History of “Interactivity”***

Kiousis wrote, “The academic usage of ‘interactivity’ is marginally inconsistent at best.”<sup>17</sup> He maintained the inconsistent usage was due to the many academic perspectives from which the concept has been studied, including media and communication, psychology, sociology, and computer science and information design.<sup>18</sup> Kiousis was instrumental in establishing a definitional perspective. He pointed to a relevant starting point to begin unravelling the concept of interactivity: “Any discussion of interactivity inevitably draws from its roots in Cybernetic theory, as outlined by Wiener (1948).”<sup>19</sup> Wiener is considered one of the founders of Cybernetic theory, which he described as “the entire field of control and communication” in both machines and animals.<sup>20</sup> Central to his work was the examination of “feedback mechanisms,” a holistic study of feedback in many forms.<sup>21</sup> For example, he looked at ship propulsion and rudder systems, describing how forward motion is a result of iterative corrective actions based on feedback:<sup>22</sup>

He wrote:

An extremely important factor in voluntary activity is what the control engineers term *feedback* ... when we desire a motion to follow a given pattern the difference between this pattern and the actually performed motion is used as a new input to cause the part

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16. Cover, “Audience Inter/active: Interactive Media, Narrative Control and Reconvening Audience History,” 139.

17. Kiousis, “Interactivity: A Concept Explication,” 371.

18. *Ibid.*, 357.

19. *Ibid.*, 359.

20. Wiener, *Cybernetics: or Control and Communication in the Animal and the Machine*, 11.

21. *Ibid.*

22. *Ibid.*, 6.

regulated to move in such a way as to bring its motion closer to that given by the pattern.<sup>23</sup>

Wiener used the same reasoning when he described a home thermostat as a simple mechanical feedback system that regulates temperature by taking “feedback” from a thermometer and instructing the furnace when to turn on and off.<sup>24</sup> While Wiener did not use the words “interactivity” or “interactive,” it is easy to see within his construct how new input of data can become part of such a feedback system. When someone enters a new temperature setting into the thermostat, thereby providing new feedback, the outcome is altered.

Wiener’s approach and the general style of language he used allowed his work to be translatable to other processes and fields of study. For example, that a user can provide “feedback” and alter his media consumption experience is now an accepted attribute of interactive media.

However, research within this context did not become commonplace until the 1980s. Media communications research conducted during the 1950s, 1960s, and 1970s was essentially the study of mass communication, which Heeter noted, “was originally modeled as the one-way transmission of a message from source to receiver.”<sup>25</sup> Such research was based on the work of Shannon and Weaver who created a “mathematical theory of communication” that was intended as a model for describing the work of a transmitter and receiver.<sup>26</sup> According to Heeter, “Although [the Shannon and Weaver] model was developed to help engineers describe transmission of an electrical signal from one machine to another, it was widely adopted by communication researchers as a model for human communication.”<sup>27</sup> In the 1980s, when computers were beginning to make a difference in the operations of communications systems, researchers noted the shift away from strictly studying media communications as a rigid one-way construct.<sup>28</sup> The changed dynamic prompted Williams, Rice, and Rogers to write in 1988 that “... the paradigm of

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23. Ibid.

24. Ibid., 96-97.

25. Heeter, “Implications of New Interactive Technologies for Conceptualizing Communication,” 218.

26. Shannon and Weaver, *The Mathematical Theory of Communication*.

27. Heeter, “Implications of New Interactive Technologies,” 219.

28. The study of interactivity actually may have roots in scholarly work that dates back to well before Wiener’s feedback theories. Schultz (205-206), for example, traced the concept to the 1920s and 1930s when “intellectuals such as Bertolt Brecht and Walter Benjamin worried about the limited one-way direction of the new electronic media and worked on an agenda of democratization... Citizens were supposed to ‘talk back’ and play an active part in the programme of the new medium...”

linear, one-way communication may be giving way to a more cybernetic paradigm (based on Norbert Weiner's theory) that better fits the interactivity of the new media."<sup>29</sup>

The study of interactivity also borrowed from decades-old research on interpersonal relationships and behaviours. As researchers have considered how people interact in online settings, they have turned to studies that describe behaviour in personal settings as a starting point. Goffman's work is especially relevant in helping explain how interaction has come to be understood, articulating that "the proper study of interaction is not the individual and his psychology, but rather the syntactical relations among the acts of different persons mutually present to one another."<sup>30</sup> In other words, rather than discussing interaction from the perspective of the individual, he examined how an individual communicated with and reacted to other individuals or within groups of people. Goffman's work with new material was republished in 2005, further testimony to a renewed interest in research into all aspects of the concept of interactivity.

The study of interactivity, therefore, has roots in many disciplines ranging from feedback processes and societal engagement to interpersonal communication. With the onset of personal computing in the 1980s, research into what became known as computer-mediated communications began to bring together many of the disparate concepts in this field of study. Contemporary articles that feature definitions of interactivity and its relationship to communications and media point to a 1988 essay by Rafaeli as an "early benchmark."<sup>31</sup>

### ***Interactivity as a Communications Concept***

In building on earlier research that presented a concrete, quantifiable definition for interactivity, Rafaeli described interactivity as "quintessentially a communication concept."<sup>32</sup> He wrote that interactivity was, "an expression of the extent that, in a given series of communication exchanges, any third (or later) transmission (or message) is related to the degree to which previous exchanges referred to even earlier transmissions."<sup>33</sup> Newhagen argued that Rafaeli's approach is "important because it demands that the information state of at least one agent in the

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29. Williams, et al., *Research Methods and the New Media*, 31.

30. Goffman, *Interaction Ritual: Essays in Face-to-Face Behavior*, 2.

31. Bucy, "The Debate," 371.

32. Rafaeli, "Interactivity: From New Media to Communication," 113.

33. *Ibid.*, 111.

communication exchange has in some way been changed, fulfilling the constraint that true interactivity must be dynamic and the content of communication mutable.”<sup>34</sup> Scholars seemed to be drawn to Rafaeli’s 1988 essay, at least in part because of its attempt at defining interactivity with a precise measurement that established a minimum of three exchanges as a necessary benchmark for interactivity to have occurred. It is important to point out, however, that Rafaeli was building on the work of Bretz and Schmidbauer, who in 1983 wrote that “two actions are not enough to characterize a system as interactive; there must be three.”<sup>35</sup>

Rafaeli, writing about interactivity within traditional media<sup>36</sup> presented a revised definition in 1997. In this iteration, Rafaeli and a colleague emphasized the content of the exchanges rather than quantity. Rafaeli and Sudweeks argued that interactivity is determined by “... the extent to which messages in a sequence relate to each other, and especially the extent to which later messages recount the relatedness of earlier messages.”<sup>37</sup> Rafaeli’s early writings placed him in the camp of those scholars who view interactivity as, as he put it, a “natural attribute of face-to-face conversation.”<sup>38</sup> With that view, Rafaeli maintained affinity with the field of interpersonal communication, in contrast to Bretz and Schmidbauer, who described interactivity more in terms of a process exchange between people and computer systems.<sup>39</sup> However, in his research with Sudweeks, Rafaeli further expanded his context of interactivity as he explored its role in computer-mediated communication. Rafaeli and Sudweeks claimed, “Interactivity merges *speaking* with *listening*. And it is a general enough concept to encompass both intimate, person-to-person, face-to-face communication and other forums and forms.”<sup>40</sup> They were attracted to the social aspects of interactivity and discussed interactivity in terms of “engagement.” They concluded, “Like face-to-face communication, computer-mediated communication has the capacity of enabling high interactivity.”<sup>41</sup> Rafaeli and Sudweeks were adamant that interactivity is a much more involved construct than simply chatting online or emailing a friend:

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34. Newhagen, “Interactivity, Dynamic Symbol Processing, and the Emergence of Content in Human Communication,” 397.

35. Bretz and Schmidbauer, *Media for Interactive Communication*, 13.

36. Downes and McMillan, “Defining Interactivity,” 158.

37. Rafaeli and Sudweeks, “Networked Interactivity,” par. 10.

38. Rafaeli, “Interactivity: From New Media to Communication,” 113.

39. Bretz and Schmidbauer, *Media for Interactive Communication*, 13.

40. Rafaeli and Sudweeks, “Networked Interactivity,” par. 10.

41. *Ibid.*

We propose that interactivity is associated with those message qualities which invite people and make people gravitate to groups on the net. Interactivity may be a mechanism through which netting occurs on the net... Interactivity is the condition of communication in which simultaneous and continuous exchanges occur, and these exchanges carry a social, binding force.<sup>42</sup>

Rafaeli and Sudweeks's explanation places the concept of interactivity at the centre of the development of the Internet, or least the development of human behaviour on the Internet. Interactivity, as they described it, allows us to understand the forces that coalesced to make Internet a place where social networking and user-generated content took hold. Therefore, it is also important to view interactivity from the perspective of the user, one who engages in an interactive experience.

### *The User Perspective of Interactivity*

Researchers have explored interactivity as a concept of the mind, stating that "Interactivity is a complex process that is as much a cognitive event (and therefore mostly invisible), as it is a physical act."<sup>43</sup> Sohn and Lee studied the cognitive perceptions of interactivity, concluding that, "Human perception of interactivity is indispensable in studying the effects of interactive media on individuals: Whether people actually perceive a medium/vehicle as interactive is the only valid criterion for judging its interactivity."<sup>44</sup> Sohn and Lee pointed to Sundar's work on cognitive issues within the concept of interactivity, linking them to the notion of choice. Sundar wrote, "By calling for user action, interactive devices on the interface invite users to think about their communication behavior, particularly the courses of action they could take or the choices to avail themselves of on screen."<sup>45</sup> He concluded that the condition of choice along with control and contingency were all factors in defining interactivity. Sundar suggested that how a user exercises choice can affect perceptions of interactivity and contribute to an overall interactive experience. Nevertheless, he added, "... the experiential aspect of interactivity is not part of its definition, but rather its effect, specifically a behavioral effect.... How users interact with the system under conditions of high or low interactivity is an effects question."<sup>46</sup>

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42. Ibid.

43. Steward, et al., "Making the Most of Interactivity Online," 309-323.

44. Sohn and Lee, "Dimensions of Interactivity: Differential Effects of Social and Psychological Factors," par. 3.

45. Sundar, "Theorizing Interactivity's Effects," 388.

46. Ibid., 386.

This discussion leads to a central question about interactivity when viewed from the perspective of a user, a person engaged in an interactive experience. Should interactivity be considered only as a process of human-to-human communication, human-to-machine communication, or human-to-machine-to-human communication? This is not a rhetorical question as it may seem. For many researchers, the answer flows strictly from the field of study in which the academic research occurs. Stromer-Galley explained:

On one side are scholars who generally come out of an interpersonal and social interaction program of research and who argue that interactivity refers to human interaction, whether mediated or not. On the other hand are scholars generally from backgrounds other than interpersonal communication who argue that interactivity can take the form either of human interaction channeled through a medium or of interactions with a product or characteristic of a given medium.<sup>47</sup>

Stromer-Galley maintained that while “interactivity” is one word, it can be used to describe two “different phenomena,” which she explained were people-to-people communication and people-to-computer exchanges.<sup>48</sup> She offered a way to delineate the two by describing the first as “interactivity-as-process” and the second as “interactivity-as-product.”<sup>49</sup> Sundar, Kalyanaraman and Brown used a study of political websites to propose a structure that categorizes interactivity by type and ranks it relative to each other.<sup>50</sup> Commenting on that research, Stromer-Galley wrote, “Their synopsis of prior literature is that interactivity is an ordinal-level independent variable. Face-to-face interactivity is the highest form of interactivity, and user-to-system interactivity is the lowest.”<sup>51</sup>

But she found this approach troubling, arguing that it means “conflating the two types [interactivity-as-process and interactivity-as-product] and treating them as belonging to the same group or continuum.”<sup>52</sup> Whether the conceptual blending as Stromer-Galley described will continue or whether her desire for strict adherence to a delineated definition takes hold will be determined in part by scholars who write about this subject over the coming decades. Nevertheless, the construct that is most applicable in the context of this thesis involves how users engage with machines;

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47. Stromer-Galley, “Interactivity-as-Product and Interactivity-as-Process,” 393.

48. *Ibid.*, 391.

49. *Ibid.*

50. Sundar, et al., “Explicating Web Site Interactivity: Impression Formation Effects in Political Campaign Sites,” 30-59.

51. Stromer-Galley, “Interactivity-as-Product and Interactivity-as-Process,” 393.

52. *Ibid.*, 391.

mostly in this case machines would refer to the computers over which users receive online media.

### *Narrowing the Scope of Interactivity*

As we have seen, the concept of interactivity can mean many things to many people depending on their particular perspective and field of study. This thesis, however, is most concerned with scholarship that embraces the perspective of “‘interactivity’ simply as a communication process,”<sup>53</sup> one that is “consistent with a human-computer interaction (HCI) approach” and “constructs ‘interactivity’ as a product of a medium characteristic....”<sup>54</sup> This is a straightforward approach that makes it clear the type of interactivity under discussion when this thesis later turns specifically to the newspaper industry and how it attempted to exploit interactive technologies. Bucy’s work underscores the acceptance of this approach in terms of defining interactivity:

Limiting the concept to exchanges that are in some way mediated by technology begins to distinguish the term from *any* form of communication and discourages its wanton application as a universal descriptor of all forms of dialogue.<sup>55</sup>

In this context, however, technology becomes the means of distribution for the media. In other words, the technology links the end user to the media and by that very act influences the user’s experience—interactive or otherwise. At the dawn of the personal computer era, Ihde speculated about technology becoming so advanced that it would become “transparent” to the user.<sup>56</sup> He contended, “We have now recognized that for a technology to function well, it must itself ‘withdraw’ so that the human action that is embodied through the technology can stand out.”<sup>57</sup> If Ihde’s vision of total transparency ever becomes a reality, then perhaps the divide in the study of interactivity as described by Stromer-Galley would no longer be relevant. Until then, it is necessary to view interactivity in a media context very much in relationship to an embodying technology.

With that caveat, the following is a selection of explanations of interactivity drawn from the review of literature. They are useful in helping to narrow the scope of interactivity to a concept applicable to the study of interactive media. These

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53. *Ibid.*, 393.

54. *Ibid.*

55. Bucy, “Interactivity in Society: Locating an Elusive Concept,” 376.

56. Ihde, “The Technological Embodiment of Media,” 57.

57. *Ibid.*, 58

explanations provide a basis for understanding a later discussion of interactivity as it applied to approaches taken by newspaper companies in their online media projects.

- “Interactivity is best (though not exclusively) understood as a perceptual variable that involves communication mediated by technology.” (Bucy, 2004)<sup>58</sup>
- “The degree to which participants in a communications process have control over, and can exchange roles in, their mutual discourse is called interactivity.” (Williams, Rogers & Rice, 1988)<sup>59</sup>
- Interactivity describes “... the extent to which users can participate in modifying the form and content of a mediated environment in real-time.” (Steuer, 1992)<sup>60</sup>
- Interactivity is “... a measure of a media’s potential ability to let the user exert an influence on the content and/or form of the mediated communication.” (Jensen, 1998)<sup>61</sup>
- Interactivity is “... the degree to which a communication technology can create a mediated environment in which participants can communicate (one-to-one, one-to-many, and many-to-many), both synchronously and asynchronously, and participate in reciprocal message exchanges....With regard to human users, it additionally refers to their ability to *perceive* the experience as a simulation of interpersonal communication and increase their awareness of telepresence.” (Kiouisis, 2002)<sup>62</sup>

Throughout the passages quoted above are the themes of mediation, participation, control and influence, all attributes of interactivity that can be applied to its construct within a media framework. A number of scholars have created systems for studying the attributes of interactivity, which is the subject of the following section of this chapter.

### ***Typologies, Taxonomies, and Attributes of Interactivity***

Researchers, in their quest for conceptual meaning, have presented typologies, taxonomies, and rich dimensional models and in doing so made progress in helping show how various definitions of interactivity can be organized and applied to different processes. For example, McMillan placed interactivity into a “crisp typology,”<sup>63</sup> one that organized the concept based on the direction of communication

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58. Bucy, “Interactivity in Society,” 377.

59. Williams, et al., *Research Methods and the New Media*, 10.

60. Steuer, “Defining Virtual Reality,” 84.

61. Jensen, “Interactivity: Tracing a New Concept in Media and Communication Studies,” 201.

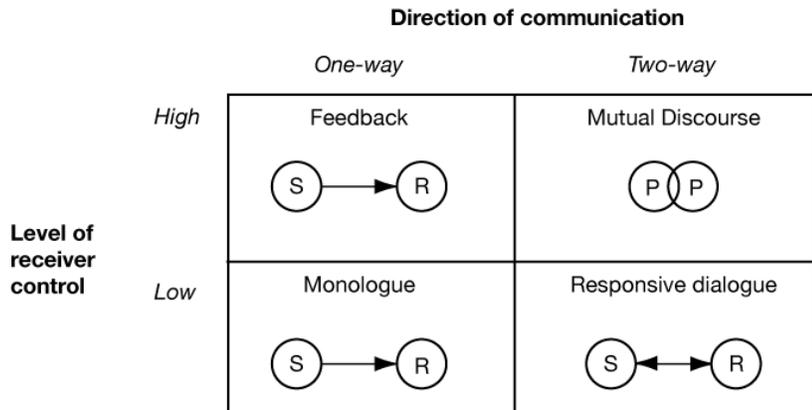
62. Kiouisis, “Interactivity: A Concept Explication,” 372.

63. Stromer-Galley, “Interactivity-as-Product and Interactivity-as-Process,” 392.

such as “user-to-user, user-to-system, and user-to-documents.”<sup>64</sup> McMillan developed “a four-part model of cyber-interactivity,”<sup>65</sup> which drew from communication models introduced by Bordewijk and Van Kaam,<sup>66</sup> McQuail,<sup>67</sup> and Grunig and Grunig.<sup>68</sup> Using this model, McMillan identified “direction of communication” and “level of receiver control” as the two key dimensions of the model.<sup>69</sup> Within the model, McMillan defined four types of communications processes:

1. “Monologue”... primarily one-way control and relatively little receiver control over the communication process....<sup>70</sup>
2. “Feedback”... primarily one-way communication, but it allows receivers to have limited participation in the communication process.<sup>71</sup>
3. “Responsive Dialogue” enables two-way communication, but the sender retains primary control over communication.<sup>72</sup>
4. “Mutual Discourse” enables two-way communication and gives receivers a great deal of control over the communication experience.... A key ... is that all participants have the opportunity to send and receive messages.<sup>73</sup>

The following diagram, reproduced from McMillan’s work, illustrates this model:



S - sender, R - receiver, P - participant (sender/receiver roles are interchangeable)<sup>74</sup>

64. Ibid.  
 65. McMillan, “A Four-Part Model of Cyber-Interactivity: Some Cyber-Places are More Interactive than Others,” 271.  
 66. Bordewijk and Van Kaam, “Towards a New Classification of Tele-Information Services,” 16-21.  
 67. McQuail, *Mass Communication Theory: An Introduction*.  
 68. Grunig and Grunig, “Towards a Theory of Public Relations Behavior of Organizations: Review of a Program of Research,” 27-63.  
 69. McMillan, “A Four-Part Model of Cyber-Interactivity,” 276.  
 70. Ibid.  
 71. Ibid, 277.  
 72. Ibid.  
 73. Ibid.  
 74. Ibid, 276.

Aoki's taxonomy of interactivity is useful in its depiction of two types of interaction. This framework separates interaction into two distinct dimensions: interaction with a communication system and interaction that is channelled through a communication system.<sup>75</sup> In discussing the taxonomy as it applied to the web, Aoki wrote:

The categorization proposed identifies two major categories of interactivity on the Web: interacting with the Web and interacting through the Web. Interaction with the Web is enabled by rich media aspects of the Web and personalization of the information offered by a website.... Interaction through the Web includes interaction between the publisher of ... content and users of the website and interaction among the users of a website.<sup>76</sup>

Aoki's taxonomy was written within the specific context of studying interactivity of websites, but it is important in that it underscores the overall concept of interacting with a system and interacting with the creators and/or users of the content present on a system.

The definitions presented above, as well as the taxonomies and models put forth by McMillan and Aoki, all share common ground in that people involved in an interactive communication process must be afforded the possibility of control. On this point, Aoki was specific when writing about the ability to personalize content, explaining, "This interaction exemplifies the user control aspect of interactivity."<sup>77</sup> While an element of user control may be necessary in defining interactivity, there are also levels of such control. Aoki discussed control in terms of altering content to personalize it; other researchers, however, have argued that merely providing choice is, in effect, transferring control. Rice wrote:

... new media provide many more ways to choose content, which increases the influence of structural and cultural [factors] on people's notion of choice. Providing multiple forms of access to content which is freed from its linkage to particular physical distribution forms ... frees us from constraints on allocation and transformation.<sup>78</sup>

Although control is an important attribute, understanding the concept also requires an appreciation for time and the role it plays in delivering interactivity in degrees. Steuer was explicit in his explanations of interactivity, stating that "Speed

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75. Aoki, "Taxonomy of Interactivity on the Web," 3.

76. Ibid., 7.

77. Ibid.

78. Rice, "Artifacts and Paradoxes in New Media," 129.

of interaction, or response time, is one important characteristic of an interactive media system.”<sup>79</sup> And within the context of his research about virtual reality systems, Steuer understood that time is not an absolute attribute. He added that “Real-time interaction clearly represents the highest possible value for this variable.”<sup>80</sup> Others also have addressed the role time plays in defining interactivity. Kiouisis, for example, chose to address the issue with the phraseology “synchronously and asynchronously.”<sup>81</sup> With these terms, he acknowledged that time was a necessary component of interactivity, but accepted time as a variable ranging from simultaneous to minutes, hours, even days or weeks.

In a qualitative study that used interviews with elite experts, Downes and McMillan reported that “as some respondents talked about interactivity they suggested that the closer to ‘real-time’ an interchange, the more interactive it becomes.”<sup>82</sup> Nevertheless, they concluded that the “... importance of timing seems to be its level of flexibility to the demands of the situation rather than its immediacy.”<sup>83</sup> Kiouisis also pointed out that it is difficult to define time in any practical way given that the concept is so intertwined with user perceptions of speeds that are constantly evolving. “Thus, communicating on the internet with a 28,800bps modem by today’s standards might be perceived as slow, but just a few years ago, this seemed brisk,” he wrote. “The point here is that objective standards of speed ... might not change, but users’ perceptions do.”<sup>84</sup> In other words, something that may have been considered to be occurring in real-time in 1999 would not be considered such in 2006 given the faster connection speeds to the Internet.

Also noteworthy is that email communication is considered by most to be an interactive process, even though it may take hours or days for a communications process using this method to be completed, given time zone variations and the frequency participants check inboxes or add to a message board thread. Overall, the time variable and its relationship to interactivity have deep roots within computer science, as engineers within the discipline have studied what Auger described as “the concept of response time,”<sup>85</sup> adding that it “has long been regarded as a critical

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79. Steuer, “Defining Virtual Reality,” 86.

80. Ibid.

81. Kiouisis, “Interactivity: A Concept Explication,” 372.

82. Downes and McMillan, “Defining Interactivity,” 167.

83. Ibid., 168.

84. Kiouisis, “Interactivity: A Concept Explication,” 369.

85. Auger, “The Impact of Interactivity and Design Sophistication on the Performance of Commercial Websites for Small Business,” par. 16.

design principle in computer and electronic environments.”

Therefore, as media is more often distributed in electronic form through computer-based technologies, the media attribute of interactivity becomes intertwined with the degrees of interactivity allowed by the underlying technology. Perhaps this is best viewed as a natural state. After all, much of the scholarly literature describes interactivity as an attribute of media that cannot be defined in absolute terms. For example, Schultz referred to “the continuum of interactivity.”<sup>86</sup> Rafaeli and Sudweeks maintained that “... interactivity is a continuum, a variable, not just a condition.”<sup>87</sup> And McMillan observed that “some cyber-places seem to be more interactive than others.”<sup>88</sup> Therefore, interactivity is not an absolute media attribute; there are a multitude of factors that influence the degree of interactivity.

These factors include information design, the physical speed at which computer systems deliver information to a user or between users, and perhaps most important, the cognitive perception of the user or users of a system. McMillan noted that a “body of literature addresses the concept of interactivity from the perspective of media features,”<sup>89</sup> adding that this line of scholarly research builds on the work of Heeter. “Researchers in this tradition define interactivity based on how many, and what types of features allow for interactive communication.”<sup>90</sup>

At the core of Heeter’s contribution to the body of work in this area is a straightforward statement that delineates media types:

Communication research has traditionally distinguished among intrapersonal, interpersonal and mass communication. Older media systems tend to perform a single communication function, while some new media systems integrate two or all three functions.<sup>91</sup>

Heeter continued by proposing a structure in which media systems are assigned to one of four functional categories: information retrieval media systems (deliver “information from a person or group to a mass of users”), messaging media systems (“allow interpersonal communication by permitting users to send messages to one or a small number of particular other users”), information processing media systems (“extend the concept of intrapersonal communication, allowing a user to

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86. Schultz, “Mass Media and the Concept of Interactivity,” 210.

87. Rafaeli, and Sudweeks, “Networked Interactivity,” par. 12.

88. McMillan, “A Four-Part Model of Cyber-Interactivity,” 272.

89. *Ibid.*, 277.

90. *Ibid.*

91. Heeter, “Commentary on Rice: Classifying Mediated Communication Systems,” 484.

extend thought and perform transactions by providing information that the media system acts upon in some way”), and integrated media systems (“can perform multiple functions” of the type listed above).<sup>92</sup> Heeter’s categorization schema has held up well in nearly two decades since it was published. However, the messaging category definition could use a minor refinement to remove the word “small,” given that current systems enable this type of communication to a theoretically infinite number of users.

Heeter also presented a schema that outlined “six dimensions of interactivity” in support of her argument that “interactivity as it relates to communication technologies is a multidimensional concept.”<sup>93</sup> The six dimensions derived from Heeter’s article include complexity of choice available, effort users must exert, responsiveness to the user, monitoring information use, ease of adding information, and facilitation of interpersonal communication. Heeter’s set of dimensions was written in 1989, well before wide consumer adoption of the Internet. Her work drew from research that, at the time, focused on the emergence of electronic bulletin boards and other early forms of online media. Heeter was among the researchers who applied the concept of interactivity to computer-based media delivery systems long before such research turned to this subject as it applies to Internet-based media systems.

Indeed, Heeter’s work served as a guide for scholars when the study of interactivity turned to the Internet. One such example is work by Massey and Levy, published a decade after Heeter’s article, in which the authors applied her dimensions in the context of online journalism. The authors found her six dimensions useful and built upon her work by adding a seventh dimension to account for the degree that a media system makes information available immediately. “A fuller portrait of online journalism can be developed by applying a more unified conception of interactivity to news-making on the Web....The dimensions of interactivity adapted from Heeter, coupled with one that measures immediacy of information, tease out the finer details of the phenomenon.”<sup>94</sup>

In subsequent chapters, this thesis will discuss how newspaper publishers—as they presented content in electronic formats—focused on expediency to market,

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92. Ibid.

93. Heeter, *Media Use in the Information Age*, 221.

94. Massey and Levy, “Interactivity, Online Journalism, and English-Language Web Newspapers in Asia,” 146.

but through mechanisms and constrained procedures that failed to take full advantage of immediacy and, therefore, diminished the level of interactivity that was available to them.

Ha and James presented their own set of dimensions of interactivity that was drawn from research on early business-based websites. The researchers maintained that “interactivity should be defined in terms of the extent to which the communicator and the audience respond to, or are willing to facilitate, each other’s communication needs,” and acknowledged that users expect different levels of engagement depending on the type of communication. The article presents five dimensions of interactivity: playfulness, choice, connectedness, information collection, and reciprocal communication, which are explained below.<sup>95</sup>

Ha and James wrote that “play is an inner talk or conversation within oneself that provides pleasure for an individual,” adding that the dimension is illustrated on the web by interactive games and quizzes. The choice dimension is reflected in the “unrestrained navigation in the cyberspace,” while connectedness is derived from “being able to link to the outside world and to broaden one’s experience easily.”<sup>96</sup>

The sense of connectedness enters into the information collection dimension, which Ha and James said “consists of the audience’s willingness to provide information.” A website soliciting information and the user providing it is part of the reciprocal communication dimension. For such two-way conversation to happen, Ha and James said a website has to “be perceived as an invitation for visitors to do something.” In other words, a call to action can facilitate interactive response.”<sup>97</sup>

Ha and James’s first three dimensions depend heavily on the users’ perceptions, while the last two are functional dimensions. A discussion of how these dimensions—as well as those put forth by Heeter (such as the complexity of user choices and the level of effort required)—are actually constructed in the physical world leads to research that approaches the subject of interactivity in more pragmatic terms. Rather than attempting to define and model interactivity, this branch of research into interactivity focuses on the subjective role of design and usability. Steward et al. argued, “One of the most important aspects of employing interactivity in online information involves understanding that the format itself

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95. Ha and James, “Interactivity Reexamined: A Baseline Analysis of Early Business Web Sites,” par. 17.

96. *Ibid.*, pars. 22-25.

97. *Ibid.*, pars. 28-29.

typically dictates the type and amount of user interaction.”<sup>98</sup> The authors argued that everyone understands intuitively how to use a book (this relates to the notion of artefacts previously attributed to Rice), but only some of that intuition carries over to an online experience:

Without the actual text object in our hands, without the actual book, a user often has a great deal of trouble understanding the scope of the information.... The book is a finished product, it is a final piece of work.... In an online environment, text isn't permanent.... In a single session, a user can create and edit text, manipulate graphics, view prepared material, research distant information resources, play games and participate in office gossip. To accommodate such a wide range of activities, most online environments have no sense of finality and no established limits. Where our prepared text ends and the user's text begins can sometimes be difficult for the user to adequately comprehend.<sup>99</sup>

Research into design and formatting has led scholars to explore “hypermedia” and “hypertext” as it relates to information design and how it contributes to the degrees of interactivity.<sup>100</sup> Stromer-Galley asserted that, in online media, “interactivity is technical in origin,”<sup>101</sup> and it is necessary to understand that technologies such as hypertext mark up language (HTML), Java programming, and PERL scripts enable interactivity to happen. While Stromer-Galley noted that technology enables interactivity, she maintained that the degree to which an online site is interactive is exclusively up to human choice, clarifying that the “functionality the web site enables is up to the designers of the site and depends on the goals intended by the sponsor.”<sup>102</sup>

Through this statement, Stromer-Galley provides the perspective that interactivity is present or absent based solely on the decisions of the media's creator. And if present, the degree to which interactivity is allowed is also dependent on the creator's decisions. This perspective is important in the context of this thesis given that later chapters will provide a critical analysis of how newspaper companies chose to enable interactivity in their products as they created online versions of printed editions. The following section will complete the exploration of interactivity

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98. Steward, et al., “Making the Most of Interactivity Online,” par. 4.

99. Ibid, pars 7-8.

100. An entire body of research approaches online information design as a discipline in itself. Examples consulted during the research for this thesis include Paulucci, “The Effects of Cognitive Style and Knowledge Structure on Performance Using a Hypermedia Learning System,” 123-150, and Horn, “Information Design: emergence of a New Profession,” 15-33.

101. Stromer-Galley, “Interactivity-as-Product and Interactivity-as-Process,” 391.

102. Ibid., 392.

from a definitional perspective.

### ***Interactivity and a Computer-based Interface***

The preceding sections of this chapter explained interactivity within an academic framework and provided the rationale for categorizing interactive media within the broader study of computer-mediated communication. Implicit within this categorization of interactive media is the requirement that computer technology be directly present within the interface the consumer or audience uses to access the medium. It is this link to a computer interface that truly differentiates “interactive media” from “traditional media.” Williams, Rice, and Rogers wrote that the presence of computing technology factors into “allowing content to be more independent of physical contact than ... traditional channels,” adding, “Computer technologies allow users to process communication by altering the structure of interactions....”<sup>103</sup> Later in their work, these researchers were more emphatic in making a connection between computing and communications:

The computer is as much a communication technology as it is computational in that it facilitates the movement, storage, and reproduction of messages. But whereas communication technologies typically only change the energy form of messages for purpose of transmission, computers can change the messages themselves.<sup>104</sup>

To be clear, a computer interface is not limited to a personal computer; it includes wireless handheld devices, cell phones, and digital, two-way cable television boxes. Yet, if it were not for this link to computer technology, one could argue that a talk radio host soliciting calls from listeners makes radio an interactive medium. One could also argue that listing email addresses for reporters in a newspaper and inviting comments on a story transforms newspapers into an interactive medium as well.

Indeed, Schultz addressed this point when he studied the use of email by *The New York Times*. He called email “a tool for increasing interactivity,” suggesting, “it can serve as a fast and direct channel between readers and editors or reporters.”<sup>105</sup> Similarly, McMillan asserted that a type of interactivity occurs when “telephone

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103. Williams, et al., *Research Methods and the New Media*, 5.

104. *Ibid.*, 7

105. Schultz, “Mass Media and the Concept of Interactivity,” 211.

calls to radio stations allow for audience participation in the creation of content.”<sup>106</sup>

However, if interactivity is viewed in terms of degrees as previously discussed, then traditional media do not fare well in comparison to other forms. As Kiouisis noted in regards to interactivity, “Traditional media (e.g., television, radio and newspapers) rank low because their capacity for feedback is limited.”<sup>107</sup> External technologies can make a traditional medium easier to engage. Email, for example, may be simpler and faster than writing and mailing a letter to the editor of newspaper and a telephone call to a radio station may result in a song request being played on the air faster than other forms of request. However, interactivity within media systems, as Kiouisis noted, is now more often associated with technology that is integral to the medium not apart from it. “Perhaps the most concrete term embracing interactivity is technology. In recent years, interactivity has become more and more allied to the personal computer,” he wrote.<sup>108</sup>

Traditional media, presented in its original form, must use external technology, such as email or the telephone, to solicit feedback. Interactive media, on the other hand, have embedded or integrated technologies that enable feedback to happen within its system. Therefore, the phrase “interactive media” as it is used in this thesis describes media where a computer interface is integral to the medium. The presence of this computer interface differentiates “interactive media” from “traditional media.” However, the discussion cannot end there. In contemporary lexicon, the phrase “new media” is widely used to describe a subset of the media industry. In some cases, “new media” is synonymous with “interactive media.” More recently, however, “new media” is most often used to define media delivered only through the Internet. Such usage ignores the historical record by failing to include in its meaning computer-based media platforms such as videotext and proprietary online systems like Prodigy and America Online. The following section explores these aspects of “new media” as part of its conceptual framework.

## **New Media**

Perhaps the preceding sections concerning interactivity prompts one to ask: why not avoid addressing the nuances of what is meant by “interactive media” and simply

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106. McMillan, “Exploring Models of Interactivity from Multiple Research Traditions: Users, Documents and Systems,” 170.

107. Kiouisis, “Interactivity: A Concept Explication,” 370.

108. *Ibid.*, 369-370.

use the phrase “new media?” That phrase has become ubiquitous. And, as noted, the terms “interactive media” and “new media” often are used interchangeably in scholarly writing as well as the popular press. This section explores a variety of attempts to define new media. It examines how various scholars came to differentiate “new media” and “interactive media” using a variety of criteria—be they relative to time or technology for example—on which to base definitions of “new media.” These criteria provide a way to organize a discussion of such scholarship.

Mayer wrote that “new media” should be considered as a phrase “relative” to the time of its usage. “At one time, the printing press would have been considered a new medium,” he wrote, adding that radio and television also were considered new media when they debuted.<sup>109</sup> Mayer wrote that the phrase “in its most recent incarnation” had been “adopted to refer to a series of scientific and technological innovations ... that led to the development of a considerable number of new methods for creating, transmitting, and storing information and to the large-scale transformation of many of the more traditional media.”<sup>110</sup>

Rice, writing during the consumer Internet explosion in 1999, defined new media in terms of combining the following elements:

“... (1) computing (which allows processing of content, such as a retrieval through associations of words or other indices, and structuring of communications, such as conversational threads in newsgroups), (2) telecommunication networks (which allow access and connectivity to diverse and otherwise distant other people and content), and (3) digitization of content as data, and integration and presentation of multiple modes such as text, audio and video).<sup>111</sup>

### ***Factors that Make Media “New”***

Rice’s definition encompasses several ideas, but two that mostly are discussed as part of new media are the notion of multimedia and digitization. The idea that media is defined as “new” because of its reliance on digitized content is a common theme in the research literature. Manovich presented five factors that make media “new.” His work offered a succinct and simple definition: “On one level new media is old media that has been digitized....”<sup>112</sup> However, he further explored the concept at a

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109. Mayer, “The Polls—Poll Trends: The Rise of The New Media,” 124.

110. Ibid.

111. Rice, “Artifacts and Paradoxes in New Media,” 126.

112. Manovich, *The Language of New Media*, 47.

much deeper level, presenting five criteria that defined media as “new”:

1. Numerical representation: “All new media objects ... are composed of digital code ... [and are] subject to algorithmic manipulation.... In short, media becomes programmable.”<sup>113</sup>
2. Modularity: Assembling the numerical data into “objects” gives new media a modular structure, which is a framework of building blocks that is analogous to computer programming.<sup>114</sup>
3. Automation: The first two factors make possible the ability to automate much of the production processes associated with new media. “Thus human intentionality can be removed from the creative process, at least in part.”<sup>115</sup>
4. Variability: “A new media object is not something fixed once and for all, but something that exists in different, potentially infinite versions.”<sup>116</sup>
5. Transcoding: “Because new media is created on computers, distributed via computers and stored and archived on computers, the logic of a computer can be expected to significantly influence the traditional cultural logic of media....”<sup>117</sup>

Manovich’s work was influential in furthering the study of how computer technology affected media as it emerged in digital form. Manovich’s inclusion of transcoding is an important underlying factor in understanding “new media” in relationships to audience and content. He succinctly stated, “the computer layer will affect the cultural layer,” adding that “what can be called the computer’s ontology, epistemology and pragmatics—influence the cultural layer of new media, its organization, its emerging genres, its content.”<sup>118</sup>

While these are but a few examples of definitions found in a review of literature, they represent widely accepted and established concepts that contemporary new media are digital and rely on computer technology for distribution or dissemination. Therefore, as noted previously, it could be argued that “interactive media” and “new media” are synonymous phrases. However, the practical evolution in the meaning of “new media” would make it inappropriate to use them interchangeably. In its contemporary usage, “new media” has evolved to be associated closely only with Internet-based media.

In 2004, Lievrouw summarized the biggest change in new media in recent

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113. *Ibid.*, 27.

114. *Ibid.*, 30.

115. *Ibid.*, 32.

116. *Ibid.*, 36.

117. *Ibid.*, 46.

118. *Ibid.*

years as its “mainstreaming.”<sup>119</sup> She stated that “A variety of media technologies, forms, and content, often lumped together under the single (and misleadingly homogenizing) rubric of ‘the internet,’ have become a commonplace part of work, education, leisure, culture, and politics.”<sup>120</sup> Perhaps it is this “‘ubiquity’ of new media,”<sup>121</sup> that has intertwined contemporary usage of the phrase new media and an association with the Internet. In contemporary lexicon, when someone uses the phrase “new media,” it is mostly in connection with media delivered through some type of connection to the Internet.

### *“New” Is Relative*

The concept of “new” has survived even though the consumer era of the Internet, launched by the creation of the World Wide Web, has been with us for more than a decade. Koziol wrote: “New media is not so new anymore. In fact it is not new at all.” But he concluded that the word “new” remained relevant because “perhaps it is ‘young’ relative to more traditional media such as television, print and radio....”<sup>122</sup>

Cabrera-Balleza espoused the same basic attributes when describing “new media.” She wrote:

Media used to mean only one thing—public institutions that report the news, such as newspapers, magazines, radio and television, as well as those that provide entertainment. While there are several forms such as print, broadcast, audio-visual, popular and folk media, the word still meant one thing when we spoke about it. Today, however, we cannot speak about media without dividing it into “old” and “new.” The old is associated with analogue form, while the cool new corresponds to media available via digital technology.<sup>123</sup>

Cabrera-Balleza further defined “new media” as “the generic term for the many different forms of electronic communication made possible through the use of computer technology.” However, her examples of such media included “websites, audio and video streaming, chat rooms, chain e-mail and online communities....”<sup>124</sup>

Such a list emphasizes the close association “new media” has with the Internet today

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119. Lievrouw, “What’s Changed About New Media? Introduction to the Fifth Anniversary Issue of *New Media & Society*,” 10.

120. *Ibid.*

121. *Ibid.*

122. Koziol, “Remix the Media Mix,” par. 1.

123. Cabrera-Balleza, “Something Old, Something New: Redefining Convergence of the New ICTs and the More Established Media,” par. 1.

124. *Ibid.*, par. 2.

and underscores how contemporary usage of the phrase has evolved into a descriptor for Internet-based media delivery.

Setting aside for a moment the contemporary Internet-based meaning of new media, it is necessary to understand that the phrase has been used for several decades in communication studies. This usage was largely in connection with the emergence of the personal computer and its role in delivering media content, as stated previously. Rice described the microprocessor as a “crucial part of new media,”<sup>125</sup> adding that its invention by Intel’s Dr. Ted Hoff was “a key event setting off the Information Revolution; it made possible the microcomputer.”<sup>126</sup>

Rice understood that what the “new” in new media described was relative to the time period under discussion: “Newness, of course, is in the eye of the cohort.”<sup>127</sup> In his 1984 work, Rice noted that new media was seen “to include personal computers, videotext and teletext, interactive cable, videodiscs, electronic mail and computer conferencing, communication satellites, office information systems and the like.”<sup>128</sup> Some of those items have been rendered obsolete by subsequent technologies, making the statement he later penned with co-author Williams especially prescient: “... these media are new only to the generation first experiencing them.”<sup>129</sup>

Rice discussed many issues that remain relevant when attempting to discern the semantic nuances between “new media” and “interactive media,” such as “time and space,” “active versus passive control,” and “transmission versus reception.”<sup>130</sup> It is through the following statement that Rice becomes connected to contemporary research:

New ways of encoding, transmitting, distributing, and displaying information appear most overtly in the form of new communication technologies ... digital, as compared to analog, encoding dramatically increases the speed, accuracy, and volume of information that can be exchanged.<sup>131</sup>

The work of Rice and others underscores the connection between digitization and media forms delivered via a computer interface. This leads one to question how the phrase “new media” gained such wide acceptance at the expense of other more

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125. Rice, “New Media Technology: Growth and Integration,” 36.

126. *Ibid.*, 38.

127. Rice, “Development of New Media Research,” 16.

128. *Ibid.*

129. Rice and Williams, “Theories Old and New: The Study of New Media,” 55.

130. *Ibid.*, 34.

131. *Ibid.*

specific descriptors such as “digital media” or “computer-mediated communication.”<sup>132</sup> The authors of *New Media: A Critical Introduction* addressed this specifically, writing that the phrase “new media” is “very seductive in its historical simplicity; there was ‘old media’ and now there is ‘new.’ We use it to make a break with history.”<sup>133</sup> They added that the phrase gained “... currency as a term because of its useful inclusiveness.... It is a term with broad cultural resonance rather than a narrow technocist or specialist application.... It is a term that offers to recognise some big changes, technological, ideological and experimental, which actually underpin a range of different phenomena.”<sup>134</sup>

It could be argued that much of the credence given to the term “new media” was due to the hype surrounding the emergence of the consumer Internet, which was the period the phrase’s contemporary usage achieved popularity. The very notion that something was “new” contributed to the excitement surrounding it. Given that more than a dozen years have passed since the Internet moved into the mainstream, it is perhaps no longer appropriate in terms of semantics to associate the Internet with “new media.”

Nevertheless, the phrase continues to maintain its currency in many academic settings within the names of academic organizations (The New Media Institute at the University of Georgia) and as part of the names of scholarly journals (*New Media & Society*). It continues to denote a distinction from traditional media, remains a descriptor for digital, computerized, or network-based media, and is becoming a phrase that also includes wireless networks. For those reasons, this thesis seeks to provide clarity through a pragmatic delineation in the way certain phrases are used. “Interactive media” will refer to all computer-based media systems that generally offer users some degree of control and feedback. This includes, for example, videotext platforms that pre-date the Internet. In contrast, “new media” will be used in deference to its contemporary meaning and will be used to when referencing the subset of “interactive media” that are Internet-based.

Moreover, this thesis explores in subsequent chapters how traditional media—specifically newspapers—attempted to exploit computer technology to create alternative experiences more than a decade before the consumer Internet era began. Electronic bulletin boards, news retrieval systems, videotext, and proprietary

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132. Martin Lister, et al., *New Media: A Critical Introduction* 11.

133. *Ibid.*, 9.

134. *Ibid.*, 11.

online systems are discussed. Therefore, “interactive media” as used in the title provides a more accurate umbrella label for those types of products and services as well as Internet-based media. When viewed in this context, “interactive media” becomes a more inclusive term that describes computer-based media services pre- and post-Internet.

As the newspaper industry sought ways to deploy “interactive media,” in both eras, its leaders were keenly aware of the importance of the underlying network provided by the telecommunications industry. While newspaper publishers believed they had relevant content, they understood that ownership of a press was irrelevant for electronic distribution. The newspaper industry, which had always relied on its own distribution infrastructure from product creation to delivery, found that deploying interactive media required the use of infrastructure outside of its immediate control. Newspapers had to participate in a new ecosystem created through interlocking business relationships among content providers, computer manufacturers, and network providers. Conceptually, the process of creating this new ecosystem became known as “media convergence” and will be explored more in the following section.

## **Media Convergence**

Numerous scholars have considered the subject of “media convergence,” and in most cases, have wrapped the concept with the emergence of “new media,” which makes the previous discussion all the more relevant. The scholarly focus on convergence has been around for many years, but the volume of research focused on the subject increased exponentially once the Internet became a consumer platform. Media convergence is a melding, or a marriage, of existing forms of media and communications technology. There is wide acceptance among scholars of the premise that convergence happens due to a shift in technology from analog delivery to digital delivery. By that association, the discussion of convergence and “new media” has been inextricably linked.

Hartley wrote, for example, that “it is possible to identify the late twentieth century as an era passing from analogue to digital.... Even forms of larceny shifted from 'analogue' (stealing books or magazines from retailers, for instance) to 'digital' (downloading music or pictures via Napster....)<sup>135</sup> The most common concept of

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135. Hartley, *Communication, Cultural and Media Studies: The Key Concepts*, 5.

media convergence is that as content becomes available in digital form, devices that deliver the digital content such as television, computers and telephony morph into a common platform. *Convergence: Integrating Media, Information and Communication* addresses the subject as a discussion of delivery methods. This work defines convergence as “a dynamic meld of technology—drawing upon the telephone, cable and computer industries—and substance—drawing on television and information industries.”<sup>136</sup>

Dominick sorted convergence into three types: corporate convergence, operational convergence and device convergence. He wrote that corporate convergence expresses “a vision of one company delivering every service imaginable,”<sup>137</sup> while operational convergence describes what happens “when owners of several media properties in one market combine their separate operations into a single effort.”<sup>138</sup> Dominick defined device convergence as the result of “combining the functions of two or three devices into one mechanism.”<sup>139</sup> His notion of device convergence is closely aligned with other definitions that emphasize distribution methods as a major consideration. Dominick noted, for example, that “all media seem to be converging on the Internet as a major channel of distribution.”<sup>140</sup> Dominick’s three categories of convergence provide useful shorthand for discussing how the newspaper industry viewed convergence and they will be referred to again in subsequent chapters. Meanwhile, the intricate complexities of convergence inherent in its many forms will be explored further in the following sections of this chapter.

### ***Convergence as Process***

While several of the phrases discussed previously (traditional media, interactive media, and new media) are used to describe something perceived as tangible, the phrase “media convergence” is quite different in that it seeks to describe an intangible process. Scholars, lawyers, and industry pundits have turned their attention to the process’s components in trying to explain how and why, and even when, convergence happens.

For example, an entertainment industry trade journal defined convergence as

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136. Baldwin, et al., *Convergence: Integrating Media, Information and Communication*, 1.

137. Dominick, *The Dynamics of Mass Communication*, 19.

138. *Ibid.*, 20.

139. *Ibid.*, 21.

140. *Ibid.*

a process occurring when media forms coalesce at the point of distribution.<sup>141</sup> Maherzi focused on the conditions necessary for the process to occur, suggesting that convergence is only inevitable with the proper regulatory, political, and consumer environment.<sup>142</sup> Adoni and Nossek explored how the emergence of new media affected existing media, proposing that there were three possible outcomes: existing media are replaced outright; existing media coexist with new media or existing media merge with new media and create a new form.<sup>143</sup> This last possible outcome addresses a core facet of the convergence concept, which is that through convergence existing media will shed their weaknesses and replace them with attributes associated with newer technologies.

To this last point, some researchers, including Jenkins, held that convergence had its limits however. Jenkins, for example, did not support a view that “one box” would eventually supplant all other media.<sup>144</sup> But he did accept that convergence was a process—one that is affected by multiple forces. He explained convergence as an “ongoing process, occurring at various intersections of media technologies, industries, content and audiences...”<sup>145</sup> Jenkins wrote that there are five perspectives from which to view convergence: technological, economic, social or organic, cultural, and global.<sup>146</sup> He elaborated on the intersections of these areas of convergence in a later work and distilled a definition of the concept into a single paragraph:

Convergence: A word that describes technological, industrial, cultural and social changes in the ways media circulates within our culture. Some common ideas referenced by the term include the flow of content across multiple media platforms, the cooperation between multiple media industries, the search for new structures of media financing that fall at the interstices between old and new media, and the migratory behavior of media audiences who would go almost anywhere in search of the kind of entertainment experiences they want. Perhaps most broadly, media convergence refers to a situation in which multiple media systems coexist and where media content flows fluidly across them. Convergence is understood here as an ongoing process or series of intersections

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141. Peter, “A Post-Mortem on Convergence,” *The Hollywood Reporter*, par. 4.

142. Maherzi, *The Communication Report: the Media and the Challenge of New Technologies*.

143. Adoni and Nossek, “The New Media Consumers: Media Convergence and the Displacement Effect,” 59-84.

144. Jenkins, “Convergence? I Diverge.” 93.

145. *Ibid.*

146. *Ibid.*

between different media systems, not a fixed relationship.”<sup>147</sup>

Although Jenkins has contributed much to the scholarly understanding of convergence, he credits de Sola Pool, a political scientist, as the first scholar to apply the concept as a way to explain changes occurring within the media industry.<sup>148</sup> De Sola Pool wrote of a process called the “convergence of modes” and described it as “blurring the lines between media.”<sup>149</sup> De Sola Pool continued:

A single physical means—be it wires, cables or airwaves—may carry services that in the past were provided in separate ways. Conversely, a service that was provided in the past by any one medium—be it broadcasting, the press, or telephony—can now be provided in several different physical ways. So the one-to-one relationship that used to exist between a medium and its use is eroding.”<sup>150</sup>

Although de Sola Pool was interested in the effects of technology on political discourse, his concepts as they related to media resonated at that time given that online technology had emerged to the point where such a concept seemed tangible and less futuristic. Cable television companies were experimenting with interactive networks and newspapers were rushing their content onto videotext platforms. Such convergence efforts became known in industry parlance by the term “extension,” according to Jenkins, who said the word referred “to their efforts to expand the potential markets by moving content across different delivery systems.”<sup>151</sup>

Additionally, the word “repurpose” began creeping into the lexicon of traditional media as the term came to be used when describing the process of taking material used in the traditional media product and posting it online.<sup>152</sup> Although Jenkins’ contemporary work has taken the concept of media convergence beyond a technology construct and into the cultural realm, his most important contribution to understanding convergence as relates to this thesis is found in a rather pragmatic assertion: “Convergence involves both a change in the way media is produced and a change in the way media is consumed.”<sup>153</sup>

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147. Jenkins, *Convergence Culture: Where Old and New Media Collide*, 282.

148. *Ibid.*, 10.

149. de Sola Pool, *Technologies of Freedom: On Free Speech in an Electronic Age*, 23.

150. *Ibid.*

151. Jenkins, *Convergence Culture*, 19.

152. Bolter and Grusin, *Remediation: Understanding New Media*, 45.

153. Jenkins, *Convergence Culture*, 16.

### *Pragmatic Convergence*

Subsequent chapters of this thesis will explore how the newspaper industry approached creating its interactive media products and how its audience consumed those interactive products. The thesis will attempt to gauge if newspapers placed too much emphasis on the production process and too little on understanding how the audience wanted to use interactive media. Toward that end, it makes sense to look at how some traditional media businesses and interactive media businesses decided to work together. The thesis also will examine whether the newspaper industry's approach to convergence recognized the immense technological transition taking place.

Lawson-Borders wrote that perhaps the “most simplistic definition” of media convergence “is the combining of old (traditional) media with new media for the dissemination of news, information, and entertainment.”<sup>154</sup> She reported that an official of the American Press Institute “defined convergence as ‘the strategic, operational, product and cultural union of print, audio, video and interactive digital information services.’”<sup>155</sup> These definitions and many of the others presented previously perpetuate the notion that convergence is a technological process and that convergence can be achieved merely through the consolidation of distribution channels. Traditional media—especially newspapers—bought into that way of thinking. That narrow view elevated the production side of the equation and lowered the importance placed on providing a new experience to consumers. Newspapers invested heavily in technology during the period covered in this thesis, but the spending was primarily on new computer systems and reorganized production platforms.

It can be argued that interactivity should have been an important attribute that defined the convergence process. But even after the Internet emerged, newspapers and other traditional media found it difficult to generate original content that offered interactive features. Lievrouw described the result as follows:

The current mainstream quality of new media is at least partly due to the increased control of new media content, ownership, and policy debates by conventional mass media industries ... a large and expanding proportion of online content now flows to and from conventional publishing, broadcast and cable television, radio, motion pictures, recorded music, and so forth. As traditional media

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154. Lawson-Borders, *Media Organizations and Convergence: Case Studies of Media Convergence Pioneers*, ix.

155. *Ibid.*, 3-4.

interests control more of the content of, and access to, new media services, the new genres tend to look more like the old.<sup>156</sup>

Newspaper companies treated online media as a new delivery channel, an extension of existing business rather than as a standalone new medium. Therefore, the content distributed through these new systems often was indistinguishable from the material offered in the printed newspaper version. Although this led to diminished enthusiasm among the early adopters of online media, it can be viewed as part of the natural media evolution process as is explored in the following section.

### ***Convergence as Remediation***

Lievrouw's observations of sameness—or perhaps a lack of newness—would come as no surprise to Bolter and Grusin who wrote that “convergence is remediation under another name....”<sup>157</sup> Bolter and Grusin proposed remediation as a natural process that occurs as traditional media repurpose their content into newer media and the newer media respond to the action of repurposing. They wrote: “What is new about new media comes from the particular ways in which they refashion older media and the ways in which older media refashion themselves to answer the challenges of new media.”<sup>158</sup>

Central to their concept is an almost symbiotic relationship that must exist between traditional media and what they call digital media:

... digital media cannot be significant until they make a radical break with the past. However, like their precursors, digital media can never reach this state of transcendence, but will instead function in a constant dialectic with earlier media, precisely as each earlier medium functioned when it was introduced. Once again, what is new about digital media lies in their particular strategies for remediating.... Repurposing as remediation is both what is “unique to digital worlds” and what denies the possibility of that uniqueness.<sup>159</sup>

Without uniqueness, then, what is the catalyst for convergence or remediation? Bolter and Grusin argued that remediation occurs largely as a repair process as media assimilate technology in the quest to achieve immediacy:

Each new medium is justified because it fills a lack or repairs a fault in its predecessor, because it fulfills the unkept promise of an older

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156. Lievrouw, “What’s Changed About New Media?”12.

157. Bolter and Grusin, *Remediation*, 224.

158. *Ibid.*, 15.

159. *Ibid.*, 50.

medium....The supposed virtue of virtual reality, of videoconferencing and interactive television, and of the World Wide Web is that each of these technologies repairs the inadequacy of the medium or media that it now supersedes. In each case that inadequacy is represented as a lack of immediacy....<sup>160</sup>

Bolter and Grusin's remediation concept is interesting in the context of this discussion because of the importance it places on immediacy. Immediacy, as an attribute, resonated with traditional media executives more than interactivity. For example, Belo Corporation, which at that time operated both newspapers and television stations, claimed its new media mission was to provide the "immediacy of television, the urgency of the Internet and the depth of newspapers."<sup>161</sup> However, the attribute of immediacy challenged the newspaper industry, where many editors felt that publishing material in online forms before it had appeared in print was a form of self-competition. This topic is explored in more detail in subsequent chapters.

Bolter and Grusin did not give printed media much consideration in their work, writing that "convergence is the mutual remediation of at least three important technologies—telephone, television, and computer—each of which is a hybrid of technical, social and economic practice and of which offers its own path to immediacy."<sup>162</sup> Nevertheless, Bolter and Grusin's conceptual construct is important to understand as a foundation to this thesis, and their most salient observation is that immediacy manifests itself in new media "through interactivity—the fact that these media can change their point of view in response to the viewer or user."<sup>163</sup> The newspaper industry understood this aspect of electronic delivery, and the thesis in subsequent chapters examines how newspapers' online products reflected such attributes.

The constructs of remediation were echoed in the work of Lehman-Wilzig and Cohen-Avidor. These researchers constructed an analysis called "the natural life cycle of new media evolution" and defined it through a six-stage model: "birth (technical invention), penetration, growth, maturity, self-defense and adaptation, convergence or obsolescence."<sup>164</sup> They described their work as placing "special emphasis ... on older media in their struggle to survive."<sup>165</sup> An essential element in

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160. Bolter and Grusin, *Remediation*, 60.

161. Lawson-Borders, *Media Organizations and Convergence*, 5.

162. Bolter and Grusin, 224.

163. *Ibid*, 81

164. Lehman-Wilzig and Cohen-Avidor, "The Natural Life Cycle of New Media Evolution," 707.

165. *Ibid*.

their model is “media constructionism,” which they defined as “constant interaction between new and older media” and “a key factor in the successful or unsuccessful evolution and specific direction of the new medium.”<sup>166</sup>

Given that this thesis represents a journey through an approximate quarter-century of newspaper industry history, the work of these researchers provides yet another academic lens through which to view the research. They wrote: “Older media may recognize early on that the new medium presents a potential threat and respond by narrowing the ‘performance gap’ between their traditionally limited offering and the new medium’s ‘better’ service.”<sup>167</sup>

The thesis explores this premise as it relates to how the newspaper industry’s attempts to exploit interactive media may have been, at least in part, a reaction to perceived threats. Lehman-Wilzig and Cohen-Avigdor also observed that “the decline of the older medium may not occur immediately; under competitive pressure the traditional medium can squeeze more out of its arsenal—even actually increasing revenues for a period of time.” The thesis examines how this phenomenon occurred within the newspaper industry during the time period studied. Lehman-Wilzig and Cohen-Avigdor also noted that “older media, especially if financially sound, have the luxury of purchasing or jumping on the new medium’s bandwagon, and placing a few eggs in the new basket.”<sup>168</sup> They were careful to note that “this does not guarantee older medium survival, but it does enable the use of new media revenues to ‘subsidize’ the adaptation changes....”<sup>169</sup> In considering this premise, the thesis explores how the financial success of newspapers—especially during the majority of this time period studied—contributed to the speed and degree of the newspaper industry’s competitive responses.

## Conclusion

Interactivity has been examined from the perspective of multiple disciplines. As it applies to this thesis, however, interactivity is viewed through Rafaeli’s description as “quintessentially a communication concept.”<sup>170</sup> More specifically, interactivity is considered as an attribute of media that defines and differentiates one type of media from another. Within this context, the concept of interactivity is used to explain the

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166. Ibid., 709.

167. Ibid., 715.

168. Ibid., 718.

169. Ibid., 718-719.

170. Rafaeli, *Advancing Communication Science*, 113.

pragmatic two-way communication characteristics inherent in the phrase “interactive media.” This phrase describes media delivered through a computer or device connected to a network capable of such two-way communication. The network could be either closed or proprietary, such as the original America Online, or an open network such as the Internet. The degree of interactivity allowed is not important within this definition; only that a network allowing two-way communication exists.

The degree to which interactivity occurs, however, is very important in terms of a medium’s relationship with its user. Bryant wrote that the extensive choice associated with the Information Age changed the dynamic between media and audience, creating what he described as the “sovereign consumer.”<sup>171</sup> That the newspaper industry embraced electronic delivery is given, but this thesis critically explores how newspapers responded to their consumers’ expectations regarding interactivity as electronic services proliferated.

As for the term “new media,” its contemporary usage is most closely associated with the Internet and the World Wide Web. While the term has been used interchangeably with interactive media or digital media in numerous books and articles that far pre-date the consumer Internet, its most frequent contemporary usage is within the context of the Internet. The currency of the term grew in the mid-1990s in response to the exploding use of the Internet by consumers. It may be viewed by some as awkward to continue referring to something as “new” even though consumer use of the Internet is well into its second decade. Subsequent chapters will strive to adhere to a hierarchical structure that defines “interactive media” as all forms of computer and network-based media. The following chapters also will refer to “new media” only when discussing the subset of media that is delivered through the Internet connection or when quoting others who may have used the term more broadly.

The notion that convergence describes an evolutionary, transformative process is widely understood. Within the media industry, convergence came to be viewed as the process for exploiting technology to deliver a greater level of interactivity. From the perspective of the newspaper industry, convergence became associated with the pragmatic details of production. In other words, how content was repurposed from its printed form for use in an interactive media platform received

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171. Bryant, “Message Features and Entertainment Effects,” 254.

more attention than the concept itself.

Quinn noted that the newspaper industry eventually adopted the phrase “multiple-platform publishing” in place of “the more nebulous term ‘convergence’” and also referred to “structural convergence” when describing new positions within organizations designed to facilitate the flow of content to media partners.<sup>172</sup> Even as newspapers expanded their online presence, the practical discussion of convergence within the newspaper industry also included partnerships with television stations. Quinn observed that these partnerships were part of “tactical convergence” as defined by Gordon, and that newspapers were more likely to have such partnerships with local television stations than with other types of media companies.<sup>173</sup>

Such partnerships became so intertwined with the discussion of convergence and newspapers that Lawson-Borders added a broadcast element to her definition of convergence for the purpose of identifying case studies for inclusion in a book. She wrote:

I define convergence as the realm of possibilities when cooperation occurs between print and broadcast for the delivery of multimedia content through the use of computers and the Internet.<sup>174</sup>

Gordon suggested, however, that most newspaper/television alliances were promotional in nature and not overly strategic.<sup>175</sup> If they were not strategic, it could be argued that such alliances were never part of the convergence process and, in effect, distracted newspaper executives from considering the larger meaning and ramifications of convergence.

Considering this larger picture is an ideal launching point for the material that follows. Beginning with an exploration of the newspaper industry’s earliest online endeavours, Chapter Two shows how the 1980s began as a hopeful and exciting time for the newspaper industry as it seemed determined to charter a course toward an electronic future that would ensure its rightful place at the forefront of the Information Society. Chapter Two examines how this vision was manifested in the deployment of several videotext projects, but it also addresses how the failure of many of these high-profile ventures dampened the industry’s enthusiasm for taking risk in the face of rapidly changing technology.

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172. Quinn, “An Intersection of Ideals: Journalism, Profits, Technology and Convergence,” 111-112.

173. Ibid, 112.

174. Lawson-Borders, *Media Organizations and Convergence*, 4.

175. Gordon, “The Meanings and Implications of Convergence,” 65.

## Chapter Two:

# Videotext and the Birth of Online Newspapers

Hyping the Internet in the late 1990s was commonplace. Media critics, Wall Street analysts, and technology pundits all proclaimed the Internet as the next big thing. The punditry predicted how the Internet would change everything by destroying some markets, while creating new ones. Such hyperbole, however, was not new. A decade earlier—long before anyone except maybe a few dedicated researchers even contemplated the possibilities of a commercial, consumer-oriented Internet—newspaper executives extolled the virtues of network-based technologies they were about to unleash.

Consider the words from an executive with Knight-Ridder Inc. in 1983 published in connection with the launch of the company's Viewtron project:

Welcome to the future! Tomorrow has arrived. A historic moment in the United States is upon us.... How many of us were fortunate enough to be there when the first television set showed its first program, when the first radio crackled its first sounds, when the first talkie movie was shown, when the first words came through Bell's telephone, or when the first U.S. newspaper came off the press? Few of us actually can say that we were there when history was being made—until now. A new communications medium is making its commercial debut in the United States. A medium that combines space age technology with your everyday television and telephone line to bring you a new world of information and services.<sup>1</sup>

This material exemplifies the hype surrounding interactive media as its earliest forms debuted in the United States. This chapter provides examples from the newspaper industry's dozens of early forays into electronic publishing—projects such as StarText, Viewtron, and Gateway—and will compare and contrast these examples. The expectations, costs and, in some cases, anxiety associated with these initiatives affected how they were launched and their ability to succeed. Reviewing the partnerships and the underlying technologies that gave life to these projects as well as the attitudes of consumers and industry leaders provides an understanding of the gap that developed between the hype and what actually happened. Through the exploration of Knight-Ridder's Viewtron project and others, this analysis establishes

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1. Gillen, "Letter from the President: The Waiting is Over; Touch the Future," 2. [Statement attributed to Albert J. Gillen, president of Knight-Ridder's Viewdata subsidiary, which was responsible for the Viewtron project.]

the historical foundation for the newspaper industry's early role in developing interactive media. Kyriash wrote that videotext, especially in the United States, "is often perceived as a major market failure that should have been easy to foresee."<sup>2</sup> This observation underscores the importance of examining the newspaper industry and its relationship with videotext for it provides historical context relevant to understanding subsequent chapters when this thesis examines how this industry reacted and responded to the emergence of the Internet.<sup>3</sup>

## The Videotext Market

When Knight-Ridder's Viewdata Corporation formally launched Viewtron in 1983 after two years of field testing, the service was hailed as "the first commercial videotex service in America."<sup>4</sup> Leveraging technology developed in Europe and Canada, Viewdata sought to bring interactive media to U.S. consumers by deploying videotext.<sup>5</sup> Teletext represented another method available at that time for transmitting and displaying text on to a television screen, but teletext was regarded as a passive technology. An audience could read teletext, but the engagement experience was limited. The excitement associated with videotext, by comparison, stemmed from its connection to a telephone, which allowed a system to serve specific content requested by a user.<sup>6</sup>

Videotext represented the first real merger of media (newspapers and television) and communications (the telephone) for the consumer market. Combining media forms in this manner is associated with the concept of convergence, which was addressed in Chapter One and will be explored further in Chapter Six. While the term convergence is rarely applied in historical discussions of videotext, the concept it represents was important in the early adoption of videotext.

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2. Kyriash, "Lessons From a 'Predictive History': What Videotex told us about the World Wide Web," 10.
  3. This document uses the spelling "videotext" rather than "videotex" (unless quoting an author who used the alternate spelling). The review of sources found videotext with a "t" at the end to be the preferred spelling in contemporary articles. However, videotex was the official spelling used by the Videotex Industry Association and the International Telegraph and Telephone Consultative Committee (CCITT), an advisory body of the International Telecommunications Union (ITU). Therefore, many of the sources cited uses the spelling without the final "t" as this was the preferred spelling when videotext was a deployed technology in the 1980s and early 1990s.
  4. Gillen, "Letter from the President," 2.
  5. Kyriash, "Lessons From a 'Predictive History,'" 12.
  6. *Ibid.*, 11.

Proponents recognized the potential for linking media content to consumers through a telecommunications network. Kyrish wrote that “Expectations for videotex were strongly driven by the fact that it was technologically possible.”<sup>7</sup> She added:

Although the architecture of videotex may now seem simplistic, the primary sources from the time show that the technology was as fascinating and cutting-edge as today’s technologies appear to us. ‘Convergence’ is only a new term, not a new concept: articles and books about videotex positioned it as the natural result of combining the television, the telephone and computing power into a new and powerful alloy.<sup>8</sup>

Kyrish reported that several independent research firms made very positive forecasts regarding the future of videotext. The Institute of the Future said in 1982 that videotext would be in 30 to 40 percent of U.S. households by 2000. Strategic Inc. projected in 1981 that the consumer videotext market by 1990 would be worth \$19 billion in equipment sales supported by another \$16 billion in additional spending, while Booz-Allen forecasted the market would be worth \$30 billion in revenue by the mid 1990s.<sup>9</sup> International Resource Development said in 1981 that “electronic newspapers”—a sub-market within the universe of videotext offerings—would generate \$500 million in annual revenue by 1990.<sup>10</sup>

Such huge financial numbers emanating from prestigious market research firms contributed to the strategic planning undertaken by newspapers. Nevertheless, those revenue forecasts were tempered by the results of other studies conducted in the early 1980s in an attempt to gauge consumer receptiveness to online technologies and their relationship to newspaper consumption. One study conducted by the *Register & Tribune* in Des Moines, Iowa, found that only a fourth of the 1,022 respondents from its market were interested in such a service, while 59 percent expressed no interest at all.<sup>11</sup> A study by University of Florida researchers in March 1982 asked consumers in the Gainesville, Florida market if they “would stop buying a newspaper if they could get its contents on a TV screen?” Sixty-five percent of the 373 respondents said “no.”<sup>12</sup> Studies such as these confirmed for the industry that only a small portion of its audience was interested in online media services in the early 1980s. Newspaper companies moved forward with investments in videotext

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7. Ibid.

8. Ibid.

9. Kyrish, “Videotext to the Internet: Lessons from Online Services 1981-1996,” 10.

10. Rambo, “New Services Stir Variety of Questions on Marketing,” 24.

11. Ibid., 26.

12. Butler and Kent, “Potential Impact of Videotext on Newspapers,” 7.

projects even though they believed there was little consumer demand for such services in these early years. In the absence of perceived consumer demand, this thesis explores other factors that motivated newspaper companies to enter the market for videotext services.

### ***Competition Effect***

Udell wrote in 1978 that the “so-called experts have predicted the demise of newspapers as we know them since the 1930s.”<sup>13</sup> Radio and later television presented formidable competitive threats, but after surviving—and thriving—against the electronic media throughout the 1950s, 1960s, and 1970s, the newspaper industry had no reason to believe it could not coexist with computer-based competition. For the most part, industry leaders were confident that a significant competitive threat to its core printed newspaper products from computer-based media remained in the distant future. But this outward air of industry confidence was buffeted by a nagging suspicion that such thinking could be wrong—that doing nothing would leave the newspaper industry vulnerable to competitors that acted unlike other electronic media.

Computers of earlier generations were understood to be text-based devices, which allowed them to be closely associated with print competition. There was concern that computers connected to a content provider 24 hours a day would upset the traditional news cycle, which had favoured morning newspapers.

Kyrish maintained that it was the need to keep up with potential competitors that motivated the spending on early videotext endeavours by Knight-Ridder and other newspaper companies. She wrote that such “spending was based on concern that new technologies would reorganize existing structures and that companies that did not invest would be trampled.”<sup>14</sup> These projects were, in essence, the result of risk management rather than a strategic desire to be innovative. In the early 1980s, newspaper companies were concerned about the expanding market for cable television. Publishers were aware that cable television represented a network conduit into the home that someday could offer an interactive experience. Warner Cable had attracted significant attention in the late 1970s when it introduced its own version of an interactive system in Columbus, Ohio, called QUBE.<sup>15</sup> While some critics viewed

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13. Udell, *The Economics of the American Newspaper*, 144.

14. Kyrish, “Lessons From a ‘Predictive History,’” 25-26.

15. Mowshowitz, “Scholarship and Policy Making: the Case of Computer Communications,” 4.

it as “a novelty,” others saw it “as a major innovation in marketing research and segmented communications,” which “offers substantial advantages for added flexibility in programming and advertising.”<sup>16</sup>

Newspaper executives felt they had no choice but to pay attention to the burgeoning market for cable television and the medium’s potential for ancillary services. How newspapers became intertwined in the cable television industry is explored in greater detail in Chapter Three. The purpose of this chapter is to explore the newspaper industry’s involvement in videotext in the early 1980s and the factors influencing those projects. As explained in the introduction, the early 1980s was a time of much rhetoric regarding the Information Society and the coming information-based upheaval in industry that would rival the Industrial Revolution. As such, the thesis explores the notion that the newspaper industry pursued videotext projects not only because of concerns over competition, but also from a desire to be seen as a leader in the information revolution.

### ***Technological Determinism***

The early 1980s marked the emergence of the computer as a consumer tool and provided the impetus for much concern about the future of media—especially in printed form. By 1983, the personal computer had made such an impact on society that Time magazine recognized the device as its “Machine of the Year,” which replaced its usual “Man of the Year” feature.<sup>17</sup> In looking back over the evolution of media, Bagdikian wrote that “the history and subsequent emergence of the computer into the modern media scene is as significant as the invention of high-speed presses was to the history and social effects of newspapers and magazines.”<sup>18</sup> Therefore, it is important for a project of this nature to examine how videotext came to represent, especially for the newspaper industry, the method in which the promises of computer technology would be fulfilled. As the newspaper industry became enamoured with the role it could play in bringing new technologies to market, many in the industry viewed the development of online media as inevitable; that newspaper companies had no alternative other than to participate. Flichy described this as succumbing to a “totally deterministic perception of technology.”<sup>19</sup> Boczkowski wrote that the development of videotext technology within the cultural climate of the early 1980s

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16. Russell, “Advertising in an Electronic World,” 52.

17. Rosenblatt, “Machine of the Year: A New World Dawns,” 13.

18. Bagdikian, *The New Media Monopoly*, 57.

19. Flichy, “The Construction of New Digital Media,” 33.

allowed for it to become symbolic of the “‘information society’ rhetoric [that] was popular in both the press and scholarly works.”<sup>20</sup> He noted that the culture was primed to accept “these new technologies” as “symbol of an epochal change....”<sup>21</sup>

### *Clarifying Terms*

To achieve the objectives of this thesis requires defining the common terms associated with these early forms of online media as well as understanding their background by studying primary and scholarly sources. Knight-Ridder’s Viewdata Corporation traced the origin of videotext to Sam Fedida, a British researcher, whose work in the early 1970s led to the British Post Office’s deployment of a service known as Prestel in 1979.<sup>22</sup> As British researchers were readying their system for commercial deployment, government-backed projects were also underway in France (Antiope and later Teletel), Canada (Telidon) and Japan (CAPTAIN).<sup>23</sup> While the computer engineering in these systems may not be identical, they are universally discussed as videotext systems.

The phrase “viewdata” was used interchangeably with the term “videotext” in the late 1970s and early 1980s,<sup>24</sup> but “videotext” will serve in this thesis as the name for the generic system, to avoid confusion due to Knight-Ridder’s adoption of “viewdata” as the corporate name of its videotext subsidiary, Viewdata Corporation. Sigel’s definitions published in 1983 and often cited in the literature, provide the foundation for understanding the terms as they are used in this thesis. Sigel defined videotext as “a means of displaying words, numbers and pictures on a TV screen at the touch of the button.” Sigel explained that teletext—another platform deployed in the early 1980s—was “a broadcast system [that], involves the one-way sending of pages of information,” while videotext “involves the sending of information from a central computer to an individual terminal over telephone lines.”<sup>25</sup>

Teletext was essentially a passive broadcast medium; offering its user nothing more than the ability to read text as it scrolled over a television screen. Videotext, however, offered a connection to a central server—a communication path to talk with

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20. Boczkowski, “The Mutual Shaping of Technology and Society in Videotex Newspapers: Beyond the Diffusion and Social Shaping Perspectives,” 258.

21. Ibid.

22. *Viewtron Magazine*, “Viewtron’s Roots Traced; From Telephone to TV to Videotex,” 22.

23. Sigel, *The Future of Videotext: Worldwide Prospects for Home/Office Electronic Information Services*, 2.

24. Ibid., 1. [See footnote 3 for an explanation regarding spelling.]

25. Ibid.

the content provider and interact with the content in new ways. This concept of interactivity—discussed in Chapter One—was inherent in how Sigel differentiated the two technologies. He wrote that teletext is one-way and offers no path for the user to select content, adding that although it affords the user the ability to “determine the timing of what he sees, teletext is not a truly interactive medium.” Videotext was the term that became primarily associated with early online systems that allowed for the “both the selection of information and the timing of its display [to be] determined by the recipient.”<sup>26</sup>

Neustadt explained videotext in much the same way as Sigel. Neustadt described videotext as “two-way,” adding that in a videotext system: “The computer holds a large number of pages (a database), and the user sends a signal to it to request the desired page. The computer then transmits that particular page. Videotext sends different pages to different users and can handle multiple requests simultaneously.” He also defined teletext as a “one-way system, with signals flowing to the user.”<sup>27</sup>

Aumente also presented interactivity as the key attribute of videotext. His basic definition is similar to the others presented: “various computer-based interactive systems that electronically deliver screen text, numbers, and graphics via the telephone or two-way cable for display on a television set or video monitor.”<sup>28</sup> He explained that the interactive aspect of videotext involved multiple relationships: communicating with the system provider and others using the system as well as transacting business with service providers such as banks and airlines.<sup>29</sup> He wrote: “Interactivity catapults existing media habits into an entirely new realm ....”<sup>30</sup> Because of this interactivity, the potential for videotext as a new communication medium was exciting to its early devotees. It was recognized as enabling a paradigm shift.

### ***An Extension of Electronic Publishing***

Early experiments with videotext captured the imagination of researchers and scientists who envisioned the power of computer-based information systems as a replacement for print-delivery systems. As Sigel wrote: “It is undeniable that

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26. Ibid.

27. Neustadt, *The Birth of Electronic Publishing: Legal and Economic Issues in Telephone, Cable and Over-the-Air Teletext and Videotext*, 1.

28. Aumente, *New Electronic Pathways: Videotex, Teletext and Online Databases*, 14.

29. Ibid., 17.

30. Ibid.

videotext has many advantages over print, among them speed, selectivity, personalization of information and the maintaining of wide-ranging, comprehensive collections of data.”<sup>31</sup> Neustadt espoused that the technology developments were leading to “a new mass medium” he described as “electronic publishing.”<sup>32</sup> He wrote:

Until recently, mass distribution of information has been dominated by publishing and broadcasting. Now, technology is marrying these media to spawn a new one: electronic publishing. Print-type information—text and graphics—is being distributed over electronic channels: television, radio, cable TV and telephone wires. In the past four years, electronic publishing has changed from futuristic fantasy into a serious business.<sup>33</sup>

In this explanation, electronic publishing is associated with electronic delivery, but this meaning evolved out of computer-based production processes. Researchers in the Internet era are likely to take the phrase “electronic publishing” for granted, but it was new in the late 1970s and represented an emerging construct for the publishing industry, especially newspapers. The earliest use of “electronic publishing” was attributed to a conference held in the spring of 1977 by the U.S. Institute of Graphic Communication.<sup>34</sup>

Around that time, the phrase was generally understood to encompass two meanings: First, the use of computers to facilitate production of a printed product through photocomposition; and second, the use of computers and telecommunications systems to distribute data to users electronically.<sup>35</sup> Lerner argued that electronic publishing represented a holistic concept that applied to both production and distribution of information.<sup>36</sup> Other researchers such as Cuadra<sup>37</sup> and Gurnsey<sup>38</sup> echoed Lerner, concurring that the concept applied to electronic systems used to produce printed material as well as material distributed online. All of these early attempts to define electronic publishing illustrate the newness of computing in the publishing industry at that time.

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31. Sigel, *The Future of Videotext*, 3.

32. Neustadt, *The Birth of Electronic Publishing*, 1.

33. Ibid.

34. Kist, *Electronic Publishing: Looking for a Blueprint*, 11.

35. Ibid.

36. Lerner, “Electronic Publishing,” 111.

37. Cuadra, “A Brief Introduction to Electronic Publishing,” 29-34.

38. Gurnsey, “Electronic Document Delivery – III Electronic Publishing Trends in the United States and Europe.”

Even before the phrase “electronic publishing” became an industry recognized term, the U.S. newspaper industry began deploying computer systems to improve the efficiency of its front-end production processes. These new systems included technology to scan text written on typewriters into computer production systems and later full-text entry systems with video display terminals (VDT).<sup>39</sup> Word processing software and computer-based publishing systems are commonplace today, but they represented sweeping fundamental change when introduced. To understand how radical these systems must have seemed to the reporters and editors who were among the first to use them, consider Udell’s description:

The reporter can read what he or she has written and can change it on the keyboard and screen as often as wished. When finally satisfied with a story, the reporter simply informs the appropriate editor who can ‘call up’ the story from the computer onto his own VDT screen and edit it as necessary. When all editing is completed, the story remains in electronic storage to be called up whenever wanted for virtually instantaneous electronic typesetting.<sup>40</sup>

As newspapers came to rely on computers in the production process, an interesting phenomenon occurred. The industry, long in the technology shadow of television and radio, experienced a sense of competitive resurgence against its electronic competitors as the 1980s began. Given that computers were so new at assisting with editorial tasks, newspaper executives marvelled at their use. Indeed, many believed computers assisting with production processes signalled that newspapers had crossed the line into a form of electronic media, somewhat equivalent technologically with their television rivals. Compaine wrote: “The technology has brought newspapers into the electronic age, if not with the same immediacy as television or radio, then with many of their techniques for instantaneous and remote transmission of the news back to the waiting pressroom.”<sup>41</sup> Adopting computer technology in this manner seemed to provide the newspaper industry with a sense of new-age sophistication that had been lacking. Using computers to improve production process and enhance efficiency represented a break from the industry’s industrial, manufacturing roots and afforded the opportunity to be viewed as contemporary and relevant. The initiatives to integrate computer

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39. Udell, *The Economics of the American Newspaper*, 94.

40. Ibid.

41. Compaine, *The Newspaper Industry in the 1980s: An Assessment of Economics and Technology*, 208.

technology into the production process were deemed successful as Compaine further observed:

The new technology has breathed new life into this oldest of news media. Its speed, accuracy, and flexibility have helped newspapers hold down costs, brighten the product, and, in some cases, improve the editorial package.<sup>42</sup>

In this context, it is easier to understand why newspaper companies were quick to adopt videotext. Online distribution was an extension of the electronic publishing efforts already underway and videotext was considered a natural extension of the computer-based tools they were using. Picard wrote: “Because the news processes associated with the technology captured keystrokes, it was now possible to reuse or easily alter content prepared for the newspaper for use in a videotext operation.”<sup>43</sup> As such, electronic publishing evolved as a blending of the production process with the delivery process in such a way that a new media form emerged. It was, as Kist observed, a significant advancement, “not merely one more development along the continuum in the widespread dissemination of knowledge which began with the invention of moveable type.”<sup>44</sup>

Kist also recognized that electronic publishing was not an invention in its own right, but an amalgamation of inventions that included such things as computers, telephony, and photography. With that construct in mind, he wrote that electronic publishing represents:

... more than the transfer of characters to a screen or to a printer; it is more than faster and cheaper typesetting; it is also more than an efficient means of storing and retrieving documents. [Electronic publishing] offers the possibility of bringing a vast store of information and knowledge ... directly to the user....<sup>45</sup>

This view of electronic publishing reflects many of the convergence concepts discussed in Chapter One and that will be explored further in subsequent chapters. At this point, however, it is suffice to understand that videotext became a pragmatic tool for those seeking a technology platform that would allow them to realize the potential of electronic publishing beyond enabling a printed form. In other words, videotext became the platform that first expanded the scope of electronic publishing.

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42. Ibid.

43. Picard, “Changing Business Models of Online Content Services,” 63.

44. Kist, *Electronic Publishing*, 14.

45. Ibid.

Such themes were prevalent throughout numerous articles and books published in 1970s and 1980s, including one that noted that electronic publishing had become a “hot topic” largely because “it has been heralded as one of the portents of the impending information age which is expected to usher us into the lap of a postindustrial era.”<sup>46</sup> *Editor & Publisher*, a leading newspaper industry trade journal, also called the transformation of its industry’s production processes a “technological revolution.”<sup>47</sup> Even though such phraseology was used frequently when describing the Information Society at large, it was particularly pertinent when used within the newspaper industry. As Boczkowski explained, the specific use of such phraseology within the industry setting underscores its influence. He wrote:

This “revolutionary” language points to an ideological trait that also contributed to create a context conducive for the appropriation of videotex by American dailies: the technologically deterministic belief that electronic publishing would drive the future of the industry.<sup>48</sup>

The rise of electronic publishing and its association with Information Society rhetoric is an important element to consider when exploring the factors that motivated newspaper companies to take the actions they did in the early 1980s.

### ***The Influence of Rhetoric***

As videotext was deployed through commercial services aimed at consumers, it came to be seen as the tangible manifestation of the Information Society rhetoric. Many authors from industry and academia tended to approach electronic publishing and the videotext tool from a technology utopian perspective; “revolution” was a commonly used word. The following three examples illustrate this point.

Smith believed that in terms of human communication, writing and printing represented two revolutions and suggested the electronic publishing era constituted a third revolution. He wrote:

Today the computer, which was developed originally as a device for calculating, has now become a device for handling text in many forms, and this interconnection between computer and text is coming to exercise so transforming an influence upon the human

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46. Standera, *The Electronic Era of Publishing: An Overview of Concepts, Technologies and Methods*, 1.

47. *Editor & Publisher*, “It’s a Gee Whiz World,” 8.

48. Boczkowski, “The Mutual Shaping of Technology and Society in Videotex Newspapers,” 258-259.

institutions that adapt to it that one may justifiably consider whether a *third* great turning point in information systems has come about.<sup>49</sup>

Weingarten, in an article based on testimony to the United States Congress, summarized the climate of discussion this way:

It has become common in the press and popular literature to speak about the new “Information Society” or “Information Age.” Whether or not such statements suffer from journalistic exaggeration, we are clearly in the middle of fundamental transformation of the way information is created, stored, transmitted and used...<sup>50</sup>

Alber, though generally conservative and dispassionate in his work on videotext and teletext, also opened his book by placing the subject within this heady, technology-revolution context:

We live in a fast-paced and rapidly changing world, a time in which writers try to capture the essence of what is happening with phrases like *The Wired Society*, *The Third Wave*, and *Megatrends*. Videotext and teletext are the electronic children of this age. By 1995, they will have grown up to be an integral part of our lives.<sup>51</sup>

Although popularized in the early 1980s by such commentary, the concepts that made up the construct of an Information Society were not new. They had been widely discussed in the 1970s, and the origin of the core concepts is even earlier. Beniger reported that economist Fritz Machlup, working in the 1950s, advanced the concept of information as the researcher “who first measured that sector of the U.S. economy associated with what he called “the production and distribution of knowledge.”<sup>52</sup> In late 1950s, information concepts became more closely associated with computers. How these devices would allow for information to be processed more efficiently became an important topic of that time. An article by Leavitt and Whisler in a 1958 *Harvard Business Review*<sup>53</sup>, for example, represents one of the earliest documented uses of the phrase “information technology.”<sup>54</sup> Subsequently, the transformation of information from an analogue to digital form has been described as

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49. Smith, *Goodbye Gutenberg: The Newspaper Revolution of the 1980's*, 3.

50. Weingarten, “Testimony Before Congress: New Information Technology and Copyrights,” 4. [Weingarten was manager of the Communication and Information Technologies Program within the federal government’s Office of Technology Assessment].

51. Alber, *Videotex/Teletext: Principles and Practices*, xi.

52. Beniger, *The Control Revolution: Technological and Economic Origins of the Information Society*, 21.

53. Leavitt and Whisler, “Management in the 1980s,” 41-48.

54. Brynjolfsson and Saunders, *Wired for Innovation: How Information Technology is Reshaping the Economy*, 53.

a key attribute of information technology.<sup>55</sup> For traditional media companies—especially those producing a printed medium—adopting information technology implied an acceptance of a new digitally-based future. In the case of newspapers, this required purging analogue-based production processes often rooted in decades—if not centuries—of tradition. It was no small undertaking.

Bagdikian was among the early explorers of how this transition from analog to digital would apply to the media. He became very influential by expressing his Information Society views and how traditional media, especially newspapers, would be affected by electronic publishing. Bagdikian’s prescient work, published in 1971, discussed electronic media and computing and the potential for technology to change what he considered a print-centric media landscape.

Bagdikian’s work did not achieve the level of popular notoriety of the more futurist-type works by authors such as Toffler<sup>56</sup> and Naisbitt<sup>57</sup>, but his contribution to explaining the effects of technology on media cannot be understated. Bagdikian explored many of the concepts that would later inform the definitions of electronic publishing and contribute to the work by other authors and researchers. Bagdikian drew from the commentary of McLuhan who had espoused the notion that that “printed words are an invention contrary to the inherent nature of man.”<sup>58</sup> Bagdikian expanded on this school of thought:

The new electronic media represent a return to a richer and more natural way for man to participate in his environment, engaging more of the senses and more levels of the brain than those used for abstract reasoning. As new generations respond to this multisensory medium, there will be a revival of the dominance of preprint communications—sight, sound, smell, touch, taste—and a disappearance of the ‘tyranny of print.’<sup>59</sup>

Bagdikian stopped well short of agreeing with McLuhan’s assertion that printed media was a dying artefact—in fact, arguing just the opposite.<sup>60</sup> But Bagdikian’s work is seminal for it acknowledged the influence of such ideas. He contributed to an understanding of the historical context in which decisions were made by traditional media including newspaper companies. Bagdikian wrote: “The McLuhan influence has been more dramatic and, in our time, more influential

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55. *Ibid.*, 62.

56. Toffler, *Future Shock*.

57. Naisbitt, *Megatrends: Ten New Directions Transforming Our Lives*.

58. Bagdikian, *The Information Machines: Their Impact on Men and the Media*, 184.

59. *Ibid.*

60. *Ibid.*, 205.

creating not only a popular dogma, but a significant body of belief among some scientists, scholars, academics, and operators of the mass media.”<sup>61</sup> Although Bagdikian did not believe that print would die as a result of new technology, he was convinced that computing would alter the way printed media would function:

In the long run, the more powerful substitute for print will be the routine storage of information in computers.... The computer can store enormous quantities of information ... if these words, ideas, subject references, paragraphs and whole documents are indexed and coded as they are introduced into the computer’s memory, the memory can be searched for particular parts of its content and they can be extracted quickly.<sup>62</sup>

And, in what may pass as one of the earliest descriptions of what we now know as a search engine, Bagdikian wrote about the coming power of information on demand:

The human reader may ask the machine to use its enormous speed to search its memory for those items the reader is interested in and present only selected information.<sup>63</sup>

In other words, Bagdikian recognized that the consumer would have new control over information, and would be newly empowered because of that control. By the end of the 1970s traditional media companies—especially newspaper publishers—had generally accepted that idea. Newspaper companies understood that technology would continue to alter the media marketplace even though the personal computer was a hobbyist activity. Newspapers had arrived at this understanding, in part, due to the success of electronic information services sold to businesses. How these commercial services influenced developments in the media market place is the topic of the following section.

### ***The Influence of Commercial Services***

Large electronic databases of information targeted at businesses and libraries were commonplace by the early 1980s. Mowshowitz observed that computer databases of information had been in existence for years, noting that services such as Medlars developed by the National Library of Medicine traced its origin to the mid 1960s.<sup>64</sup> He wrote that there were “thousands of databases accessible through various computer networks,”<sup>65</sup> including DIALOG, a commercial system that contained

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61. Ibid., 184.

62. Ibid., 196.

63. Ibid., 197.

64. Mowshowitz, “Scholarship and Policy Making,” 3.

65. Ibid.

more than 35 million records.<sup>66</sup> Services such as Orbit and DIALOG provide examples of commercial databases that carved out market niches for specific types of information, and in doing so, established an electronic information marketplace.<sup>67</sup>

*Online* magazine described the year 1977 as “arguably the dawn of the commercial online world,”<sup>68</sup> but the article noted that at the time users were “limited to people directly involved in academia, defense, government research agencies, computer systems development, and a few brave customers scattered among leading organizations.”<sup>69</sup> Nevertheless, the growth of these commercial services in the late 1970s and early 1980s was significant. The number of such services increased to more than 1,000 by 1983 from only 300 in 1975.<sup>70</sup>

The role these commercial database companies played in influencing the marketplace was exceptional. They proved that a marketplace existed for text-based information and data in the absence of a printed form. As researchers at the time studied the commercial market, they began to consider the possibilities of similar information depositories becoming available to consumers. In doing so, videotext was heralded as the way to deliver the same vast amounts of information to consumers at home in a cost-effective way that had not been accomplished.

Mowshowitz observed that the significant social shift occurring in the early 1980s was the ability to deliver information databases to consumers at home.<sup>71</sup> Through videotext, the technology was deemed to be in place to deliver the connected, integrated electronic experience required of an Information Society. Mowshowitz wrote:

The social significance of computer-communications is hard to exaggerate. In the near future most homes will be equipped with computer terminals linked by telephone, cable, satellite or other means to regional and national networks offering a variety of databases and information processing services. A decade ago this projection might have been dismissed as visionary; now the only questions are how fast terminals will be introduced and what factors will determine the rate of diffusion.<sup>72</sup>

One example from this period illustrates how some commercial services began to bridge the gap between the business and consumer markets. CompuServe

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66. *Ibid.*, 4.

67. Arnold and Arnold, “Vectors of Change: Electronic Information from 1977 to 2007,” par. 35.

68. *Ibid.*, par. 16.

69. *Ibid.*, par. 29.

70. Stander, *The Electronic Era of Publishing*, 48.

71. *Ibid.*, 3.

72. *Ibid.*, 2.

was created by H&R Block in the early 1970s to provide computer time-sharing services to companies that needed such resources, but did not want to invest the capital in systems of their own. As its business grew to more than 700 clients, including 120 of the Fortune 500, CompuServe began to add data services such as financial information to its product offering.<sup>73</sup> When personal computers entered the consumer market, CompuServe decided to market its services to users who were initially identified as computer hobbyists. In 1980, CompuServe charged these consumers \$22.50 per hour to access its system during the day, or \$5 per hour, after 6 p.m. when most of its business clients had shut down for the day. CompuServe provided consumers with an array of information and services, including stock quotes, commodity news, electronic mail, a bulletin board service, tests of electronic games that could be played between computer users, and content from *Better Homes and Gardens* magazine.<sup>74</sup>

CompuServe's most formidable competition in the consumer market did not come from other commercial services or the newspaper industry, but rather from the magazine industry. *Reader's Digest* created a service known as The Source, which offered similar information services. Additionally, both CompuServe and The Source appealed to home computer users as a marketplace for downloading software.<sup>75</sup> By 1985, CompuServe and The Source were serving 325,000 subscribers.<sup>76</sup> Although this number reflected a core audience among the growing number of home computer users, it was too small to impress the owners of the nation's large regional daily newspapers. Most of the regional daily newspapers had more subscribers than that in a single market.

Meanwhile, the commercial services market had its most influence on the newspaper business following 1980 when services marketed as electronic libraries began to proliferate. Many newspaper companies discovered in the early 1980s that it was easy to provide access to electronic content archives given that the raw material had been converted into digital form for the computer production processes that were used.

Dow Jones launched its Dow Jones News/Retrieval system in 1980, providing online access to its Dow Jones newswire and selected content from its

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73. Laakaniemi, "The Computer Connection: America's First Computer-Delivered Newspaper," 62.

74. *Ibid.*, 63.

75. Kyrish, "From Videotext to the Internet," 12.

76. *Ibid.*, 16.

financial newspaper, *The Wall Street Journal*.<sup>77</sup> That same year, *The New York Times* began offering access to its stories in full-text form through a service it called Infobank.<sup>78</sup> By 1985, about 50 newspapers were making full-text versions of their content available either directly through their own services or through a number of third-party electronic library services offered by Nexis, Vu/Text, DIALOG, and Data Times.<sup>79</sup>

The electronic library services were targeted at information professionals, especially research librarians, but newspaper companies were interested in using the platforms to learn more about managing electronic information. As the president of *The Los Angeles Times*, stated in an industry essay, “With electronic libraries that are coming into use, we are developing knowledge in data-base management...”<sup>80</sup> That sentiment summarizes the influence commercial databases and electronic libraries had on the newspaper industry in the early 1980s. Many newspaper companies came to see their operations within this context—keepers of vast databases of information that could be marketed as ancillary services.

But an industry consensus failed to emerge regarding how to translate experience with electronic libraries into a business model that held long-term promise for selling content online. Knight-Ridder, for example, seemed buoyed by the prospects of electronic libraries and continued to invest in the business at the same time it was rolling out its consumer-focused Viewtron service. However, The New York Times Co. in 1983 sold its Infobank service to Mead Data Central, then the parent company of the Nexis database.<sup>81</sup>

This opposite approach to one facet of the electronic information market by two of the industry’s most prominent companies underscored the uncertainty of the time. It illustrated how newspaper executives at different companies were looking at the same underlying strategic issues, but arriving at different actions. This thesis next examines several factors that were important to newspaper executives as they sought business models that would support electronic distribution of their content.

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77. Shedden, “New Media Timeline (1980).”

78. Ibid.

79. Shedden, “New Media Timeline (1985).”

80. Wright, “Electronic Publishing: How to Use It and Why,” 25. [Donald Wright was the president and chief operating officer of *The Los Angeles Times*.]

81. Shedden, “New Media Timeline (1983).”

### ***Business Considerations***

Even though some of the shrill rhetoric of the time predicted the imminent demise of printed newspapers, few, if any, newspaper industry leaders believed it. Some expressed concern that videotext or other forms of electronic delivery posed a short-term competitive threat, but any doomsday scenario was couched in terms of far-off years. A special trade publication report, for example, offered one prognostication that “newspapers, as we know them in 1980, will be non-existent in 2030.”<sup>82</sup> A 50-year horizon was no death sentence at all; the leaders at that time would all be retired by 2030 and they had confidence that leadership emerging from the next generation would be equipped to deal with industry changes as they evolved. In searching for a business model, therefore, the threat to the core printed product became a secondary concern. The issue at hand was determining how videotext services could provide a return on the investment required to create them.

In critically assessing the business climate of the time, talk of leading a revolution may have appealed to the ego of some industry leaders and cannot be dismissed as a factor that led to some of the projects. But newspaper companies were conservatively managed businesses, and a review of trade publication material from this period shows that newspaper companies appeared genuinely concerned about finding a business model that would support online endeavours as the market developed.

As explained earlier, newspaper executives understood that several companies had found success selling information databases—including news services—to businesses and libraries, but they were uncertain if that model could be translated into the consumer market. Consider the comments from Burns:

We have to distinguish between the consumer market and the business market. The business market is real and it is growing. Businesses can convert the news to profit if the news product is timely, relevant and accurate. So, up to a point, the more appropriate the news they buy, the more money they can make.... [The consumer] is not likely to buy more news, even more specialized news, if there is only cost and no benefit. He would buy it if he absolutely needed to know more. But it is not clear that he wants to know more.”<sup>83</sup>

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82. Chanin, “Officials of England’s ‘Electronic Newspaper’ Predict No Early Demise of Print Media,” 6.

83. Genovese, “Electronics Boom a Gamble or Sure Bet?,” 5. [J. Christopher Burns was vice president/planning for The Washington Post Co.]

Newspaper executives considered business models that would expand their reach beyond news and information; they wanted to accommodate interactivity and offer interactive shopping services and online banking.<sup>84</sup> As these discussions moved from the theoretical possibilities of online technology to deploying actual experiments, newspaper companies embraced videotext and ordained the technology as the platform that would deliver an Information Society and all that entails. From a business model perspective, the decision to deploy videotext was rooted in risk management. Newspaper executives had no appetite for spending to develop their own technology when videotext was available and had been deemed an acceptable platform by numerous experts.

Neustadt and Alber, for example, studied videotext holistically and considered its functionality to be extremely versatile. They considered videotext capable of delivering an array of applications that are more in line with what we think of today as e-business or e-commerce solutions. Alber wrote that “videotex applications may be grouped into six application classes: information retrieval, commercial transactions, electronic messaging, educational services and personal transactions, computations and gaming and teleservices.”<sup>85</sup> That videotext could do all of these things appealed to newspaper managers who believed a common platform would be easier to manage, but in practice, newspaper companies were most interested in the information retrieval aspect of the technology. They wanted to know whether videotext represented the next wave in development toward a paperless society.

As computers became more closely associated with information processing, speculation increased about how they would transform print-based publishing. Lancaster, for example, wrote that the promise of computers and their abilities in the manipulation of text led many in the 1970s to consider the possibilities of “paperless information systems.”<sup>86</sup> He noted that increasing productivity concerns led the National Science Foundation in 1975 to recognize the “need for a replacement for paper.”<sup>87</sup> Lancaster concluded that the shift from print-based communication to electronic-based communication was inevitable because of the rapidly increasing amounts of information and the human labour required for producing and distributing it. He wrote: “Computer processing offers the only possibility for coping with the

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84. Ibid.

85. Alber, *Videotex/Teletext*, 4.

86. Lancaster, *Toward Paperless Information Systems*, xi.

87. Ibid., 1.

situation because substantial improvements in manual productivity are infeasible.”<sup>88</sup> Newspaper executives seemed eager to discern how far down the paperless path they could travel by deploying videotext. Newspaper companies did not believe that turning on a videotext system one day would mean shutting down the presses the next day, but the possibilities of electronic distribution were exhilarating given what had taken place regarding newsprint costs in the 1970s.

Publishers were dealing with steep price increases in newsprint—the basic raw commodity needed for production. “After years of plentiful supply and almost constant price, newsprint demand exceeded supply and higher costs for pulp and energy forced a rapid escalation in newsprint prices between 1973 and 1979,” wrote Compaine.<sup>89</sup> To manage costs, publishers cut the size of their papers and implemented strict waste controls in the pressroom. Faced with the increasing newsprint expenses as well as increases affecting labour and delivery, newspaper executives seemed attracted to videotext as a technology that would help them reduce production costs.<sup>90</sup>

When considered in the historical context, the idea of replacing paper entered into the strategic planning discussions taking place within the newspaper industry regarding electronic publishing and distribution. An almost romantic notion emerged that new technologies would not only save on commodities, but also cure some of the shortcomings associated with the print products by allowing them to be updated continuously and by reporting the stories unconstrained by space limitations.<sup>91</sup>

By adopting videotext, the newspaper industry would be part of creating a medium distinct from other media, one that deployed databases on demand and interactive services melded to create a new kind of information experience. In this new world, newspaper executives envisioned information delivery not based on a story or a narrative found in television, radio or print, but on something akin to the encyclopaedia. It would be a syntactic resource not linked to temporality, but available for constant exploration. Radio and television had added sound and motion to the story form, but it remained linear, passive, and temporary. The new form of delivery would be interactive, passing an element of control to the user and thereby empowering the individual.

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88. Ibid., 161.

89. Compaine, *The Newspaper Industry in the 1980s*, 209.

90. Boczkowski, “The Mutual Shaping of Technology and Society in Videotex Newspapers,” 258-259.

91. Carlson, “The News Media’s 30-Year Hibernation,” 69.

This concept of user control and empowerment, which were at the core of Information Society rhetoric, began to make their way into business model discussions as well. Newspaper executives, for example, wanted to know whether users were willing to pay a premium for interactive services such as message boards and electronic mail. They wanted to know whether certain types of content would be worth more than other types of content.

As the newspaper industry considered how it would deploy new online technologies, these types of concerns involving the financial ramifications of content offerings were always an undercurrent in the discussions. Some observers, however, believed that editorial concerns had taken over the debate.

Russell, an advertising scholar, observed that much of the traditional media industry's angst about providing electronic distribution focused on content and societal concerns surrounding a free press, rather than financial matters. "Lost in much of the debate is the long term effect on financial support of the media and, of course, the future role of advertising," he wrote in 1978.<sup>92</sup> Russell understood, even then, that interactive technology would inherently change the way advertising worked by placing the end-user in a position of having more control over the media experience.

The role of advertising in such a system largely remains to be worked out. However, it is obvious that the system differs in fundamental ways from present advertising delivery through the mass media. Here it is the consumer that controls the type of information ordered rather than having a potpourri of advertising included in the mass media. Consequently, the advertiser has the advantage of dealing only with prospects, but has fewer opportunities to gain new customers who may be unfamiliar with a specific product or brand. Such a system also blurs the differences between advertising and editorial information. For instance, if the airlines underwrite a service to provide airline schedules ... is this advertising or not?<sup>93</sup>

When advertising issues did bubble into the public discussion, the industry appeared to be most interested in how to best protect its classified advertising franchise. This type of advertising was all-text and organized by product categories, which made it vulnerable to electronic competitors who could put the advertising into a database and make it searchable. Newspaper industry leaders understood that computers connected to databases of classified advertising could threaten their long

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92. Russell, "Advertising in an Electronic World," 52.

93. Ibid.

held classified advertising franchise—text-based advertising that formed the industry’s economic foundation. Heretofore, newspapers had shared very little of the classified advertising pie with its radio or television competitors. As Compaine noted: “Classified advertising ... does lend itself more to these futuristic delivery modes,” and he warned “this would appear to be one area in which newspapers may well have to take the lead, before ... others usurp this function.”<sup>94</sup>

The Newspaper Advertising Bureau in October 1980 launched a task force called “Classified and the New Technology” to investigate the technical requirements for offering classified advertising online as well explore competitive threats from companies outside the newspaper industry.<sup>95</sup> Kauffman wrote that that the potential existed to “make the electronic database into an extension of the newspaper,” but he added that the technology “can also whet the appetite of the broadcast media—or others—for a share of the attractive classified advertising business.”<sup>96</sup>

Examples from the early 1980s illustrate that advertisers and their agencies approached the new online platforms as an opportunity to marry content and advertising more closely than had been accomplished with other media through sponsorship models or even through product-placement.

Young & Rubicam, in one early videotext-based campaign, created an online tea catalogue for its Lipton client. It combined the catalogue with editorial content such as serving suggestions and recipes and distributed the package to Knight-Ridder’s Viewtron system, which had 1,600 users at the time.<sup>97</sup> The agency also developed an online guide for baby care on behalf of client Johnson & Johnson and one on home repair for Olympic Stain. By the end of 1983, Young & Rubicam had nine full-time employees engaged with experimental videotext systems. In discussing the importance of integrating advertising closely with content in the new medium, an executive with the agency said: “The most effective way to sell products is to get the consumer involved.”<sup>98</sup>

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94. Compaine, *The Newspaper Industry in the 1980s*, 213.

95. Kauffman, “Newspapers See Opportunities in Electronic Classified Ads,” 35. [Kauffman was president of the Newspaper Advertising Bureau.]

96. *Ibid.*

97. *Folio: the Magazine for Magazine Management*, “Advertising Agencies Link Ads, Editorial in Electronic Publications,” par. 12.

98. *Ibid.*, pars. 14-16. [The statement was attributed to Timothy Conner, director of new electronic media at Young & Rubicam.]

Ogilvy & Mather is an example of another prominent advertising agency that was producing online specialty content for advertisers to distribute on upstart videotext systems. Executives with both agencies were open about the experimental nature of their endeavours, but once again there was a sense that they were responding to forces out of their control. As the director of new electronic media at Young & Rubicam, stated: “We’re operating on the premise that this is inevitable. We don’t know where or when, but it’s inevitable.”<sup>99</sup> This statement reflects the technological determinism prevalent in media thinking at this time.

In reflecting upon the myriad list of influences and business considerations that led newspaper companies to embark on electronic distribution using videotext, Boczkowski concluded that no one factor can be singled out above another. He asserted that it was the combination of several cultural and economic factors that led the newspaper industry on its quest to deliver videotext services.<sup>100</sup>

To make sense out of these influences and to understand why they were influences at all, however, requires an understanding of the industry’s economic context—the business climate in which newspapers operated within during the late 1970s and early 1980s. The details of the industry’s economic circumstances were provided in the Introduction, but it is important to recall one salient aspect of that discussion. Although a financially robust industry during this period, many leaders expressed a sense of vulnerability that could be traced to the industry’s failure to increase its audience relative to the nation’s growth.

Udell’s work, generally an optimistic text on the newspaper industry’s prospects, acknowledged that “circulation growth has lagged the expansion of population.”<sup>101</sup> The declining penetration rates represented a potential long-term problem in terms of retaining and attracting advertisers. If newspapers were losing audience relative to population, advertisers could assume that newspapers would also lose audience share relative to competitive media. And erosion in advertising dollars would not bode well for the industry’s long-term trend given that its costs were rising significantly.

Against that backdrop, Boczkowski said it becomes easier to understand how electronic delivery became such an important issue in the early 1980s even though newspapers were very profitable and did not require any immediate relief.

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99. *Ibid.*, par. 7.

100. Boczkowski, “The Mutual Shaping of Technology and Society in Videotex Newspapers,” 258.

101. *Ibid.*, 38.

Boczkowski wrote that the industry at the time became focused on electronic distribution as an opportunity to remake itself so that it could improve the industry's long-term viability.<sup>102</sup> He summarized the business climate this way:

... there was a perception among many analysts and actors that trends such as decreasing penetration, rising newsprint and distribution costs, readers moving to the suburbs and getting news on the radio while driving to work, less homogenized consumer tastes challenging mass advertising, and difficulties in attracting and retaining younger readers seemed to compromise the long-term viability of print as an information platform.<sup>103</sup>

Boczkowski's succinct summary explains the newspaper industry's collective motivation. The long-term macroeconomic concerns represented huge problems for an industry that had no immediate solutions to them. How these issues were addressed by the various newspaper companies influenced the business models that were deployed in relation to their online endeavours. For example, companies that emphasized cost control tended to take a "wait and see" approach to electronic distribution and videotext. Some of these more cost-influenced companies adopted projects based on low-cost bulletin board systems. Companies that were more concerned by broad competitive implications or intrigued by the strategic possibilities tended to invest more aggressively in electronic distribution. In the following section, the thesis will explore examples of several types of newspaper videotext initiatives.

## **Newspaper Videotext Initiatives**

In Europe and Japan, videotext was largely the purview of government-sponsored initiatives. In the United States, Boczkowski contended that—in the absence of government subsidies—videotext floundered until the newspaper industry stepped forward and took a leadership role in its development.<sup>104</sup> Boczkowski wrote that "a mix of a changing economic environment, a massive computerization of the industry, and a technologically deterministic ideology paved the way for this interest in consumer-oriented videotext by American dailies."<sup>105</sup> This statement underscores the

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102. Boczkowski, "The Mutual Shaping of Technology and Society in Videotex Newspapers." 258.

103. Ibid.

104. Ibid.

105. Ibid.

factors discussed in the previous section as motivation for the newspaper industry taking action with videotext.

Although the newspaper industry emerged as a leader in videotext development, this industry was not alone in the early market development. Many others were represented in the early marketplace including television, magazines, commercial database vendors and an array of technology companies. This mix of entities—including newspapers—created a trade association known as the Videotex Industry Association (VIA) to represent those involved in the market. The newspaper industry's involvement in videotext, however, stirred mixed emotions among the association's membership. Newspapers expressed interest in the market and represented a large source of capital to expand the market. But sceptical observers doubted that the newspaper industry had critically assessed the market opportunity, concluding that most newspaper executives held unrealistic expectations for what could be accomplished in the short-term.

When Belo Corp., publisher of *The Dallas Morning News* in Texas, shut down an early project, leadership in the Videotex Industry Association called on newspaper companies to proceed with caution. They were concerned that newspapers not committed to the long-term growth of videotext would end up creating a negative image for all involved. The group's chairman pointedly told newspaper publishers in the summer of 1982 "not to get romanced or stampeded into getting into the business. If you don't have the economic staying power, you almost are going to guarantee a failure."<sup>106</sup>

Those words turned out to be prophetic as the newspaper industry continued its rush into videotext with numerous high-profile projects and partnerships only to retreat from the market by the middle of the decade. The experiences of individual companies within the newspaper industry varied considerably during this period. However, exploring several prominent examples provides insights into what transpired and helps to explain the aftermath. The following sections look deeper into the industry's first online initiative followed by a discussion of StarText, Viewtron, and Gateway.

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106. Genovese and Rambo, "'BISON' bites dust, but 'STAR-Text' is Launched," 16. [Larry T. Pfister was chairman of the Videotex Industry Association.]

### *The First Newspaper Online*

The first newspaper content delivered to consumers via a computer occurred on July 1, 1980 when the *Dispatch* of Columbus, Ohio, transmitted several articles through a system created with its partners CompuServe and the Associated Press.<sup>107</sup> The launch culminated four months of planning and about 300 hours of programming time required to link the newspaper's computers with CompuServe's computers that were also based in Columbus.<sup>108</sup> The newspaper and its partners called the project an experiment and launched with little fanfare. At the time of this experiment, there were only about 3,000 home computers in the entire country, and only about 250 of them were in Columbus and could access the newspaper's content.<sup>109</sup> Nevertheless, the newspaper's general manager said that the *Dispatch* "had proved to itself that it can be done."<sup>110</sup> For that reason alone, this early experiment is seen as historically significant. Merely proving that the newspaper could link its computers to an online service and transmit the content was viewed as major leap forward. But as soon as that milestone was achieved, the discussion quickly turned to the prospect of customer acceptance.

Rittenhouse had observed that much of the effort surrounding computer-based communication technology directed at the consumer market "assumes the demand exists with little or no justification for this claim."<sup>111</sup> The president of the Associated Press at the time of the *Dispatch*/CompuServe experiment acknowledged as much: "Our board has heard two views: One that electronic delivery is the future knocking at the door, and the other that electronic delivery to the home is a disaster hunting a victim. We intend to find out which is the case."<sup>112</sup>

Laakaniemi referred to this issue as the "Chicken or Egg Syndrome," noting that for the project to be successful there needed to be more users with computers capable of accessing the content, but there needed to be more content to attract users.<sup>113</sup> The president of CompuServe viewed the prospects for the nascent market in terms of personal computer adoption, stating that it "was not a question of whether a market exists for an electronic [newspaper] edition, but when." He added: "The

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107. Laakaniemi, "The Computer Connection," 61.

108. *Ibid.*, 62.

109. *Ibid.*

110. *Ibid.* [Robert M. Johnson was vice president and general manager of the *Dispatch*.]

111. Rittenhouse, "The Market for Wired City Services," 2.

112. Laakaniemi, "The Computer Connection," 64.

113. *Ibid.*, 65.

question is whether the computer in the home is a 1980s business or one for the year 2000.”<sup>114</sup>

While still experimenting with the *Dispatch*, CompuServe expanded distribution to include the QUBE interactive television system, which was also operating its experiment in Columbus. Through its partnership with the Associated Press, CompuServe also signed on several other newspapers to participate.<sup>115</sup> The project attracted the national elite newspapers—*The Washington Post*, *The New York Times*, and the *Los Angeles Times*—and several influential regional dailies, including the *Minneapolis Star Tribune*, the *San Francisco Chronicle*, the *San Francisco Examiner*, the *Virginia-Pilot*, the *St. Louis Post-Dispatch*, and the *Atlanta Journal-Constitution*.<sup>116</sup>

Even though the project had strong industry participation, expectations were muted. Consider this comment an editor at the *Atlanta Journal-Constitution*: “If response is small, it could mean the advances in electronic information processing have, for the moment, outstripped consumer demand for 21<sup>st</sup> century gadgetry.”<sup>117</sup> Indeed, the CompuServe project with the Associated Press and its member newspapers ended in June 1982—about two years after it started—as publishers lost interest in a system where so few users accessed their content. According to Hecht, news contributed by either the Associated Press or the newspapers generated only 5 percent of the system’s traffic.<sup>118</sup> Independent research of system users conducted by RMH Research on behalf of the providers of news content found little interest in journalistic news content, preferring instead such material as sports scores, movie reviews, and games. A newspaper executive participating in the project from *The Virginian-Pilot* and *The Ledger-Star* in Norfolk, Virginia said users were “not looking for a newspaper on the system.”<sup>119</sup>

Even so, the CompuServe project pioneered the way for dozens of other online newspaper projects in the early 1980s, creating a sense that urgent and important activity was underway. Said one industry consultant in 1984: “We are seeing a technological watershed—a sweeping away of long-established traditions

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114. *Ibid.*, 67. [Jeffrey Wilkins was president of CompuServe.]

115. *Ibid.*, 63-64.

116. Shedden, “New Media Timeline (1980).”

117. Hilder, “Will Public Like Newspapers on TV?,” 16B

118. Hecht, “Information Services Search for Identity,” 61.

119. *Presstime*, “CompuServe Evaluation Marks End to Second Year of Operation,” 17. [Statement attributed to Robert J. Bettencourt, business development manager for *The Virginian-Pilot* and *The Ledger-Star*.]

and the opening of enormous business opportunity.”<sup>120</sup> It is important to understand, however, that no one model was accepted as the way to proceed. The CompuServe initiative proved that such efforts were technologically feasible, but it provided little in the way of guidance about how much a company should invest in its own project. In the following examples, a dichotomy emerges in terms of capital requirements. StarText represented a low-end technical approach, while Viewtron and Gateway are examples of multimillion dollar initiatives.

### ***StarText***

The StarText project captured the attention of many within the newspaper industry—largely because of its simplicity. As much of the industry fixated on the pilot test underway for Viewtron (which will be examined next), StarText appeared as an alternative approach. *The Star-Telegram* in Forth Worth, Texas, partnered with Tandy Corporation to launch the online bulletin board system on May 3, 1982.<sup>121</sup> Although StarText insiders referred to their platform as videotext, it differed significantly from systems that touted graphics. StarText presented its content in a simple text format found in presentations known as Bulletin Board Systems or BBS. Unlike other bulletin board systems emerging at that time, StarText decided to forgo the commonly used pay-by-the minute plan, opting instead to charge \$5 per month for unlimited use. The service launched with a marketing campaign that promised immediacy and interactivity. The campaign featured the slogan, “The news you want when you want it.”<sup>122</sup>

Nevertheless, six months after its debut, StarText had signed up only 50 users, largely due to major technical shortcomings. Its partnership with Tandy meant that users of other popular computers at the time such as Commodore, Apple, and Atari, could not access the system.<sup>123</sup> And, as one of its early architects explained, StarText “wasn’t truly an online system. You called the host computer and entered up to four requests; the host computer delivered the information, then hung up. If you wanted more, you had to call back.”<sup>124</sup>

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120. Wellborn, “A World of Communications Wonders,” par. 9. [Statement attributed to Charles Lecht, chairman of Lecht Sciences Inc., a communications consulting firm in New York.]

121. Shedden, “New Media Timeline (1982).”

122. Barker, “Back to the Future,” 45.

123. Ibid.

124. Ibid.

*The Star-Telegram* opted to keep the StarText project alive even with so few users, investing in the platform as a research and development project. In 1983, it ended the Tandy partnership and opened the service up to all comers. StarText continued to experiment with a variety of content offerings and improved its technical underpinning. By March of 1986, the service had 2,200 subscribers willing to pay a flat rate of \$9.95 per month, which covered the expenses for a staff of seven and allowed the service to break even financially. The capital invested in StarText through March 1986 had totalled \$210,000, while operating losses before reaching the break-even point were \$129,000.<sup>125</sup>

The types of financial numbers were insignificant when compared to the millions of dollars invested in the much higher profile projects such as Knight-Ridder's Viewtron. As result, StarText inspired many in the industry to pursue a low-cost approach as a way to mitigate risk.

The "Electronic Editions" of the *Spokesman-Review* in Spokane, Washington is another example of this low-cost approach. Rather than install any new computer equipment, the newspaper transferred data to an existing back-up computer system and allowed users to dial-in directly to this system. By using existing resources that did not require re-entering data, the newspaper said the system operated "for virtually nothing."<sup>126</sup>

By 1992, the StarText platform itself was licensed to other newspapers interested in deploying a low-cost bulletin board system.<sup>127</sup> But the market was about to change rapidly—events that will be chronicled in later chapters. StarText succumbed to the market forces of the Internet in March 1997—by then rechristened StarText Classic.<sup>128</sup> At its end, one of its editors eulogized the service, describing why StarText can be viewed as important milestone in the development of online media:

Online systems come and go, but this one was special ... there weren't any fancy graphics, colors, or sounds; just plain old text and information and a "warmth" that will never be duplicated again anywhere. We were a small community of three or four thousand but we all knew what was going on with everyone. We were neighbors and we were concerned about each other.... We couldn't rely on

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125. Friedman, "Videotex Languor Claims Victims," 56.

126. Genovese, "Newspapers Keep Marching to Videotex," 28.

127. Barker, "Back to the Future," 45.

128. Ibid.

fancy graphics or colors, we had to have content. Content was king!<sup>129</sup>

StarText survived to reach the cusp of the Internet era not only because its operating costs were low, but also because the expectations for it by its owners were never couched in grandiose terms. The executives and editors responsible for StarText never seemed to invest in it the hopes and dreams of an entire industry. They saw it as an experiment, an interesting way to engage in an ancillary market during a time of long-term uncertainty. From that perspective, StarText is rarely viewed as a failure. The same is not true of the next two examples presented. Viewtron and Gateway were the subjects of significant press coverage and were allowed by their owners to become the standard bearers for the newspaper industry's future.

### ***Viewtron***

When considered either by the notoriety achieved during its time or through the significance afforded it in historical retrospectives, Knight-Ridder's Viewtron system is an iconic element of the early 1980s. As Boczkowski wrote: "no other development in this period illustrates the extent and character of videotex initiatives better than" Viewtron.<sup>130</sup> Knight-Ridder's management, convinced that the newspaper industry had to take a leadership role in determining the viability of electronic information delivery to consumers, launched a field test of the videotext system in July 1980, only a few days after the *Dispatch/CompuServe* test began.<sup>131</sup>

The company had begun developing its version of the British Prestel system a year earlier in partnership with AT&T, then the monopoly provider of telephone service in the United States.<sup>132</sup> In November 1983, Viewtron officially launched following an investment of \$26 million and 14 months of field trials involving 204 homes in Coral Gables, a Miami suburb.<sup>133</sup> The significance the newspaper industry attached to Viewtron's launch was underscored when a spokeswoman for the industry's major trade association said: "There isn't anybody who isn't looking at it. In the minds of many people, if this doesn't work, there may not be a market for

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129. Mencke, "Farewell To A Good Friend," pars. 1-2.

130. Boczkowski, *Digitizing the News: Innovation in Online Newspapers*, 25.

131. *Ibid.*

132. *Ibid.*

133. *Viewtron Magazine*, "Viewtron's Roots Traced; From Telephone to TV to Videotex," 22.

these kinds of services.”<sup>134</sup> Viewtron’s managers understood the level of scrutiny was extremely high. As one of Viewtron’s vice presidents described it: “The whole world is watching South Florida. We are dancing naked on the stage of history.”<sup>135</sup>

Knight-Ridder had not arrived at that point haphazardly. It had invested considerable resources testing the service before deciding to move forward with the project. Sigel reported that the households involved in the field testing leading up to the commercial launch represented 691 individual system users, a pool that provided enough positive data to prompt Knight-Ridder to move forward with the project.<sup>136</sup> He noted that Knight-Ridder kept much of its early market research proprietary, but was encouraged by several factors:

- usage ... was 30 to 60 minutes per day per household;
- users weren’t intimidated by the hardware;
- electronic messaging was a ‘key strength’ of the system; and
- two-way shopping and banking had very strong appeal.<sup>137</sup>

At its launch, the graphic presentation was considered state-of-the-art for its time, and management appeared intent on selling the interactive functionality of the platform that had tested so well during the field trial. Features such as online banking, gaming and shopping were heavily promoted. Twelve banks and more than 100 merchants participated in the initial roll-out.<sup>138</sup> There was sophisticated computer integration with several retailers. For example, consider this description from *Viewtron Magazine*, a publication sent to the subscribers of the company’s *Miami Herald* newspaper to promote the new service:

J.C. Penney replies quickly to orders from its catalogue because Viewtron connects you directly with Penney’s order-entry computer in Atlanta. If the item you want is not in stock, the computer suggests alternatives. Perhaps it is available in other colors—you’ll get a list of them.<sup>139</sup>

The system allowed customers to order merchandise by entering a credit card number on the screen and select either home delivery or in-store pick-up. With shopping services as well as other interactive features, including message capability, calendars and bulletin boards, the Viewtron system reflected the application classes presented by Alber that were noted earlier in the chapter, and it offered—in

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134. Genovese, “All Eyes Are on Viewtron Screen Test,” 22.

135. Finberg, “Before the Web, There Was Viewtron,” par. 13. [Statement attributed to Norman Morrison, vice president of the Knight-Ridder subsidiary, Viewdata Corp.]

136. Sigel, *The Future of Videotext*, 67-68.

137. *Ibid.*, 68-69.

138. *Viewtron Magazine*, “Merchants by Category,” 7.

139. *Viewtron Magazine*, “The ‘Electronic Mall’ Arrives; All Under One Roof (Yours),” 6.

concept—much of what contemporary consumers have come to expect from the Internet.

Even if the services offered by Viewtron were prescient of the Internet, the execution in delivering those services was not. Relying on a rigid and proprietary infrastructure, Viewtron failed to connect with its audience. Despite all of the hype and high expectations, Knight-Ridder shut down Viewtron in 1986 after attracting only 15,000 customers and losing \$50 million.<sup>140</sup>

A major issue contributing to Viewtron's demise had nothing to do with content, but rather the system on which Viewtron was deployed. The system was developed in partnership with AT&T and initially relied on this company's proprietary videotext terminals for access. At the dawn of the personal computer era, a system designed for a proprietary terminal had limited consumer appeal, especially one priced at \$900 when the system launched.<sup>141</sup> Ghosh noted that these terminals were later reduced in price to \$600, but added that a major lesson from the Viewtron experiment and others like it "was that home consumers were unwilling to invest a large amount of money for special videotex terminals, that had limited functionality and power."<sup>142</sup>

When Viewtron attempted to expand the service outside of Florida, the AT&T terminals became a major point of contention with potential affiliates. An executive overseeing the affiliation for *The Boston Globe's* parent, Affiliated Publications, expressed the issue bluntly in the industry trade press, stating that the terminal cost was "far too high," adding, "There is no way you can have a home videotex system in which the cost of the terminal is \$600."<sup>143</sup>

To offset consumer objections to the high terminal cost, Viewtron began offering a rental program that bundled equipment with 10 hours of service for \$39.95 per month. The new pricing model worked for a time, resulting in "hundreds" of new subscribers.<sup>144</sup> However, consumers most likely to be interested in Viewtron were also those most likely to purchase a personal computer and they saw no reason to also purchase the proprietary AT&T terminal required for Viewtron access. Viewtron

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140. Burgess, "Firms Face Questions of Technology's Timing, Cost," par. 5.

141. Ghosh, "Videotex Systems," 21.

142. *Ibid.*

143. Genovese, "Viewtron Partners Disappointed Over Lackluster Sales," 40. [Statement attributed to Robert H. Phelps, vice president of Affiliated Publications.]

144. *Ibid.*

eventually offered an access kit for the emerging personal computer market, but the efforts were too late to save the system, Ghosh wrote.<sup>145</sup>

Knight-Ridder's president tried to present Viewtron in a positive light even as he was announcing its closure. He claimed there had been "steady growth in the number of subscribers," but added that the use of the system among its subscribers had "not kept pace." He attempted to position Viewtron's closing as one of market timing rather than an indictment over the service's content offerings or the delivery execution. "Over time we might have been able to turn Viewtron into a viable business, but in weighing the continuing cost of investment against other competing uses for corporate funds, we decided it was in the best interest of shareholders not to continue," he said.<sup>146</sup>

Although Viewtron received most of the attention regarding videotext projects of this era, Knight-Ridder was not alone in creating a high profile service only to close it due to lack of audience. The following section presents another example, Gateway, which was launched by Times Mirror, the parent company of *The Los Angeles Times*.

### **Gateway**

Times Mirror launched Gateway as a system similar to Viewtron in 1984, expecting to showcase the service as an advertiser-supported medium. But Gateway could not gather enough audience to attract advertisers willing to pay enough to support the system. Times Mirror decided to close the venture in 1986.<sup>147</sup>

Although officially launched in 1984, the project actually had begun in early 1982 with pilot tests of 300 households in two suburbs near Los Angeles (Orange County and Palos Verdes) chosen for their "relatively large number of upscale, computer-hip Californians."<sup>148</sup> After the project officially launched, however, Gateway was unable to re-create its test market success across a broader market area.

From the outset, Times Mirror was clear about its motivations; it saw Gateway as a means necessary to protect its local market franchise. As the Gateway project was getting underway, the president of *The Los Angeles Times* explained that his company believed "we should establish our newspapers as the foremost

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145. Ghosh, "Videotex Systems," 21.

146. Millman, "Videotext Age Comes to an End: Viewtron Folds; Knight-Ridder Pulls Plug on Unit," par. 14. [The Knight-Ridder President was James K. Batten.]

147. Ghosh, "Videotex Systems," 21.

148. Pryor, "The Videotex Debacle," 41.

information providers in our local markets.... We shouldn't let others use our data bases before we consider how we could use it to our own advantage in future services that may develop."<sup>149</sup> He concluded with a familiar refrain among industry executive at the time; that doing something was better than doing nothing:

We are on the threshold of electronic information delivery. On the other side lie great opportunities for someone, including newspapers if we choose, and great threats if we do the wrong things. In my opinion, one of the wrong things would be to do nothing.<sup>150</sup>

But this executive was somewhat unique in that he asserted that newspaper companies may be unprepared for the work that was about to confront them, foreshadowing the problems that would bedevil Gateway and others.

He warned that applying the relatively new concepts of electronic publishing to online media would not go far enough. "Except for the application of some new technology in very recent times, we are doing the same thing we've been doing for decades.... We've used computer technology and offset printing to make the operation more efficient, but that is a change in how we do it, not a change in what we do."<sup>151</sup> This executive became one of the early proponents of creating new companies or new divisions within a newspaper organization to take on the responsibilities of the new online functions:

Many of us could fall into the trap of trying to manage our entry into the electronic field with an effort that is underfunded, understaffed and managed by people without experience as entrepreneurs. There's a lot to be said for establishing a separate group of people, adequately funded, with the single objective of developing a new line of business.... A separate organization could deal more effectively with potential partners on a basis that involves the newspaper only to the extent that it makes sense to the new enterprise, without forcing things into a shape that makes sense from a strict newspaper perspective.<sup>152</sup>

Times Mirror largely followed this model by investing relatively huge sums in the test project and forming a separate company with a dedicated staff of 60 employees at its launch.<sup>153</sup> Nevertheless, Gateway suffered from some of the same early technical shortcomings as Viewtron. The early Gateway project relied on customers

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149. Wright, "Electronic Publishing: How to Use It and Why," 25.

150. Ibid.

151. Ibid.

152. Ibid.

153. Pryor, "The Videotex Debacle," 41.

using a television set to display content. However, customers complained about an awkward keyboard arrangement and difficulty of connecting with the service using the telephone.

The emergence of the personal computer led Times Mirror to abandon Gateway's television interface in favour of a computer-based application by mid-1985. But numerous other customer issues with the system plagued the project. Complaints included: complex billing that resulted in some customers incurring charges much higher than what they expected, slow connection speeds often were swamped by the system's complex graphics, system outages and connections that tied up the subscribers' telephone line while in use. Such problems contributed to "an enormous monthly turnover rate of roughly 60 percent [of subscribers]." <sup>154</sup> When Times Mirror closed Gateway, the service had about 2,000 subscribers, <sup>155</sup> but by then the project had cost \$50 million. <sup>156</sup>

The service's managing editor lamented the customer service issues as contributing to Gateway's failure, but he added:

Our service was about as interactive as a Renaissance fresco. It's not enough to put canned restaurant and movie reviews, encyclopedias and recipes into a database, add some news and call it interactive. Subscribers told us they wanted to have personal contact with experts. <sup>157</sup>

He also said the Gateway experience held lessons regarding the size and type of audience necessary for conversation and community-building:

The "critical mass" necessary to create an electronic village never materialized because the decoder boxes were difficult to use. Then, when we discarded the boxes and appealed exclusively to computer owners, we ended up with a subscriber base heavily populated by techies, not exactly a village that noncomputer types wanted to visit. <sup>158</sup>

As Gateway and Viewtron closed in 1986, the newspaper industry was left to explain its actions. Industry insiders as well as analysts and investors wanted to understand why collective investments of well over \$100 million had failed to produce any meaningful audience. Even the publisher of *The Star-Telegram*—the newspaper that created StarText—acknowledged that the failure of those two high

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154. Ibid., 42.

155. Ibid.

156. Kyrish, "From Videotext to the Internet," 25.

157. Pryor, "The Videotex Debacle," 42. [Larry Pryor had been the managing editor of the Times Mirror Gateway system from 1982 to 1986.]

158. Ibid.

profile ventures had cast a “pallor” over the newspaper industry’s videotext projects, but argued that that his own experience with StarText should encourage the marketplace to understand that “videotex has a future.”<sup>159</sup> But few in the industry took solace in the low-budget approach even as they pursued it. An industry that had wanted to be seen as leading the Information Society revolution was now viewed by many as cowering in retreat. The following section explores more about the aftermath of these early 1980s events.

## The Videotext Aftermath

Failures of videotext projects throughout the newspaper industry prompted executives who were expecting much larger audiences to question the viability of an online market in the early 1980s. Executives accustomed to newspapers that attracted hundreds of thousands of subscribers could not fathom a business that required investments in the millions for a large scale system, but produced consumer audiences in the low hundreds or thousands.

Knight-Ridder’s Viewtron and Times Mirror’s Gateway were the high profile failures that prompted industrywide angst, but there were other examples that illustrate how quickly the industry launched these projects only to abandon them. KEYCOM, for example, was formed in 1982 as a joint venture of Chicago’s Field Enterprises (which then owned the *Chicago Sun-Times* and WFLD-TV), Honeywell, and Centel, an independent telephone company.<sup>160</sup> KEYCOM, which was majority owned by Centel, spent nearly three years developing and testing a system at a cost of at least \$11 million. But the project closed in 1985 only six months after its public launch. At the time of its closing, the service—called KEYFAX—had attracted only 100 paying subscribers.<sup>161</sup>

In another example, A.H. Belo Corporation., publisher of the *Dallas Morning News* in Texas, closed its videotext initiative after spending around \$2 million on the project. The service had attracted only 200 subscribers. Belo said it closed the system because there were “just not enough terminals out there” to justify the continued operation, adding “when the terminals are there, we’ll just come back...”<sup>162</sup> An executive at *The Virginian-Pilot* and *The Ledger-Star* in Norfolk, Va. cited the same

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159. Friedman, “Videotex Languor Claims Victims,” 56. [Statement attributed to Phillip J. Meek, publisher of the *Fort Worth Star-Telegram*.]

160. *Presstime*, “Telecommunications Notes,” 17.

161. Kyriash, “From Videotext to the Internet,” 25.

162. Genovese and Rambo, “‘BISON’ bites dust, but ‘STAR-Text’ is Launched,” 16.

reasons when his company pulled out of the CompuServe project—too few computers in the market to justify the expense.<sup>163</sup>

In the aftermath of the failed initiatives, Henke and Donahue described videotext as an “interim technology.”<sup>164</sup> They wrote:

Consumers are hesitant to invest upwards of \$300 for a technology which is not truly interactive and whose future is unclear. Conversely, videotex originators are reluctant to underwrite the cost of initiating a service and maintaining viable offerings while there is no industry standard and consumer appear to be reluctant to purchase decoders. Thus, false starts, failures and constant innovation lead to uncertainty in the marketplace which translates into financial inaction for all parties.<sup>165</sup>

Newspaper executives had ignored the lack of computing infrastructure in the U.S. during the rollout of these early experiments and they overestimated how much consumers would be willing to pay at that time to acquire the necessary infrastructure.

An industry consultant said the newspaper industry based its videotext initiatives on a false assumption:

There was a grand vision created, and the implicit assumption was that everyone wanted it. They spent a lot of money creating services, only to find the market didn't exist, and the thought of sticking around to develop them wasn't appealing.<sup>166</sup>

An article in *The New York Times* analysing the demise of the three most prominent videotext services—Viewtron, Gateway, and KEYFAX—asserted that they “tried to offer too much to too many people who were not overly interested.”<sup>167</sup> An executive who managed the Viewtron project for Knight-Ridder concluded that “the market is thin and probably limited to the computer hobbyist,” adding “There's no prospect for it being a mass medium in the foreseeable future.”<sup>168</sup> The newspaper industry based many of its assumptions on the overall consumer reaction to videotext services without analysing the underlying dynamics of an emerging marketplace.

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163. *Presstime*, “CompuServe Evaluation Marks End to Second Year of Operation,” 17.

164. Henke and Donahue, “Teletext Viewing Habits and Preferences,” 545.

165. *Ibid.*

166. Stevenson, “Videotex Players Seek a Workable Formula,” par. 12.

167. *Ibid.*, par. 3.

168. *Ibid.*, par. 7. [Statement attributed to Reid Ashe, chairman of Knight-Ridder's Viewdata Corp. subsidiary.]

Raymond, however, discussed the failure of early videotext projects within a context of “mass market phenomena,” which he said involves “two phases: the *aficionado* phase and the *trend* phase.”<sup>169</sup> He explained:

The *aficionado* phase revolves around a group of people who share a common interest, activity or behaviour, which is facilitated by the use of a good or family of goods.... Aficionados are often individualistic, opinionated, and single-minded in devotion to their interest.... Aficionados often congregate in groups, and in doing so develop notions of status. The common interests of the group implicitly define goals or activities which are generally approved the aficionados, and which distinguish them from non-aficionados. Those who adhere most closely to the group’s goals and methods, and especially those who show uncommon creativity or endurance in doing so, are accorded special status within the group. Status is also conferred on specific goods or services which are deemed to incorporate or exemplify those characteristics which the group extols. The *trend* phase ... begins when the status originally derived from the goals and activities of the aficionados becomes a characteristic of the goods and services they prefer. Status can then be obtained by merely acquiring the goods. In the trend phase, large numbers of non-aficionados attempt to obtain status by acquiring those goods the aficionados deem appropriate....<sup>170</sup>

Raymond theorized that, based on these inner workings of human nature, developers of the early videotext systems not only failed to attract “aficionados,” but were “antagonistic” to them.<sup>171</sup> He concluded:

At every turn videotex developers made choices which would discourage aficionados.... Rather than enhancing their customers’ prowess by providing at least the appearance of power and complexity, videotex is boringly simple. Rather than provide variation and attendant status, videotex is the same vanilla flavour everywhere. Rather than permit rapid change and development, videotex concentrates on “standardization.” Rather than permit individualism and distributed control, videotex centralizes. In effect, videotex is an attempt to start a trend without aficionados.<sup>172</sup>

While Raymond contended that videotext was too simple to attract enough early adopters, others found the technology too complicated to interest average consumers. A usability study of the Viewtron system conducted in 1984 concluded that “use of Viewtron proved to be fairly complex.”<sup>173</sup> The researchers wrote of their

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169. Raymond, “Why Videotex is (still) a Failure,” 35.

170. Ibid.

171. Ibid., 36.

172. Ibid.

173. Atwater, et al., “Foreshadowing the Electronic Publishing Age: First Exposures to Viewtron,” 813.

findings: “Subjects with more computer experience had more positive experience with Viewtron and those indicating apprehension about computers in society on the pretest found Viewtron to be more confusing, irritating and complex.”<sup>174</sup>

When newspaper companies began their quest for electronic distribution in the early 1980s, most of the comments regarding videotext as the underlying technology were positive. When issues began to surface regarding the lack of audience traction as early as 1984, critics began to question the videotext technology itself. A comment from an analyst with the respected Yankee Group, is representative of such sentiment: “The problem is that its technology is 10 years old. That first generation of videotext has the stench of death about it. It really does give boredom a new meaning.”<sup>175</sup>

In this way, the early videotext efforts clearly suffered from a market timing problem. The earliest forms of videotext were designed for proprietary hardware in part because the personal computer had yet to gain a significant foothold in the general consumer market. But when the computer started to gain traction, videotext services were slow to adapt. And when they did convert, the designs aimed at a mainstream audience did not hold enough fascination for the early computer adopters.

The issue of market timing was a central theme addressed in a Viewtron retrospective produced by the Poynter Institute. On the twentieth anniversary of Viewtron’s commercial launch this newspaper industry research and educational organization convened an online roundtable discussion with several former members of the Viewtron staff in an attempt to put the project in historical perspective. The organizer of the event wrote of Viewtron’s timing:

It was the right idea; wrong decade.... For all its faults, there were important lessons learned from Viewtron. It was a bold attempt to change the rules of getting information to the consumer. It provided a glimmer as to the changing nature of how consumers get and use information.... Ultimately, Viewtron was probably the wrong technology at the wrong time.<sup>176</sup>

However, if Viewtron represented only a lesson in deploying the wrong technology at the wrong time, it likely would not have received the attention it has. The importance of Viewtron, as the Poynter event organizer noted, stems from “the

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174. *Ibid.*, 814.

175. *U.S. News & World Report*, “On Horizon: Home Computers with a Gift of Gab (Interview with Howard Anderson),” par. 16.

176. Finberg, “Before the Web, There Was Viewtron,” pars. 16-20.

conversation it started in the newspaper industry about the future of the communications business.”<sup>177</sup> From this perspective, the edited transcript of the roundtable discussion provides interesting insight directly from several key staff members involved in the management of Viewtron and its content offerings.

For example, a journalism professor at the time of the roundtable earlier had served as Viewtron’s director of market research. He addressed the shortcoming of Viewtron’s centralized nature:

We made the mistake of thinking in newspaper analogies. Thus the central computer was like a printing press in our minds, and telephone wires were the delivery trucks. We never foresaw anything as free and open as the Internet or grasped that there would be no central computer. As newspaper people, we were looking for a community-based natural monopoly, like a newspaper, but without the variable costs of paper, ink, and transportation.<sup>178</sup>

This observation echoes the theme from Raymond who had postulated that centralized control had contributed to the failure of videotext because it emphasized standards to the point of making the system unappealing to individuals who wanted some element of control.<sup>179</sup> In the case of newspaper executives, however, that element of central control and standardization was a major reason videotext appealed to them as a technology.

The attempt to operate Viewtron with the central control model of a newspaper contributed to its problems, and represented a “failure to think farther outside the newspaper, local-monopoly box.”<sup>180</sup> The retrospective discussion revealed that Viewtron subscribers spent 80 percent of their time online with interactive features such as e-mail, bulletin boards, and study guides. Because a large portion of the services revenues were derived from time-based online charges, this posed a business model dilemma. As one former editor stated: “Viewtron was spending about 80 percent of its budget to create news, which generated less than 20 percent of the revenue. That’s when [Knight-Ridder] executives decided that this was not a news medium and they wanted to continue to be a news company.”<sup>181</sup>

Viewtron’s top executive agreed that such assessments contributed to eventual decision to close the operation. He said that usage had not conformed to

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177. Ibid.

178. Finberg, “Viewtron Remembered Roundtable,” par. 12. [Statement was attributed to Phil Meyer, journalism professor at the University of North Carolina and former Viewtron director of market research.]

179. Raymond, “Why Videotex is (Still) a Failure,” 8.

180. Finberg, “Viewtron Remembered Roundtable,” par. 34. [Statement attributed to Meyer.]

181. Ibid., par. 6. [Statement attributed to Rita Haugh Oates, Viewtron’s education editor.]

company expectations, stating that "... Viewtron died from an excess of funding and expectation. Too much was invested in too specific a vision, and there was no appetite to change course.... The more closely we approached a viable service, the less it looked like a newspaper."<sup>182</sup>

Technical shortcomings of videotext as it was deployed and slow network connections available in the early 1980s contributed to Viewtron's failure. However, the comments from key former employees participating in the retrospective discussion help explain its demise in ways that are less generally understood. Viewtron's creators saw the potential of an array of consumer options, including auctions, educational courses, travel services, banking, online shopping, and games. These services were heavily promoted in Viewtron's marketing. Therefore, one can see that, intellectually, Viewtron was built to showcase the capabilities of an interactive network. Emotionally, however, the company behind Viewtron was unable to shed the news bias associated with its newspaper roots.

The comments of those involved reveal that resources to support interactive functions never reached the levels of the resources allocated to support news. Viewtron's news and information components received the largest share of budget even though consumer usage patterns did not warrant it. The concept may have represented a paradigm shift, but the company attempting to exploit it could not adjust to a new way of organizing resources to take advantage of a new medium. Viewtron's former managing editor said "we all had notions that Viewtron could be an extension of the newspapers."<sup>183</sup>

When that failed to materialize in the way the company wanted, the decision was made to close Viewtron rather than recast the resource allocation and build a new business around the interactive services. Its chief executive commented, "We should have started over, but that wasn't an idea that we could sell."<sup>184</sup> The actions of Knight-Ridder, Times Mirror, and other newspaper companies at this time revealed an industry not as prepared to change as many observers thought at the beginning of the decade. Boczkowski, in studying the end of Viewtron and similar endeavours, concluded that newspaper companies lacked the "conviction" needed to embrace a new medium that would force changes to existing business models and processes. He wrote:

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182. Ibid., par. 21. [Statement attributed to Ashe.]

183. Ibid., par. 24. [Statement attributed to Bob Cochnar, Viewtron's managing editor.]

184. Ibid., par. 13. [Statement attributed to Ashe.]

... in a context marked by information society rhetoric, the ideology of technological determinism, and the preexisting computerization of the industry, newspapers appropriated videotex from the standpoint of a publishing mindset that had historically evolved over a couple of centuries of producing content for a large number of readers. Thus, they pursued videotex less out of a conviction that they needed to alter their production procedures and values to create an entirely different media artifact than because this was something they “had to do.”<sup>185</sup>

Knight-Ridder launched Viewtron in part because it wanted to maintain what it considered a leadership role in the information industry at the dawn of an era that would be defined by the emergence of electronic publishing. By closing Viewtron in the manner in which it did, Knight-Ridder was content to have its newspaper business remain closely associated with print rather than the broader information marketplace. Kyrish recognized the paradox represented by the newspaper industry’s foray into electronic distribution through videotext. She wrote:

A repeated notion in the early and mid-1980s was that companies needed to keep pouring money into videotex development, to be ‘ready’ when the market hit. Instead, a paradox occurred: early videotex spending was based in part on the expectation that interactive services would threaten the profits of traditional media companies. So companies created videotex in order not to be caught unprepared by videotex.<sup>186</sup>

Viewtron, Gateway and similar projects of the early 1980s were recognized as media vastly different from the newspaper companies that spawned them. Their failures stemmed from a disconnection between the intellectual construction of these projects as interactive services and the emotional desire for them to become extensions of a newspaper.

## **Conclusion**

Examining the newspaper industry’s reaction to the videotext era is important because of the influence this period had on future decision-making. The newspaper industry’s attempts to reconcile internal conflict regarding the nature of online newspapers will be examined further in subsequent chapters that explore the industry’s relationships with proprietary online services and the emergence of the Internet. Many of the issues that surfaced with the early videotext projects and discussed in this chapter such as the degree of interactivity offered and the transition

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185. Boczkowski, “The Mutual Shaping of Technology and Society in Videotex Newspapers,” 263.

186. Kyrish, “Lessons From a ‘Predictive History,’” 26.

of classified advertising into a database driven model remained prevalent as newspapers confronted new technology platforms well into the 1990s.

Initially, many newspaper industry leaders chose to view the closing of the early videotext projects not as an industry failure, but as a positive referendum on the future of printed newspapers. Boczkowski noted, for example, that the “commercial failure” of the high-profile videotext projects led many in the newspaper industry to become “reassured ... about the viability of print.”<sup>187</sup> Later, the financial losses incurred by these projects were recalled as excessive and contributed to the industry’s reluctance to take risks when confronting decisions regarding new technology. Both attitudes guided the industry toward a protectionist agenda and it spent considerable resources in the 1980s and early 1990s lobbying the government and regulators to keep potential competitors out of the online information business in local markets. This aspect of the newspaper industry’s relationship with online media will be discussed in Chapter Four.

Before that exploration, however, Chapter Three examines the newspaper industry’s relationship with cable television in the early 1980s. Although the newspaper industry was engaged in videotext exploration, it was also enamoured with the distribution possibilities inherent in cable television. Newspaper companies were early proponents of the cable industry’s transformation from a rural delivery system to a national platform for programming diversity. An examination of the newspaper industry’s involvement in cable television in the early 1980s is important because it corroborates the experience with videotext. Newspaper companies were eager to invest in the promise of Information Society rhetoric at the outset, but were quick to abandon those investments when the market did not develop as they anticipated.

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187. Ibid.



## **Chapter Three:**

# **The Newspaper Industry's Brief Cable Television Strategy**

Leaders of the U.S. newspaper industry in the early 1980s were convinced that emerging technologies would alter the delivery of information, and in turn, change the nature of the marketplace in which their companies operated. But while there was consensus that new technology would bring significant change, a wide range of opinions existed about the form such technology would take and how the newspaper industry should respond.

Chapter Two focuses on the newspaper industry's videotext projects in the early 1980s and explored how those experiments represented important early attempts by the industry to exploit interactive media. Chapter Three also examines activity from the early 1980s, but focuses on the newspaper industry's flirtation with cable television. A cable television trade association official described newspaper executives at this time as in "a panic about cable television."<sup>1</sup> Therefore, it is important to examine the influence a burgeoning cable television industry had on the decisions made by newspaper companies regarding technology and electronic distribution in the early 1980s.

Collectively, newspaper companies spent more of their capital resources on cable television ventures than on any other form of emerging technology during this period. This chapter explores how the early development of cable television resonated with newspaper publishers who adopted the notion that a wire into every home could be a way to protect their interests in local markets. This chapter shows how the newspaper industry initially gravitated to cable television for several reasons: it had a more proven business model than videotext, early cable entrepreneurs were eager partners seeking access to newspaper content, and cable television companies were seen as a less threatening alternative to the established telecommunications monopoly.

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1. Effros, "The Reality Behind the Cable TV Boom," 25. [Stephen Effros was executive director of the Community Antenna Television Association.]

This chapter includes a brief review of cable television's history including some relevant statistics that provide market context for the decisions newspaper publishers made in the early 1980s. The chapter includes examples of specific newspaper company involvement in cable television to illustrate the variety of projects undertaken and the range of investment involved. However, when these investments did not deliver the expected results, the exploration turns to the newspaper industry's exit from its cable projects, discusses reasons for the market withdrawal and critically assesses the ramifications of those decisions. The newspaper industry's direct involvement with cable television was relatively short when considering the overall quarter century that represents the period reviewed in this thesis, but the influence of this activity was substantial. The withdrawal from cable television combined with the high profile videotext failures discussed in Chapter Two resulted in a newspaper industry that was more insular—a trait that contributed to a protectionist stance and a political war with the telecommunications industry that is the subject of Chapter Four.

## **Cable versus Computers**

There was much discussion in the nation's popular press in the early 1980s about the coming "wired" society. But exactly how the nation would become wired was still open to considerable debate. The ubiquity of the personal computer that we take for granted today was still science fiction at that time. In 1978, only about 150,000 personal computers had been sold for use in the home, primarily to electronics hobbyists.<sup>2</sup> The Computer Industry Almanac reported that in 1980 there were only 10 personal computers in use for every 1,000 people. IBM contributed to a sales surge when it launched its personal computer in 1981, but the penetration into society of the device remained relatively small. According to the Computer Industry Almanac, 3.8 million personal computers based on an IBM standard were sold in the U.S. between 1981 and 1985.<sup>3</sup> When also factoring in Apple sales, the per capita statistic

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2. Whitney, "All Signs Point to Home-Computer Revolution," 47.

3. *Computer Industry Almanac*, "25-Year PC Anniversary Statistics," 14.

had climbed to 99 personal computers for every 1,000 people in 1985, but still represented slightly less than a 10 percent penetration of the U.S. market.<sup>4</sup>

The newspaper industry tried to assess how the adoption of personal computers would affect local markets. A June 1984 study by the director of information technology at the Associated Press received considerable attention within the industry because it seemed to counteract the excited rhetoric surrounding the personal computer with a dose of statistical reality. The study estimated that, on average, only 1,900 personal computers were deployed per individual newspaper market.<sup>5</sup> This figure led the researcher to remark, “There are probably papers who have more newsstands than that.”<sup>6</sup> In reacting to the study, the newspaper industry’s leading trade association said that it understood personal computer deployment was mostly a business phenomenon, adding that the personal computer represented little opportunity for general-circulation newspapers.<sup>7</sup> The videotext projects discussed in Chapter Two reflected this sentiment as most initially deployed on proprietary terminals rather than personal computers.

In reflecting on this era in a critical analysis, it is important to understand the limited availability of personal computers in the consumer market. As Boczkowski observed:

Although personal computers became the dominant alternative by the mid 1990s for reasons that seem quite logical from today’s standpoint, this knowledge should not be used to read history backwards: none of these delivery vehicles seemed an obvious choice for the actors struggling to make sense of an utterly complex and uncertain situation.<sup>8</sup>

Given the historical context of personal computers, it is much easier to understand how the newspaper industry in the early 1980s was more enamoured with cable television as the platform destined to usher in the information age. Newspaper publishers had a familiarity with cable television that did not exist with computers.

Although the notion of a wire to every home may have been a subject of the revolutionary rhetoric, cable television itself had been around for decades.

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4. *Computer Industry Almanac*, “The U.S. Now Has One Computer for Every Three People,” 28.

5. Genovese, “PCs No Longer Seen as a Threat,” 20.

6. *Ibid.*

7. *Ibid.*

8. Boczkowski, *Digitizing the News: Innovation in Online Newspapers*, 33.

Newspaper publishers were comfortable with cable television as an established industry seeking to exploit market opportunity just as they were. The next section of this chapter recounts a brief history of cable television, which is important background for understanding how the business relationships with newspapers emerged.

## **A Brief History of Cable Television**

Cable television originated as a mechanism to deliver television signals into areas that could not receive a clear picture through broadcast antennas. The business of delivering television over a wire began in the late 1940s, but researchers have disagreed as to where the first system launched. Some researchers attributed the birthplace of cable television to Astoria, Oregon in 1949, but others credited Lansford, Pennsylvania in 1950 or Mahoney City, Pennsylvania in 1948 as having the first cable television system.<sup>9</sup> In any case, cable television had evolved into a respectable business over approximately 30 years, generating revenue of more than \$1.5 billion by the late 1970s.<sup>10</sup>

U.S. government statistics showed the industry grew significantly during the 1970s, increasing from 2,639 systems serving 5.3 million subscribers in 1971 to 4,225 systems serving 15.5 million subscribers in 1980.<sup>11</sup> That number of subscribers represented 20 percent of the nation's households at that time, and the industry was aggressively trying to sign up another 20 percent of the nation's households that were not subscribers even though service was available to them.<sup>12</sup>

Although the 1970s had seen significant growth for cable television, subscribers were mostly in rural areas because city dwellers lived close enough to broadcast transmission towers. They did not need a service to receive television that could be obtained through a quality antenna. Cable television operators realized, however, that future expansion required finding ways to attract interested urban and suburban customers that went far beyond the appeal of signal quality. The expansion of satellite technology provided the industry with the infrastructure necessary to

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9. Besen and Crandall, "The Deregulation of Cable Television," 81.

10. U.S. Census Bureau, *Statistical Abstract of the United States: 1980*, 589.

11. Ibid.

12. Genovese, "Newspapers Channel Interest in Cable TV," 4.

increase its programming and mount a strong push into metropolitan areas.<sup>13</sup> Moss described the status of the cable television industry at this time:

The emergence of new technologies, linking computer systems and communication satellites with the home, has made cable television more than a simple mechanism for improving the reception of broadcast television systems. Cable television can not only expand the number and type of television programs; it can also allow two-way or interactive communication to occur. The interactive potential of cable has fostered much speculation about the public and private services that two-way systems could provide.<sup>14</sup>

This notion that cable television systems could transform the television viewing experience through two-way communications was largely responsible for changing the way regulators viewed this new platform's role in the media market.

Although the growth experienced by cable television in the 1970s was substantial, it could have been even greater. For most of the 1950s, federal regulators had taken a hands-off approach to the cable television industry because they felt it posed no competitive threat to the broadcasting television industry, but by the mid-1960s regulators saw cable television as having the potential to "seriously threaten the viability of the over-the-air television system."<sup>15</sup> As a result, cable television's growth had been intentionally restrained in the 1970s through regulatory efforts of the Federal Communications Commission (FCC). By the 1980s, however, the FCC had reversed course and put in motion significant regulatory reforms that propelled cable television into significant new markets. The regulators had determined that it was no longer in the best interest of consumers to restrain a technology that promised programming diversity and interactive services. As the 1980s opened, the National Cable Television Association (NCTA) proclaimed: "We are a booming industry."<sup>16</sup>

## **Cable Television and Interactivity**

The cable television industry had been savvy enough to recognize that the climate for regulatory reform had been enhanced by the surge in Information Society rhetoric. Positioning its technology platform as one that could deliver on the promises of the

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13. Besen and Crandall, "The Deregulation of Cable Television," 79.

14. Moss, "Cable Television: A Technology for Citizens," 701.

15. Besen and Crandall, "The Deregulation of Cable Television," 78.

16. Genovese, "Newspapers Channel Interest in Cable TV," 4.

rhetoric through interactive capability allowed the cable television industry to differentiate itself from traditional broadcast television. By establishing its technology as much more than a platform for retransmission, cable television elevated its standing beyond that of a traditional medium.

Besen and Crandall agreed that much of the regulatory relief was due to the technological advancements cable television represented. They described cable television as “an excellent example of how difficult it is to restrict entry when technology is changing rapidly.” They acknowledged that some regulation was inevitable, but argued that the compelling nature of the technology available through cable television “made it extremely difficult for the [FCC] to continue to constrain cable growth.”<sup>17</sup> Besen and Crandall concluded:

This has occurred because new programming services, distributed by a new technology, are replacing imported broadcast signals as the most attractive offering of cable television in the larger markets. Cable television is no longer the enhancement of local broadcast signals.... It is now a service which offers a much wider array of services—an array which will increase during the 1980s.<sup>18</sup>

The promise of two-way capability contributed to the emerging perception that cable television had “inherent advantages” in the media marketplace.<sup>19</sup> The ability of viewers to communicate upstream with a cable system—to respond to programming choices and to make the decision to purchase programming on a pay-per-view basis—was viewed as a powerful innovation. Noam wrote:

In its commercial potential, two-way communications is a marketer’s dream come true, since consumers can respond to advertising messages instantaneously by pushing buttons to make an order and to transfer funds in payment.... Cable’s two-way capability also makes possible services which should be as useful to consumers as they are profitable to business enterprises: alarm systems, meter reading, electronic banking, video text information, classified ads, and many more. Consumers will therefore benefit from two-way cable as a communications medium quite apart from its entertainment content....<sup>20</sup>

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17. Besen and Crandall, “The Deregulation of Cable Television,” 78.

18. *Ibid.*, 110.

19. Noam, “Towards an Integrated Communications Market: Overcoming the Local Monopoly of Cable Television,” 235.

20. *Ibid.*, 236.

With the potential for such a smorgasbord of services, investors saw multiple revenue streams that would allow them to generate the cash required to offset the capital investments needed to build cable television's infrastructure.

Companies quickly established systems and claimed specific geographic territories. A spokesman for the National Cable Television Association said, "People are running around looking for franchises and to get the cable systems they hold franchises for into operation."<sup>21</sup> The investment activity reached such fevered levels that some described it as a 1980s style "gold rush."<sup>22</sup>

## **Newspaper Companies and Cable Television**

Many newspaper companies were attracted to the cable "gold rush" for purely financial reasons. Cable television was viewed as a way for a business to make a sizeable return on a reasonable investment of capital. But some newspaper companies also were attracted to cable television for strategic reasons as well. They were impressed by a business model that had enticed millions of consumers to convert from free television to a subscription model. Radio and television was an advertiser-supported media, but the notion that consumers were willing to pay extra for specific television programming changed the way traditional media thought about electronic media delivery. An editor explained, "Cable enhances the amount of information, at a cost small enough to create a massive market."<sup>23</sup> Newspaper companies wanted to be part of such an ecosystem and were lured by the expectations of ancillary product offerings they could bring to the party.

Text-based news services and classified advertising channels initially were thought to hold the most promise. Newspaper publishers believed that their existing news and sports content, along with their lucrative classified advertising business, could be redeployed to create text-based services. Cable operators thought these types of channels would be attractive to consumers interested in a source of local market information. In these early years, channel capacity was not an issue given that

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21. Genovese, "Newspapers Channel Interest in Cable TV," 4.

22. Besen and Crandall, "The Deregulation of Cable Television," 110.

23. Rosenfeld, "Videotext vs. Newspapers: The Press's \$64,000 Ifs," 28. [Arnold Rosenfeld was the executive editor of The *Dayton Daily News* and chairman of the American Society of Newspaper Editors Technology Committee.]

systems had more programming needs than their limited video programming could fill.

Initially, cable television companies encouraged newspaper companies to become partners. Time Inc.'s cable division, for example, sought out partnerships with newspapers "because of their established position in the community."<sup>24</sup> Time Inc. acknowledged that newspaper publishers were confronting decisions about where to allocate resources in the early 1980s as they contemplated electronic distribution and presented cable television as their best alternative. A Time Inc. vice president stated that "cable television is better positioned for text services than either the broadcaster or the telephone company." The executive appealed to newspaper companies to become partners because he said they would bring "ideal journalistic and production skills for this medium."<sup>25</sup>

Newspaper publishers responded favourably to such deference as they turned to deals with the cable television industry as a preferred method for entering the era of electronic distribution. As the following section explores, newspaper companies invested millions of dollars in cable television arrangements, but some critics argued that newspaper companies did not drive the hardest bargain.

### ***Cable Television Deals***

The newspaper industry had dabbled in cable television since its beginning, and by the end of the 1970s, newspaper companies "had some degree of ... ownership" in slightly more than 12 percent of the cable systems then in operation.<sup>26</sup> However, the newspaper industry's involvement with cable television escalated in the early 1980s as the two industries sought ways to exploit the strengths of the other party. Cable television executives initially wanted access to newspaper content, while newspapers envisioned that a cable system's local market franchise could be exploited as an extension of their own local market monopolies.

From 1981 through 1984, U.S. newspaper companies responding to industry surveys reported that they invested considerably more capital in cable television

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24. *Newspaper Controller*, "A Look at Electronic Publishing," 7. [Statement attributed to Larry Pfister, who was Time Inc.'s vice president of Video Information Services.]

25. *Ibid.*

26. Genovese, "Newspapers Channel Interest in Cable TV," 5.

ventures than in their initiatives with non-cable videotext. These U.S. newspapers said they invested \$38.6 million to either purchase or lease cable television infrastructure from 1981 through 1984. In comparison, these newspapers said they invested slightly less than \$13.5 million in non-cable electronic projects such as videotext during this same period.<sup>27</sup>

Cable television systems are highly dependent on capital investment to build the required infrastructure. This was especially true in the early 1980s when large portions of the country were yet to be wired. Trade association estimates during this period reported that it cost between \$10,000 and \$15,000 per mile to deploy cable television connectivity in typical areas. However, those costs could soar in large cities such as New York to as much as \$150,000 per mile. The capital-intensive nature of the business tended to drive up prices for systems, which were typically selling in 1980 for between \$500 and \$700 per subscriber. The sale of some systems sales spiked to as high as \$1,000 per subscriber.<sup>28</sup>

Newspapers large and small were eager to participate in the burgeoning cable market, but those prices seemed steep to some publishers. That led many newspaper companies to lease channels on existing systems rather than purchase a direct ownership stake in a cable television company. In some cases, cable operators provided channel capacity to newspapers for free in exchange for content services.<sup>29</sup> The newspaper industry's trade association reported that newspaper deals with cable television ranged from outright ownership of systems to channel leases that most often involved the creation of a profit-sharing joint-venture. However, the trade association's legal counsel worried that some newspaper companies eager to join the cable television frenzy were not structuring their deals in the best way. In some arrangements the association's legal counsel maintained that newspaper companies failed to negotiate a fair value for the content, opting to perform "almost a wire

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27. These figures were compiled from four annual capital expenditure surveys conducted by the ANPA Research Institute and published in *Presstime* (July 1982, 49; July 1983, 57; May 1984, 63; May 1985, 66. For information on ANPA, see footnote 32 in the Introduction).

28. Genovese, "Newspapers Channel Interest in Cable TV," 7.

29. *Ibid.*

service function for the cable operator in providing him with information that he in turn sells to his subscribers.”<sup>30</sup>

Industry leaders worried that such arrangements would set the market value for newspaper content too low and diminish the influence newspapers could bring to this emerging market. The trade association advised its member companies to craft a strategic plan and proactively decide how they wanted to approach their cable television endeavours before engaging in negotiations with cable system operators.<sup>31</sup> As cable television embarked on a decade of remarkable expansion, its companies took the upper hand in its dealings with the newspaper industry. As one consultant described it, “Cable’s grade in conducting business with newspapers has typically been an ‘A;’ newspapers rarely have deserved more than a ‘C.’”<sup>32</sup>

Understanding how unbalanced relationships ensued from the negotiations between newspaper companies and cable television companies requires exploring more of the rationale for why newspaper companies entered into these deals. The following section more closely examines the many reasons newspaper company executives gave for entering the cable television market in the early 1980s.

### ***Newspaper Industry Rationale***

The publisher of a couple of small daily newspapers in Iowa is an example of an industry executive who pursued cable television opportunities by leasing channels on local cable systems. He used the channels to provide text-based local news and advertising services and his efforts were followed closely by other newspaper companies who hired him as a consultant. This publisher’s message to other newspaper companies was about warding off competitors: “I warn them if they don’t try to get involved, they sure as hell will look up one day and see that a competitor is in the driver’s seat.”<sup>33</sup> Most publishers seemed to believe that newspapers and cable

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30. Rambo, “Clouding the Future? Electronic Publishers Face Legal Questions on Variety of Issues,” 5. [Statement attributed to Douglas Watts, the ANPA Legislative Counsel.]

31. Ibid.

32. Ibid. [Statement attributed to Thomas McKnight, a communications industry consultant who was a former executive with Gannett Inc.]

33. Genovese, “Newspapers Channel Interest in Cable TV,” 5. [Statement attributed to Gerald Moriarity, who was publisher the *Globe-Gazette* in Mason City, IA and earlier publisher of the *Ottumwa Courier*.]

television represented media that, if deployed properly, would complement each other rather than detract from either.

A study by the newspaper industry's principal trade organization found that 69 newspapers in the U.S. were involved with commercial information services over local cable television systems at the end of 1981, representing a potential market of more than 1 million subscribers.<sup>34</sup> This study concluded that "many other newspapers are exploring opportunities for similar ventures" because they were attracted to cable television over other forms of videotext applications. The reasons listed for favouring cable television included:

1. Relatively low cost of entry.
2. Higher likelihood that the services can operate at a profit.
3. Built-in subscriber base meant the services were not marketed as a stand alone product.
4. No special equipment beyond the cable box was required by the consumer.
5. Services were included as part of the flat monthly cable fee (telephone-based textual information services at that time typically charged based on the time users spent with the service)<sup>35</sup>

Another study by the same organization in 1983 found that newspaper companies were reacting to competitive fears, but also acting out of desire to learn about new technology. When participants were "asked to choose which of two reasons for getting involved in a cable venture was more important to their newspaper, 34 newspapers, or 49 percent indicated it was a defensive, competitive move, compared with 25 that indicated that it was because cable seemed like a good business opportunity."<sup>36</sup> When the study also asked participants about other reasons for entering the cable television market, "42 newspapers, or 60 percent, indicated that it was to prepare for future communications technologies such as teletext and videotex...."<sup>37</sup> The underlying notion of preparing for the future as expressed by these survey results played a significant role in how newspaper companies negotiated their agreements with cable television operators. However, the increasing sense that

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34. Criner and Gallagher, "Newspaper-Cable TV Services: Current Activities in Channel Leasing and Other Local Service Ventures," A-3.

35. Ibid.

36. *Presstime*, "More Papers Entered Cable TV for Competition than Profits," 30.

37. Ibid.

cable television would become a major media force also influenced the relationship newspapers had with cable television.

Becker, Dunwoody, and Rafaeli argued that the promise of cable television relied on “the notion of increased offerings of program content.” But they added that “despite the simplicity of this observation” no one had any clear understanding of how more programming would disrupt audience patterns and the consumption of other media.<sup>38</sup> Nevertheless, they predicted that as cable television expanded, it would siphon away consumers and their financial resources from other media platforms. The researchers contended that media primarily compete on two fronts: “financial resources” and “time.”<sup>39</sup> Given that cable television’s subscription-based business model would capture financial resources and its additional programming would divert time, the researchers concluded that cable television represented a very significant competitive force. Working within the context of media usage models presented by others (McCombs<sup>40</sup>, McCombs and Eyal<sup>41</sup>, Weiss<sup>42</sup> and Robinson<sup>43</sup>), Becker, Dunwoody and Rafaeli stated:

... cable ought to have an impact on other media use activities if for no other reason than that it provides content similar to what the other media are providing. In fact, cable technology has the capability to provide almost all of the content now being provided by the other media individually. The impact of cable ought to be the strongest....<sup>44</sup>

Newspaper executives in the early 1980s clearly recognized the same factors as the scholarly researchers who were studying media markets: cable television represented a new paradigm for media content distribution. However, newspaper executives also acknowledged that they did not fully understand how they would exploit the new paradigm. Until that could be determined, newspapers were reluctant to enter into short-term agreements with cable companies. There was a genuine fear by publishers that cable companies would extract value in the short-term only to shut them out over

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38. Becker, et al., “Cable’s Impact on Use of Other News Media,” 127.

39. *Ibid.*, 130.

40. McCombs, “Mass Media in the Marketplace,” 1-104.

41. McCombs and Eyal, “Spending on Mass Media,” 153-158.

42. Weiss, “Effects of the Mass Media of Communication,” 77-195.

43. Robinson, “Television and Leisure Time: A New Scenario,” 120-130.

44. Becker et al., 131.

the long-term. The result was a dogged pursuit of long-term, multi-decade agreements.

For example, *The Recorder* in Amsterdam, New York, in 1980 signed a 10-year lease with an option for another 10 years to lock up a channel on its community's cable system. The newspaper's publisher said: "The bottom line is that we have positioned ourselves for whatever is coming along regarding a tie-in between the newspaper and the electronic media. That's really what it's all about."<sup>45</sup> The publisher of *The Shawnee News-Star* in Oklahoma echoed the same sentiments after locking his newspaper into a 13-year channel agreement with the local cable system: "We still don't know where it is going. What we do know is that wherever it goes in Shawnee for the next 13 years, we're going to be the owners of it."<sup>46</sup> There is no way to know whether these specific deals were among those that caused the newspaper trade association's angst discussed earlier, but they are representative examples of how newspaper companies believed that long-term contracts were essential to protecting their investment in cable television operations.

Essentially, newspaper executives traded away financial incentives that could have made such arrangements more lucrative in the short-term as they sought and won long-term agreements with cable television operators. The newspaper in Shawnee, Oklahoma agreed to an escalating payment scale in which the cable operator received 10 cents per subscriber in the first five years, 15 cents during the second five years of the agreement, and 20 cents during the last three years. The cable operator agreed to accept half of the pay as promotional advertising in the newspaper, which allowed the newspaper to mitigate its actual cash outlay.<sup>47</sup> Newspaper deals with cable companies varied widely, and while this is an actual example, it is not possible to characterize it as a typical deal. In many cases, neither party would agree to absolute dollar terms as was the case in the Oklahoma market example. Instead, they would agree to share in revenue generated on a percentage basis.<sup>48</sup> Under revenue sharing arrangements, cable operators believed they were

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45. Genovese, "Newspapers Channel Interest in Cable TV," 7. [Statement attributed to Charles Miller, publisher of *The Recorder* in Amsterdam, NY.]

46. *Presstime*, "Electronic Publishers Describe How They Do It," 18. [Statement attributed to Lee Porter, publisher of *The Shawnee News-Star* in Oklahoma.]

47. *Ibid.*

48. *Ibid.*

better positioned to generate more revenue if newspaper-operated channels were successful and newspaper felt they were protected from being locked in to set payments should the channels fail.

Even though the newspaper industry may have lacked long-term clarity about its plans for cable television, the agreements they signed in the early 1980s required immediate action. The following section focuses on several issues surrounding the execution of those agreements in the short-term, including a brief discussion about how the journalistic culture of newspapers influenced how these agreements unfolded.

### *Short-term Execution*

Reflecting the names of other electronic information technologies of this period—videotext and teletext—the textual display of information on cable television systems was called cabletext. The Time Inc. executive, who spoke about the opportunities for newspapers in cable television noted earlier, warned potential newspaper recruits that information displayed on a television represented a different medium. He told them that cabletext required skills to edit information tightly “since the small screen is not an ideal reading medium.”<sup>49</sup>

Newspaper companies that ventured into the medium early quickly learned that the challenges of producing cabletext material were not exaggerated. Consider the following description from a newspaper editor assigned to a Knight-Ridder Inc. cable television project at the company’s *Lexington Herald-Leader* in Kentucky:

In cabletext, we’re talking about a maximum of eight 32-character lines that will be on the screen no more than 17 seconds. Yet, this eight-line story that will be on the home screen for just 17 seconds must first attract the interest of the viewer and hold it long enough for the viewer to read and comprehend the message.<sup>50</sup>

Such writing required skills were more closely aligned with advertising copywriting than news writing and culture debates soon erupted between editorial managers and

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49. *Newspaper Controller*, “A Look at Electronic Publishing,” 7.

50. Reed, “Cabletext: Is it Newspapering?” 23. [David Reed was director of the Lexington (KY) *Herald-Leader’s* TelePress unit.]

newspaper business executives. The editor at the *Lexington Herald-Leader* wrote that he was often asked of cabletext, “Is it newspapering?” adding that his answer was cabletext “can deliver only the ‘who, what, where and when’ of journalism, leaving the ‘why’ to the newspaper.”<sup>51</sup> Actual content issues were only part of the reasons why newspaper editorial and business managers clashed over cable television ventures. The way newspaper publishers chose to staff these operations exacerbated the problem.

Many newspaper companies that launched cable projects also were involved with videotext projects. They were allocating resources between these ventures as a hedge against an uncertain future, but they also wanted to at least break-even if not turn a profit in the short-term. The results were operations with very few employees. Writers and editors who handled news were also expected to produce and manage advertising content. This breached the time-honoured code of keeping advertising and editorial operations separate, referred to in the industry as the separation of church and state.

Nevertheless, the *Lexington Herald-Leader* editor acknowledged that his cabletext news staff often contacted banks, for example, to update interest rates in advertising displays. They also coordinated advertising content directly with sales personnel. “Such details would drive many a newspaper copy editor up a wall. In cabletext, they’re just part of the job,” he said.<sup>52</sup> Editors were concerned that the pressure for newspapers to find their way in with electronic information delivery had led publishers to forgo the industry’s journalistic principles too easily. These concerns spilled over into how the very deals themselves could jeopardize a newspaper’s journalistic integrity.

Some of the journalistic concerns about newspaper and cable television deals involved the franchise process. In the early days of cable, companies were awarded franchises by local governments often following intense, politically tinged negotiations. Cable operators worried that a newspaper’s political coverage could affect its franchise status, while some newspaper editors were concerned that business pressure from a cable partner over such coverage could threaten the

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51. Ibid.

52. Ibid.

newsroom's independence. Moreover, many editors were concerned that providing content on cable systems that were operating as a franchise of a local government and regulated by the Federal Communications Commission opened newspapers up for new government scrutiny. There were editors who felt that providing content on such platforms was tantamount to inviting the government to intrude on the newspaper industry's freedom.

Others, however, saw the increasing use of electronic distribution as inevitable and believed that the newspaper industry had to exercise leadership to see that First Amendment concerns were protected. Wicklein framed the journalism interest concerns:

In this country, free flow of information is going to be determined by how the First Amendment is applied to the new technologies of communication. The First Amendment provides two things: the right to express ourselves freely, and, implicitly, the right to know. It encourages the widest diversity of ideas available to the listener or the reader.... The time is coming when both these rights will be exercised *primarily* through two-way, electronic communications.<sup>53</sup>

Wicklein challenged the newspaper industry to call for revisions to communications laws specifically to include First Amendment protections. He concluded that "If we are to guarantee free flow of information in the new technologies, one further step is essential: Federal agencies, especially the FCC, have to be prevented from interfering with content."<sup>54</sup> Wicklein and others of a similar mindset wanted to ensure that cable television platforms were treated by regulators as common communications carriers. They wanted distribution technology to remain separate from the content it delivered similar to the way telephone systems were separated from the voice communication they transmitted.

Newspaper industry leaders in these early years were much more concerned about the separation of content and technology in relationship to the nation's telephone infrastructure than with cable television. Wicklein conceded that cable

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53. Wicklein, "The Scary Potentials for the Overcontrol of Information," 13. [John Wicklein had been a reporter and editor at *The New York Times* and dean of the School of Public Communication at Boston University].

54. *Ibid.*, 15.

television operators had established precedent early through a myriad of content services, noting that they would unlikely “give up their right to control program and information services easily.”<sup>55</sup> This issue as its concerns telecommunications will be addressed more thoroughly in Chapter Four. It is important to note here, however, that the newspaper industry’s early views regarding how cable television should be regulated were tempered by its own companies entering into ownership deals and long-term leases with cable television companies. It appeared that many newspaper companies wanted to have it both ways—guaranteed access for newspapers to the cable systems, but also the ability to enter into exclusive deals to keep other competitors out of the business. Wicklein called access for newspapers to cable television systems “essential” to the free flow of information, but he noted that “this does not mean they should be allowed to negotiate exclusive contracts.”<sup>56</sup> For all of the noble First Amendment rhetoric that accompanied the early discussions of newspapers and electronic distribution, the actions of newspaper companies underscored that they were businesses interested in protecting their own self-interest.

Cable television companies also were motivated by on their own self-interest and were intently interested in market expansion. Even though cable companies initially had sought out investment deals and other business partnerships with newspapers, the cable television industry’s interest in such partnerships changed significantly as technology advancements and new programming services allowed them to expand their television content. In the following section, this thesis explores how the rapidly evolving market affected the relationship between newspaper companies and cable television operators.

### ***A Rapidly Evolving Market***

Cable television operators began to replace their early systems that were limited to only 12 channels with more sophisticated technology capable of delivering dozens of channels (more than 100 in some advanced systems). As these new systems were unveiled, the nature of the market changed along with the underlying technology. Through the success of premium programming channels such as Home Box Office

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55. Ibid., 14.

56. Ibid., 15.

and the favourable prospects of upstarts such as the Cable News Network and the Weather Channel, cable television had been transformed from merely a distribution platform into a recognized purveyor of original media content.

As such, cable operators saw less need to give up valuable channels to text-based services. By 1983, there were more than 100 cabletext services underway in connection with newspapers,<sup>57</sup> but dozens of other newspapers had decided they wanted to enter the market. Those newspaper companies that wanted space on cable television systems in 1984 found a different negotiating climate given that cable television system owners were reluctant to lease a channel for textual purposes. They no longer wanted to enter deals that would encumber channel capacity at time when the long-term prospects for video programming appeared to be much more lucrative.<sup>58</sup>

Moreover, cabletext services that had launched were having difficulty attracting an audience. Content scrolling on a television screen had failed to excite consumers who largely ignored those channels when they were offered. Consumer reaction to the services when they were offered free made it abundantly clear that there was little market, if any, for those services to be offered as premium channels for an additional fee. A trade association in the cable television industry reported that it was not optimistic regarding consumer interest in text-based services, adding that the organization's leaders believed that less than 3 percent of the audience would be willing to pay for videotext services. A spokesman for the association stated: "I'm not saying the business won't work. But what I'm saying is this isn't the greatest thing since sliced bread."<sup>59</sup>

As newspaper companies involved in cabletext began to accept the market reality, they were forced to rethink the approach to their cable projects. In order to make their cable channels more aesthetically pleasing, newspaper companies began supplementing cabletext with video programming. Some abandoned text-based

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57. Rambo, "It's Still a 'Maybe' Market for New Technologies," 20.

58. Genovese, "Latest Tack for Papers in Cable TV is to Video," 20.

59. Rambo, "It's Still a 'Maybe' Market for New Technologies," 22.

services in favour of video entirely. In October 1983, as much as half of the newspaper industry's cable television channels included video programming. The ANPA reported that three newspaper cable ventures had closed in 1983 and an association official surmised that the "very definite trend" toward video programming "may be the key to success."<sup>60</sup>

An industry executive explained his company's decision to incorporate video programming in the newspaper's cable programming was in response to advertiser concerns. He stated: "Advertisers didn't understand text television. Television to them (advertisers) was sound, sight and motion. Consequently, we decided that we needed some old-fashioned sound, sight and motion laced into the text to keep the cash flow going."<sup>61</sup> Cox Enterprises, which owned newspapers in several markets in the U.S. including Georgia, Florida, Ohio and Texas, embraced the idea of using video programming to create "a local television station" in its smaller markets that did not have a broadcast station. Even *The New York Times* announced a deal in September 1983 to provide video programming as part of a joint venture with Warner Communications in which news employees would appear on camera.<sup>62</sup>

The programming provided by *The New York Times* and other larger newspapers may have been relatively well produced, but newspaper companies overall struggled to create video content that measured up to the standards consumers had come to expect from television news organizations. In recounting this period, some observers blamed the newspaper industry's lack of investment in the product that resulted in what was often described as amateurish. In recounting the video efforts of this period, a newspaper executive stated that "newspapers were nickel-and-diming it to death."<sup>63</sup> The newspaper industry struggles with video were especially acute in small markets where resources and talent level did not result in compelling television content.

A publisher of a small daily in Missouri recalled that his newspaper produced weather reports, election news, and local sporting events. "We had all kinds of fun,"

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60. Ibid.

61. Ibid., 21. [Statement attributed to Mark Atkinson, the general manager of cable operations at the *Leader-Telegram* in Eau Claire, Wisconsin.]

62. Ibid., 22.

63. Potter, "Early Newspaper Efforts as Information Providers on Cable Were Enthusiastic and Imaginative but Fell Short," 11.

he said, but added that “We were amateurs.... People quickly found out (our newspaper reporters weren’t) Walter Cronkite.”<sup>64</sup> A Tribune Co. executive later recalled that such video efforts “really didn’t take showmanship into account. You can’t just put a reporter up there and read.”<sup>65</sup> Newspaper companies became uncomfortable with product offerings that were mocked and ridiculed. They had failed to understand that consumers’ expectations—even in small markets—were formed by what they experienced from other channels. As newspaper companies realized that their video content would not meet those expectations without significant investment, the industry’s collective interest in cable television diminished quickly.

There were, of course, other business issues in play, but in looking back on this time it is clear that newspaper companies soured on the cable business as suddenly as it had earlier embraced it. Newspaper executives who had insisted on long-term deals with cable operators, even though they did not know where the market would lead, decided rather quickly that the market had turned in an unexpected direction requiring more investment than they were willing to make. The following section of the chapter explores the period when newspaper companies were extricating themselves from cable television projects and it discusses some of the rationale provided for the newspaper industry’s change of heart.

## **Newspapers Exit the Cable Market**

The newspaper industry’s involvement with cable television peaked in the mid-1980s with at least 200 newspapers providing content, including local news and advertising, to cable systems. By the end of the decade, only two such projects remained in operation.<sup>66</sup> Newspaper companies had entered into cable initiatives with extremely high expectations, but they became disenchanted with the prospects for cable television when those expectations were not met quickly. As one official from the industry trade association asserted, newspapers grew less enthusiastic about the

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64. Ibid., 10. [Statement attributed to Robert M. White II, who had been publisher of the *Mexico Ledger* in Missouri.]

65. Potter, “A Local Look for Cable-TV News,” 9. [Statement attributed to Robert J. Gremillion, vice president and general manager of a Tribune Co. subsidiary developing a local cable news project in Chicago.]

66. Ibid.

prospects for cable ventures because “there aren’t any really overwhelming success stories.”<sup>67</sup> Market reality and expectations were not aligned and it resulted in many newspaper companies entering a market for which they were unprepared.

Although newspaper cable activity did not reach its peak until the middle of the decade, 1983 marked a recognized shift in attitude. A newspaper trade association official observed:

New products and services, like cable, seem to move through distinct cycles of expectations, similar to the business cycle. For cable, 1981-82 were years of unbounded, and unrealistic, optimism. 1983 has brought a much more sober view of cable.<sup>68</sup>

The perspective newspaper executives had about cable television at this time was shaped by the operating realities of their projects, such as the increasing expectations for video programming as noted previously. However, another issue influencing newspaper executives stemmed from cable television’s emerging financial structure that worried conservative newspaper managers.

Projections for a typical cable television system in 1982 called for it to make \$275 million in profit over the 15-year life of a local franchise agreement. But a cable industry trade association official asserted “that if the ... revenue projections are as little as 5 percent too high,” the cable system “stands to lose even more than that amount.”<sup>69</sup> The narrow margin of error was due to the relatively high requirements for capital spending to build and maintain the cable infrastructure. Cable companies were borrowing heavily to fund their capital expansion. By the end of 1982, the cable television industry’s collective debt had reached nearly \$4 billion.<sup>70</sup> Newspaper managers accustomed to balance sheets with far less debt were sceptical of the cable industry’s long-term ability to produce the profit margins newspaper owners had come to expect from their own operations. As a result, direct investment in cable television systems by newspaper companies peaked at about 16 percent in 1985.<sup>71</sup>

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67. *Presstime*, “Cable TV Start-ups Show Decline Since Peak in 1982,” 24. [Statement attributed to Kathleen Criner, ANPA’s Director of Telecommunications Affairs.]

68. *Newspaper Controller*, “The Economics of Telecommunications,” 16. [Statement also attributed to Criner.]

69. Effros, “The Reality Behind the Cable TV Boom,” 25.

70. *Ibid.*

71. Rambo, “Newspaper Companies Go Back to Basics,” 22.

Meanwhile, newspaper companies increasingly were concerned about the operating costs associated with their cable ventures whether or not they had an ownership position. A trade association official stated: “We want to be realistic about what it costs us; not deceiving ourselves about the business opportunities in this field by not knowing our true costs.”<sup>72</sup> To provide its membership with operating guidelines for their cable ventures, the ANPA in 1983 calculated what it considered to be a plausible scenario. In a hypothetical market with 200,000 households and 40,000 cable subscribers, the ANPA said a newspaper cable channel could take in \$480,000 in revenue and generate a 27 percent profit. Nevertheless, an association official conceded that newspapers were not at the time generating that level of profit, but instead referred to the numbers “a worthy and realistic 3 to 5 year goal.”<sup>73</sup> As newspaper companies attempted to find their way in this market, several of them followed ANPA advice to reduce resources allocated to information services and increase resources dedicated to generating advertising sales on the new platform.

The trade association official said the industry group had come to believe “that the business opportunities ... for a newspaper in cable are largely in the area of advertising,” explaining that cable offers newspapers an outlet to “outflank” local television stations, which had emerged as the largest competitors to local market newspapers.<sup>74</sup> In several instances, newspapers decided that the advertising opportunity had nothing to do with their own content. They opted instead to operate as brokers and representatives in local markets for advertising placed on channels carrying such exclusive cable programming as CNN or ESPN, a sports programming channel.<sup>75</sup> These arrangements allowed for local cable operators and newspapers to remain allied against local market broadcast television stations in the battle for advertising dollars.

Newspaper executives saw the expansion of cable television channels as a positive for their own business because they believed that a fragmented television audience made it more difficult for local broadcast television to maintain market

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72. *Newspaper Controller*, “The Economics of Telecommunications,” 16. [Statement also attributed to Criner.]

73. *Ibid.*

74. *Ibid.*, 15.

75. *Presstime*, “Electronic Publishers Describe How They Do It,” 18.

share of advertising. An executive explained that an advertiser a few years earlier could reach 90 percent of a typical market through one broadcast buy. That advertiser would struggle to reach 60 percent market coverage in the mid-1980s with only one broadcast buy, the executive said, attributing the difference to the audience fragmentation created by cable's household penetration and channel expansion.<sup>76</sup> Such changes in local advertising markets led an executive with McClatchy Newspapers to state: "Cable television may turn out to be our best friend in the long run."<sup>77</sup> Publishers believed they could position their newspapers with advertisers as a cost effective way of increasing market coverage in areas of rapid audience fragmentation, thereby capitalizing on the market turmoil cable television had created. So despite the shifting relationship with cable television operators, newspaper companies continued to believe that cable television was more friend than foe.

Advertising representation and brokerage deals may have salvaged some of the business relationships between cable television operators and newspaper companies, but those arrangements were far afield from the original vision of newspapers as the source of robust information services. In announcing the closure of its cable venture, *The Florida Times-Union* in Jacksonville, FL, was among the first newspaper companies to address publicly some of the shortcomings that prevented it from realizing the vision that had originally attracted the newspaper to cable television. The newspaper closed its cable channel after only three years of operation, blaming the failure on the passive nature of cabletext and various technical shortcomings. Why did this happen?

*The Florida Times-Union* was an example of a newspaper that began with cabletext before supplementing its content with video-based news reports. An executive maintained that the simple cabletext service suffered from a lack of interactivity, making it unattractive "for classified advertising because it would require viewers to watch the screen until the advertising in which they were

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76. Rambo, "Newspaper Companies Go Back to Basics," 28. [Statement attributed to Dean Singleton, president of Media News Group, which then owned 26 U.S. daily newspapers.]

77. *Ibid.*, 27. [Statement attributed to Erwin Potts, executive vice president of McClatchy Newspapers.]

interested in scrolled by.”<sup>78</sup> The move to video failed to attract a viable audience in part due to unresolved technology issues, he said. For example, the executive said signal interference from a local broadcast station impaired the visual quality of the newspaper’s channel.<sup>79</sup> As their interest in the cable television platform waned, newspaper companies had no shortage of reasons for explaining why the ventures had failed to meet the lofty goals envisioned only a few years earlier. From a timing perspective, however, the move away from cable in the mid-1980s coincided with the high-profile closings of Knight-Ridder’s Viewtron service and Times Mirror’s Gateway project.

The proud newspaper industry had shifted backwards, from leader to laggard, in the marketplace for electronic distribution of media content. As an industry, its efforts to exploit electronic distribution were not keeping pace with overall market developments. But where the rhetoric surrounding those closed videotext projects had been tinged with failure, the newspaper industry positioned its exit from cable television as a strategic withdrawal. The pullback from cable television was described as a shift in how newspaper companies chose to allocate resources rather than as the failure of expectations that it actually was. In the following section, the thesis explores further how the newspaper industry positioned its retreat from cable television.

### ***Positioning the Exit***

The economic value of cable television systems soared in the mid-1980s as television viewers became more accustomed to receiving their programming through a wire rather than an antenna. By the end of 1985, cable television was available to nearly 73 percent of homes with televisions.<sup>80</sup> The gold rush description discussed earlier had proven to be an appropriate analogy given that cable television systems valued at

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78. *Presstime*, “‘No Revenue Potential’ Ends Cable Service,” 12. [Statement attributed to James L. Whyte, president and general manager of the newspaper’s parent company, Florida Publishing Co.]

79. *Ibid.*

80. Friedman, “Cable TV: Now Seems to Be a Good Time to Sell or Consolidate System, and Newspapers are Reaping Benefits Both Ways,” 5.

\$200 to \$300 per subscriber in the mid-1970s sold for \$1,100 to \$1,200 per subscriber in 1986.<sup>81</sup>

Many newspaper companies that had invested in cable television in the early 1980s were ready to cash in on those investments by 1986. “I think our timing has been rather fortuitous,” said a McClatchy Newspapers executive in referring to the escalation in value of cable television systems.<sup>82</sup> McClatchy Newspapers is representative of its industry’s mid-decade retrenchment. “We flirted with diversification and decided we do better at newspapers,” said another one of its executives.<sup>83</sup> As newspaper companies across the board sold off their cable ownership holdings or negotiated their way out of channel leases, executives echoed those sentiments and talked about focusing on their core product—printed newspapers.

One industry analyst stated: “Newspaper companies are saying newspapers are going to be the backbone.”<sup>84</sup> The change in strategy, which downplayed new ventures, was so significant that the industry’s own trade association publication, *Presstime*, published a special report about it. It stated in part:

McClatchy’s narrowing focus reflects what observers detect as a recent trend in the newspaper business: that following a period in which they aggressively entered businesses not directly related to their traditional mission of disseminating news and advertising, many companies are going “back to basics.” In general, they are re-emphasizing their role as print publishers—and, to a lesser extent, radio/TV broadcaster—and de-emphasizing their involvement in other enterprises.<sup>85</sup>

The “back to basics” rhetoric was supported by other industry activity. For example, newspaper companies reduced their investments in the radio business as well. From 1982 to 1985, the newspaper industry reduced its ownership of the country’s AM radio stations from 23 percent to 5.2 percent while its investments in FM stations declined from 37 percent of the total to 6 percent.<sup>86</sup>

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81. *Ibid.*, 6.

82. *Ibid.*, 5. [Statement attributed to Frank Washington, McClatchy’s vice president for electronic communications.]

83. Rambo, “Newspaper Companies Go Back to Basics,” 22 [Statement attributed to Erwin Potts, McClatchy’s executive vice president.]

84. *Ibid.* [Statement attributed to Ellen Gibbs, president of Communications Resources Inc.]

85. *Ibid.*

86. Rambo, “Newspaper Companies Go Back to Basics,” 22.

Tribune Co. sold its cable holdings, but kept most of its broadcast properties, while Dow Jones, Harte-Hanks, and Gannett are also examples of newspaper companies that either abandoned cable television or significantly reduced their stake in the industry during this period.<sup>87</sup> Other newspaper companies such as Times Mirror and Cox Enterprises separated their cable television holdings and newspaper holdings into distinct subsidiaries, recognizing that the capital spending requirements of cable television was too great to share a balance sheet with newspaper activities. But for some enterprises, creating separate businesses under a common holding company did not go far enough.

Executives with the Tribune Co., for example, said they made the strategic decision to withdraw from cable entirely because the capital required to become a major player in the industry was prohibitive given their desire to remain committed to the newspaper business and to expand its broadcast holdings. It would have required “much more than we wanted to spend,” according to a company spokesman.<sup>88</sup> Although newspaper companies were extremely profitable during this period relative to other businesses, the amount of investment required by the cable industry illustrated that the conservative newspaper business had its limits. Analyst comments from this period suggest that such limitations stemmed from owners who were reluctant to take on risks that could jeopardize profitability. Even at larger media conglomerates, newspapers were responsible for generating the most revenue and profit and executives had little incentive to put the newspaper franchise at risk.<sup>89</sup>

Taking advantage of the escalation in cable values, while at the same time positioning the cable retreat as a return to core products, resonated positively for the newspaper industry in the Wall Street investment community. Analysts believed that shareholder pressure to maintain the industry’s high profit margins contributed to the decisions to curtail ventures outside of the core product. This was especially true of the publicly traded companies such as Gannett and Times Mirror.<sup>90</sup> An important aspect of this discussion, however, is that by characterizing the retreat from cable as

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87. *Ibid.*, 29.

88. Friedman, “Cable TV: Now Seems to Be a Good Time to Sell or Consolidate Systems, and Newspapers are Reaping Benefits Both Ways,” 6. [Statement attributed to Joseph Hays, vice president of corporate communications.]

89. Rambo, “Newspaper Companies Go Back to Basics,” 27.

90. *Ibid.*

a re-deployment of assets, newspaper companies were allowed to downplay what was essentially failed execution. Newspapers had rushed into the cable television business without appreciating the complexities of the market and with no consumer research to support claims that a market for text-based information services on television could be developed.

In looking back over this period, a Tribune executive said newspaper companies acted impulsively seeking “franchise protection (rather than) franchise extension.”<sup>91</sup> And by acting impulsively, newspaper companies had not done enough diligence to be prepared for shifts in the market that would be inevitable—the requirement to add video programming to their news channels for example. A McClatchy Newspapers executive said that newspaper companies had underestimated what would be required to operate a cable television channel, stating that “it turned out not to be as easy to run” as newspapers had assumed it would be.<sup>92</sup> An article in *Presstime* summarized the issue, stating that newspaper companies had concluded that: “... cable television and other endeavors simply turned out to be more trouble than they were worth.”<sup>93</sup> These comments underscore a line of thinking that newspaper companies were never invested in leading an electronic revolution, only in defending their local markets against one.

As was discussed in Chapter Two, the demise of several high-profile videotext projects left the industry scarred by the experience. The aftermath of those projects affected how newspaper companies approached subsequent online initiatives including the Internet era, which will be discussed in a later chapter. However, the newspaper industry’s involvement with cable television was not cast in the same light. Some observers even felt the newspaper industry had been bolstered rather than beaten down by its involvement with cable television.<sup>94</sup> Wrote Patten:

Newspaper ventures into cable ownership were harmless and in some cases instructive. They served to increase awareness of a changing media environment. And the newspapers learned a few

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91. Potter, “Early Newspaper Efforts as Information Providers on Cable Were Enthusiastic and Imaginative but Fell Short,” 11. [Statement attributed to Timothy Brennan, vice president of electronic information products for Tribune Media Services Inc.]

92. Rambo, “Newspaper Companies Go Back to Basics,” 27. [Statement attributed to Erwin Potts, McClatchy’s executive vice president.]

93. *Ibid.*

94. Patten, *Newspapers and New Media*, 43.

lessons about the problems of profitability in a new communications field.<sup>95</sup>

This more positive reaction stemmed, at least partially, from cable television's position within the media marketplace. Cable television had come to be viewed differently than other existing media. Finnegan and Viswanath asserted that "cable is not a medium *per se*, but rather a delivery system of channels of varied content."<sup>96</sup> Therefore, newspaper companies were seen as backing away from a distribution platform rather than a full-fledged medium, which made strategic sense within the business and investment community.

The newspaper industry experience during this period also fostered a sense that the competitive effects of cable television had been overstated. One executive stated: "As it turns out, cable was not nearly as great a threat to newspapers as some people once thought it might be."<sup>97</sup> Another executive said that the initial interest newspaper companies had in cable television emanated from the belief that such systems would be a major distribution platform for newspaper content, but by the mid-1980s, he said "it's become more and more apparent any impact cable is going to have on newspapers is a lot less than anybody imagined."<sup>98</sup> This perception that the newspaper industry had dodged a significant competitive threat from cable television was repeated by analysts who followed the industry for investment research.

These analysts generally concurred that the industry's renewed emphasis on its core business was the correct strategy in 1987. One investment banker proclaimed that newspaper companies did not need to worry about investing in new endeavours because there was "no new media coming along" that promised them a better use for their capital.<sup>99</sup> Another investment analyst proclaimed "... we can see that

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95. Ibid.

96. Finnegan and Kasisomayjula, "Community Ties and Use of Cable TV and Newspapers in a Midwest Suburb," 458.

97. Rambo, "Newspaper Companies Go Back to Basics," 27. [Statement attributed to Erwin Potts, McClatchy's executive vice president.]

98. Friedman, "Cable TV: Now Seems to Be a Good Time to Sell or Consolidate Systems, and Newspapers are Reaping Benefits Both Ways," 6. [Statement attributed to Frank Washington, McClatchy's vice president of electronic communications.]

99. Rambo, "Newspaper Companies Go Back to Basics," 23. [Statement attributed to Christopher Shaw, chairman of Henry Ansbacher Inc.]

newspapers will survive that [competitive] onslaught.”<sup>100</sup> The newspaper industry was emboldened by the belief that its business model, largely dependent on a local market monopoly, was well-suited to fend off threats from newcomers. The economic fundamentals of daily newspapers posed a huge barrier to entry for competitors. While radio and television (including cable systems) had made inroads in local market advertising over the decades, the newspaper model had not cracked. Daily newspapers remained hugely profitable and were at the forefront of the local media economy.

Newspaper companies also began to assume that audience fragmentation brought on by cable television and other forms of technology-based media would benefit them over time. As one executive for Tribune Co. surmised, the local newspaper franchise would flourish as this fragmented audience sought an information “starting point” and “needs a single, reliable resource.”<sup>101</sup> Even the physical form of the newspaper received newfound respect in the mid-1980s as cabletext was deemed too passive and videotext too slow and plodding. Said one newspaper broker: “the portable, clippable smorgasbord that (readers) get in their daily newspaper is a cost-effective package that will be very hard to improve upon.”<sup>102</sup> The juxtaposition of these more positive views with those expressing failure in the wake of Viewtron’s demise as discussed in Chapter Two reflect the dichotomic nature of the newspaper business in the 1980s.

## **Conclusion**

Newspaper companies were indeed successful businesses and the industry had weathered numerous competitive battles, but concern about the risk from new technologies influenced executive action more than any other business fundamental during this era. This led newspaper companies to embrace opportunities in the cable television market at the beginning of the 1980s with the same initial exuberance as they had demonstrated for videotext projects during this period.

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100. Ibid. [Statement attributed to Bruce Thorp, newspaper securities analyst with Lynch, Jones & Ryan.]

101. Ibid., 30. [Statement attributed to James Longson, vice president of corporate development with Tribune Co.]

102. Ibid. [Statement was attributed to Lee Dirks of Lee Dirks & Associates.].

A significant underlying influence on the decisions to invest in cable television—although rarely addressed straightforwardly by newspaper industry executives—stemmed from the concern that emerging technology would alter a business model that, as noted earlier, had come to rely extensively on local monopoly control. Gomery, for example, asserted in a media economic analysis that “some sort of dramatic technological breakthrough” would be the most likely occurrence that would break the newspaper industry’s local market monopoly.<sup>103</sup> Newspaper industry leaders in the 1980s wanted to prevent that from happening. They wanted to own such a breakthrough and were exploring emerging technologies to determine how effective they would be in allowing the industry to gain an even stronger position in local markets. They specifically were interested in regaining a portion of the advertising revenue that had gone to local market television and radio as the electronic era took hold, first in the 1930s with radio, and later in the 1950s and 1960s with television.

When direct investments by newspaper companies in the emerging technologies did not provide the immediate payback that many newspaper executives expected, however, they were quick to withdraw from what they saw as expensive experiments. Many became comfortable with the notion that electronic distribution platforms had arrived, but were not close to supplanting the superiority of the printed newspaper. The prevalent industry sentiment was that since newspapers had not succeeded in either videotext or cable television, technology-based challenges were a distant threat at the very least. If newspaper companies themselves could not make a sustainable business case for videotext or cable television, this line of thinking went, then it was unlikely competitors would be successful in using those platforms against newspapers.

Nevertheless, the potential for what electronic distribution could become haunted the industry even as its members dismantled their electronic ventures. As a result of these ongoing concerns, the newspaper industry became fixated on making sure that if it did not exploit the potential of online media that no one else would either. The industry became especially adamant that a breakthrough in online media

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103. Gomery, “Media Economics: Terms of Analysis,” 58.

would not come from the telecommunications industry, which was also a beneficiary of local market monopolies. Although newspaper companies had partnered with cable television operators as discussed in this chapter and had worked closely with telecommunications companies on videotext projects as was explored in Chapter Two, the aftermath of both sets of activities resulted in a more insular newspaper industry.

Newspaper companies had no interest in partnering with the telecommunications industry as it had done with cable television. Instead, concern over the potential competition from the telecommunications industry escalated into public hostility and became a significant influence on the newspaper industry's activities in the 1980s. Despite the level of activity chronicled in this chapter and Chapter Two, it can be argued that the newspaper industry's most determined effort during the 1980s was the lobbying mustered in defence of its local markets against the telecommunications industry. Chapter Four examines the story of this effort and the heated political battle that ensued.



## Chapter Four:

# Newspapers React to Fear of Telecommunication Dominance

In 1979, AT&T—then the regulated monopoly provider of telephone service in the U.S.—conducted a “concept trial” for a service that would allow customers to “call a database to retrieve directory listings and other information such as sports results, time and weather.”<sup>1</sup> The trial was held only in Albany, New York, and AT&T mentioned the project only briefly in its annual report to shareholders released in the spring of the following year. The description was rather innocuous, noting that “information was displayed on a TV-like screen” and that more tests of the system were planned.<sup>2</sup> This event received little attention from consumers, but it sent shock waves through the newspaper industry’s executive ranks and contributed to what would be described later as “The AT&T ‘scare.’”<sup>3</sup> Newspaper publishers feared regulators would free AT&T to “become a major information provider in the pioneering days of various new telecommunications technologies.”<sup>4</sup>

This chapter examines how the newspaper industry reacted to the possibility of direct electronic competition from the nation’s telecommunications industry. Newspaper publishers already viewed the phone companies’ Yellow Pages directories as advertising competition, but the prospect of those vast encyclopaedic listings ported into an online database seemed like an unfair advantage from the perspective of newspaper publishers. This chapter explains how the newspaper industry sought to derail that perceived threat, and in doing so, provides insight into the newspaper industry’s evolving perspective of its market and competition in the early years of online media. The chapter explains that the newspaper industry’s lobbying campaign was successful in thwarting many of the telecommunications industry’s plans in the 1980s and early 1990s, but the result was as an industry perceived by the mainstream as defensive and protectionistic; interested only in protecting its local market monopoly.

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1. *American Telephone and Telegraph Company*, “Directory and Public Services,” 12.

2. *Ibid.*

3. Criner, “Telecommunications History Is Short but Stormy,” 24.

4. *Ibid.*

A brief summary of the telecommunications industry regulatory environment that existed during the early 1980s opens the chapter to provide context for explaining the newspaper industry's position. The chapter then explores the intense rhetoric that emanated from the newspaper industry's lobbying effort designed to influence regulation that would restrict how the telecommunications industry could participate in the electronic information services market. The breakup of AT&T is discussed as a milestone event, including its aftermath when the regional Bell operating companies emerged as powerful forces in the telecommunications industry and emerged as new forms of competition for the newspaper industry.

In Chapter Two, this thesis examined the newspaper industry's early videotext projects, while Chapter Three explored the industry's investments in cable television. The decisions recounted in those chapters—to close Viewtron and similar electronic endeavours and to abandon cable television investments—combined with the regulatory stance against the telecommunication industry to frame the newspaper industry as in retreat. Without any clear victories in the electronic realm by the late 1980s, the earlier optimism that newspaper companies would lead the way in online media had faded. Therefore, the events and issues discussed in this chapter are an important bridge in understanding how the newspaper industry evolved as it did in the years leading up to the Internet.

## **Regulatory Background**

Due to several long-standing consent decrees and regulatory rulings by the U.S. Justice Department and the FCC, the nation's telephone system as represented by AT&T was not allowed to expand into businesses outside the scope of its status as a common carrier of communications services.<sup>5</sup> The effects of those restrictions were debated because many viewed the telephone wire leading into homes and businesses as the natural way to access the myriad of electronic information services that were looming on the horizon. Keeping the owner of those wires from profiting from such information services seemed counterproductive to those who believed the restrictions would stifle innovation. Others, however, believed AT&T and its Bell operating companies would use monopoly power to thwart competitive services, which would also undermine innovation.

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5. Noam, "Towards an Integrated Communications Market: Overcoming The Local Monopoly of Cable Television," 245.

The emergence of cable television during this period was a major factor in shaping the debate surrounding the future of the country's telecommunications infrastructure. As cable television expanded, it became another wire into the home and represented the possibility of real competition for the telecommunications industry in the delivery of information services. As Noam wrote in 1982:

The entry of cable television into the American household was not planned as part of an alternative telecommunications system. But now that it is becoming a fact, one should make the most of it.... It will not be feasible to contain the possibilities of the technology and to deny their services to consumers. If technology is destiny, it spells out a future of integrated telecommunications.<sup>6</sup>

Noam's observation that cable television's influence in the market was an unplanned event underscores how the spread of technology in the early 1980s confounded regulators and policymakers.<sup>7</sup> It was the time when the clear boundaries that separated television and telecommunications began to disintegrate and new ideas about information services began to take shape. How the country should regulate within this new environment—especially as it concerned the future of AT&T—became one of the most important policy issues of this era and is addressed in the following section.

### ***The AT&T Conundrum***

The most fundamental decision confronting the U.S. government regarding its policies toward media technology and information services related to the course of action to take with AT&T. One option was to preclude AT&T from directly participating in information services “on the grounds that a common carrier may not simultaneously act as a processor of data for public service.”<sup>8</sup> Another option was to follow the lead of several Western Europe democracies, which had granted extensive authority to their telecommunications and postal monopolies to introduce new electronic information services. Smith noted that if the U.S. followed that model, it could “make AT&T the focal point of a vast expansion into the role of national data storage and disseminator.”<sup>9</sup> Any change enacted by the government would alter the

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6. Ibid., 257.

7. Noam's comments also foreshadow the events of the early 1990s when the emergence of the Internet as a consumer medium was also unplanned and challenged the regulatory environment in much the same way.

8. Smith, *Goodbye Gutenberg: The Newspaper Revolution of the 1980's*, 306.

9. Ibid.

telecommunications market that had operated under a consistent set of rules for more than two decades.

AT&T and the federal government had entered into an antitrust consent decree in 1956 that had defined AT&T as a common carrier and restricted it from providing information services directly to consumers. By the 1980s, however, Congress and the FCC understood that changing technology would make it necessary to revisit the nation's telecommunication policies. In early 1980, for example, the FCC proposed rule changes to allow AT&T to offer data retrieval services through a subsidiary.<sup>10</sup> It was proposals such as this that raised the ire of the newspaper industry, which argued that a regulated monopoly had an unfair advantage in the marketplace and that it would use that power to keep competition from developing. The argument that a separate subsidiary would create transparency and prevent AT&T from leveraging its telephone monopoly to its advantage in information services held little sway with newspaper publishers.

This chapter is not intended to recount all the regulatory and political machinations that led to a new consent decree that broke up the AT&T monopoly. Rather, its purpose is to explore how the newspaper industry reacted to the shifting telecommunications landscape that led to the break-up and paved the way for a major rewrite of the national telecommunications law. During this period, the newspaper industry became a powerful lobbying force in the public debate over telecommunications policy. The newspaper industry's actions relating to telecommunications policy shaped its approach to the information marketplace and altered its public image during this period. What were AT&T's positions that provoked the newspaper industry's response?

### *AT&T's Stance*

Regardless of how regulations were changed, telecommunications industry observers were convinced that AT&T's presence in the electronic marketplace would be huge. Given the monopoly's power and position, it would have been unfathomable in the early 1980s to think the government would prevent AT&T from playing a leading role in developing information services. After all, the research and development capabilities of the company's Bell Laboratories unit had achieved legendary status

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10. Rambo, "AT&T's Home Video Plans Eyed Warily," 48.

and AT&T executives anticipated with excitement the possibilities of the emerging information marketplace.

In the letter to shareholders included in the AT&T 1980 Annual Report, company Chairman Charles Brown wrote that “no longer do we perceive that our business will be limited to telephony or, for that matter, telecommunications. Ours is the business of information handling, the knowledge business.” He stated that “it appears to be widely if not universally agreed that—in an era of intensifying competition—it no longer makes sense to deny the Bell Systems the opportunity to compete in unregulated markets.” He concluded, “The technology of the Information Age is ours. Indeed it was Bell System technology that very largely brought it into being. And it is Bell System technology that positions us to fulfill its opportunities.”<sup>11</sup>

Pontificating about the potential of new information services markets was easy, but Brown understood that capitalizing on those opportunities would require disarming potential adversaries and influencing key politicians and regulators. Brown knew that AT&T’s critics included the powerful newspaper industry, which prompted him to accept an invitation to address a gathering of influential newspaper executives. But rather than win over any converts from the ranks of the newspaper industry, the meeting is recognized as the opening salvo in a war of rhetoric.

## **Newspapers, AT&T Launch War of Rhetoric**

When AT&T’s Brown stepped to the podium during the meeting of the newspaper trade association’s telecommunications committee in early 1980, he initially sought to calm a contentious atmosphere. Brown told the committee that the newspaper industry’s fears were unfounded and that publishers were “seeing ghosts under the bed.” He elaborated: “If what you’re concerned with is, ‘Are we going to provide a news bank?’ the answer is no. We’re not interested in that.” He said that AT&T had no plans to field its own newsgathering operation and that concerns over the company’s intentions were overblown. “I think you’ve reached quite a long way if you think we’re interfering with the freedom of the press,” he said.<sup>12</sup> However, if Brown’s appearance before the publishers’ committee was designed to appease the newspaper industry as AT&T sought reductions in its regulatory restrictions, the

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11. Brown, “Report of the Chairman of the Board,” 2.

12. Rambo, “AT&T’s Home Video Plans Eyed Warily,” 48.

strategy did not work. During his remarks, Brown suggested that “a philosophical difference” existed if the newspaper industry felt that the restrictions on information dissemination placed on AT&T extended to such content as weather and sports scores.<sup>13</sup> AT&T viewed such material as commodity data rather than news because it required no editorial judgment to collect and distribute. It was an early admission that AT&T was, in fact, interested in collecting and distributing information that newspaper companies felt went beyond its charter. But the difference—philosophical or otherwise—regarding the definition of news content was not the focus of the disagreement. The newspaper industry was more alarmed by AT&T’s plans in the area of advertising services.

Given the phone company’s enormous directory publishing business at that time, newspapers felt especially threatened by the possibility of those directory listings being used to populate online services that would compete directly with newspaper classified advertising. Brown was asked whether AT&T planned to enter the classified advertising arena through online services. Brown said AT&T did not want to be “excluded” from services that relied on technologies AT&T was actively developing.<sup>14</sup> It was not the response the newspaper industry wanted to hear. Brown’s remarks—candid and delivered in person—galvanized the newspaper industry and unified its leadership in opposition to AT&T’s effort to reduce regulatory restrictions. The following section explores how the newspaper industry responded in the wake of Brown’s presentation.

### ***The Newspaper Industry Responds***

Before the meeting with Brown, newspaper publishers conceptualized information services in terms of some future technology. Following the meeting, however, newspaper publishers were more concerned about the immediate ramifications of AT&T’s actions. Brown’s comments had the unintended consequences of turning AT&T into a tangible threat. The general counsel for the newspaper industry’s trade association later mockingly referred to the event as the time “Charlie Brown came to dinner,” but seriously added how Brown’s appearance changed the newspaper

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13. Ibid., 49.

14. Ibid., 48.

industry's thinking about "the future electronic information marketplace."<sup>15</sup> He wrote:

What became obvious ... was that while AT&T said it had no plans to hire its own news staff, it clearly had designs on the electronic publishing of the future. This included aspects of the business in which AT&T's control of monopoly telephone services and facilities could pose severe anticompetitive threats to future electronic publishing competitors.<sup>16</sup>

The newspaper industry's leading attorney recalled Brown's presentation as the impetus for setting in motion the trade association's unprecedented lobbying effort "to try and modify and, if necessary, oppose legislation ... that would have given the green light to AT&T's electronic publishing plans."<sup>17</sup> Despite the newspaper's industry's own hefty revenue and profits during this period, its first salvo in the lobbying effort portrayed AT&T as an even larger enterprise that could not be trusted to grow larger through new information services businesses.

Soon after the meeting with Brown, the chairman of the newspaper industry's telecommunications committee issued a statement that summarized the newspaper industry's position and called for Congressional action to prevent the FCC from easing the competitive restrictions on AT&T:

AT&T has a revenue base that is larger than the sales of the newspaper, television and radio industries combined. Under federal protection, this giant company has developed an electronic distribution network that reaches more than 90 percent of the homes in its markets. The action by the FCC raises serious, unanswered questions concerning the ability of newspapers to be able to compete fairly in this environment. This focuses even greater attention on just how the Congress will deal with this issue.<sup>18</sup>

The newspaper industry's leadership was adamant in its rhetoric that an unleashed AT&T would be detrimental to the country's free press. However, the industry's collective decision to intervene in the legislative and regulatory rulemaking process through a lobbying effort carried out by its trade association was a radical departure in tactics. And, it was an effort not without critics.

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15. Maguire, "How the Diversity Principle Became the Law of the Land," 23. [W. Terry Maguire was the ANPA's vice president and general counsel.]

16. Ibid.

17. Ibid.

18. Rambo, "AT&T's Home Video Plans Eyed Warily," 48. [Statement attributed to Robert Marbut, CEO of Harte-Hanks Communications Inc., who was chairman of the industry's telecommunications committee.]

Fink recounted this period as a time when “incredibly, the newspaper industry blindly closed ranks” and “lobbied Congress and the public to keep telephone companies out of the information business.”<sup>19</sup> Fink asserted that the newspaper industry had taken a position that ran counter to its historical role of supporting freedom of expression. He wrote:

Newspapers, which since Colonial times demanded the right to free expression, positioned themselves in public perception as arguing that telephone companies should be denied that right. No industry in modern times has made a worse strategic error. Newspaper executives somehow decided they could lobby away new competitors and, with them, a new, exciting technology. It was as if horse ranchers and carriage makers had lobbied Congress to keep Henry Ford from building automobiles.<sup>20</sup>

The following section of this chapter explores the issues that caused the newspaper industry to react so passionately and explains how that resulted in altering decades of industry behaviour as industry’s lobbying campaign unfolded.

### ***The Newspaper Industry and Political Lobbying***

As proposed legislation was debated in the Congress regarding the proper role for AT&T, the FCC agreed to a further review of its proposed regulatory changes. Therefore, the issue was active both in the legislative arena of Congress and in the regulatory forum of the FCC. The newspaper industry’s lobbying effort was aimed at both fronts and took on the intensity of a political campaign as industry leaders urged lawmakers to refrain from enacting legislation hastily that would affect telecommunications policy for decades to come. They also urged regulators to take a holistic view of the marketplace when deciding how to implement rule changes.

The executive leader of the newspaper industry’s trade association framed his group’s opposition to AT&T in the form of a question he posed to lawmakers and regulators:

Should the nation’s largest company, AT&T, which has grown and operated under specially granted monopoly privileges, be permitted on any scale to involve itself actively not just in the common-carrier transmission of information but also in the selection, editing and vending of that information to the public in a mass-media or data-

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19. Fink, *Strategic Newspaper Management*, 16.

20. *Ibid.*

retrieval sort of structure which in the United States raises the most basic sorts of social, constitutional and anti-trust concerns?<sup>21</sup>

The approach represented by such statements was risky politics for the newspaper industry. By discussing the size and scope of the telecommunications industry, the newspaper industry risked having its own profit levels scrutinized by the government. In discussing monopoly power, the newspaper industry also risked comparisons to its own position in local markets where a single newspaper company often dominated the advertising market during this period. Furthermore, by raising the spectre of antitrust concerns the newspaper industry risked legislative review of its own antitrust exemptions that allowed several companies to operate newspapers under joint operating agreements.<sup>22</sup>

The willingness to open the debate on so many fronts underscored how serious the newspaper industry believed the threat from AT&T to be; but as noted, the act of getting so involved in the law-making process marked a dramatic change for the newspaper industry. LeGates observed that prior to this period “the newspaper business has enjoyed a kind of moral aloofness from lobbying or pressuring the government on its own behalf,” but he added “We see this era drawing to a close.”<sup>23</sup> LeGates wrote that such involvement stemmed from the newspaper industry’s recognition that its marketplace was changing:

ANPA last year chose to intervene in the legislative process, not on a bill focused on the newspaper industry, but on one ... whose intended thrust was telephone deregulation. This was but one of a string of interactions and confrontations with parts of the information industry newspapers never had to worry about before. That time is gone; newspapers today must adjust the perspective from which they long have viewed the information world.<sup>24</sup>

It is important to understand that within the timeline of this thesis, the lobbying effort against the telecommunications industry’s entrance into information services occurred simultaneously with the newspaper industry’s own forays into videotext and cable television ventures that were discussed in Chapter Two and Chapter Three.

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21. Rambo, “Legislative Activity Focusing on AT&T Deregulation Bills,” 44. [Statement attributed to Jerry Friedham, who was executive vice president and general manager of the ANPA.]

22. According to the NAA, “The Newspaper Preservation Act of 1970 was created to preserve a diversity of editorial opinion in communities where the market no longer supported two competing daily newspapers. Editorial operations under a Joint Operating Agreement remain separate; all other operations are combined,” <http://www.naa.org/info/facts04/joa.html>.

23. LeGates, “Many Noses Being Poked Under Information Tent,” 25. [John LeGates was director of Harvard University’s Program on Information Resources Policy.]

24. *Ibid.*, 23.

Within this context, the initial lobbying effort also can be viewed as simply another early reaction to the changing marketplace; another attempt to regain footing in the shifting sands of technology change. By holding the telecommunications industry at bay, newspaper companies believed they would have more time to develop their own presence in electronic information services as the market evolved.

In any case, the newspaper industry's actions on so many fronts contributed to confusion about its position and ultimate motives. In the stance against AT&T, the newspaper industry argued that electronic services were a threat, as LeGates observed. However, the newspaper industry's own investments in numerous early electronic information services illustrated how they "may be ... not a threat but an opportunity." The newspaper industry's own relationship with the telecommunications industry as a customer—in some cases availing itself to controversial discounted rates—further complicated the rhetoric.<sup>25</sup> Even as newspaper industry leaders were ramping up their war of words against AT&T, companies within the industry were extending their ties with the telecommunications company. As was discussed in Chapter Two, for example, AT&T was Knight-Ridder's technology partner in launching the Viewtron service. These arrangements between telecommunications companies and newspaper companies during this period demonstrate the complexity of the relationships and show that the exchanges were not always adversarial.

Even though much of the newspaper industry's early rhetoric was cast in the semantics of keeping the flow of news and information out of the hands of a giant regulated monopoly, protecting advertising revenue was a central part of the newspaper industry's agenda. Indeed, some 15 years later, the newspaper industry suffered deep erosions in its advertising revenue as it confronted numerous online competitors such as Monster and Google, which underscores how the industry's concerns about advertising revenue were well-placed. This issue will be discussed in later chapters as well given that advertising always played an important factor in how newspaper companies approached online media. At this juncture, however, newspapers were hearing dire warnings about the potential competition. LeGates, for example, stated that "One of the major challenges facing newspapers in the coming years will be to preserve the income stream from advertising." LeGates specifically discussed the threat to classified advertising—which he called "one of the mainstays

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25. Ibid., 25.

of the newspaper income stream”—posed by the emerging telecommunications and computer technologies:

This advertising is for all practical purposes a data base service, albeit one that is offered on paper. Other companies could easily offer it by computer. The advantages of computer readable classified advertising are quite convincing. It could be up-to-the-minute, searchable by the reader and contain other properties that may be indexed.<sup>26</sup>

Nevertheless, the newspaper industry’s position refrained—for the most part—from discussing the advertising issues outright. Rather, the lobbying effort put forth a position that became known as “the diversity principle.”<sup>27</sup>

Newspaper leaders argued that if AT&T was allowed to enter the information services business unfettered, its control of the network over which the information flowed would lead to a reduction in competition because of the inherent advantages AT&T would have in the market. A newspaper industry lawyer created the phrase “diversity principle” to explain the industry’s view that there was a “need to separate content from conduit in emerging, telephone-based, electronic information systems.”<sup>28</sup>

Newspaper leaders described the information marketplace in the early 1980s as extremely diverse with more than 1,700 daily newspapers, 7,500 non-daily publications and more than 10,000 magazines. They claimed that such diversity of titles meant that competition was alive and well in the printed information market, but that landscape would be diminished “when AT&T, the world’s largest corporation, controlling over 80 percent of the telephones, decides to become an information provider over its own local exclusive distribution system.”<sup>29</sup> The newspaper industry’s position was simple: Congress had to ensure that AT&T remained regulated at least to the extent to which it could use its own network for the dissemination of information services.<sup>30</sup>

The newspaper industry’s position attracted critics. Kinsley, for example, accused newspaper publishers of trying to protect their own local monopolies by keeping a national monopoly out of the business. He cited this statistic: “Of 1,560

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26. *Ibid.*, 24.

27. Maguire, “How the Diversity Principle Became the Law of the Land,” 24.

28. *Ibid.*

29. Marbut, “Confronting the Telecommunications Issue,” 29.

30. *Ibid.*, 31.

American cities with newspapers, only 34 have true newspaper competition.”<sup>31</sup> Kinsley’s position was that the newspaper industry argument was not altruistic, but rather self-serving. He wrote: “The publishers don’t really fear an AT&T monopoly on the news. What they really fear is losing their own monopoly on local advertising.”<sup>32</sup> Kinsley was critical of newspapers for using their own editorial pages to espouse the industry agenda. He said the industry’s position contained “complete inversions of meaning,” and concluded:

The publishers want government restrictions on market entry, and call it promoting “diversity.” They want to protect their monopoly in the name of “competition.” They talk about the “marketplace of ideas” when they really mean the marketplace of advertising, and they warn of the “peril” of restricting commercial speech when they really want to restrict commercial *and* noncommercial speech.<sup>33</sup>

Despite such criticism, the lobbying effort was deemed successful by newspaper industry leaders who believed their intervention prevented legislation from passing in the early 1980s. Moreover, the diversity principle, which the newspaper industry created, became an important tenet within the country’s ongoing telecommunications policy debate. With Congress lacking the votes to pass sweeping telecommunications reform in the early ‘80s, the fate of AT&T was left to the federal courts overseeing an antitrust suit brought by the government against the AT&T phone monopoly.

## **The Breakup of AT&T**

In January 1982—about a year after an antitrust trial had begun—AT&T and the U.S. government entered into a new consent decree designed to settle the case. It was a sweeping agreement to break-up the monopoly phone system into a “new wholly competitive AT&T” and a collection of regulated Bell operating companies that would be owned by seven regional holding companies.<sup>34</sup> The target date for the break-up was set for January 1, 1984. The agreement gave AT&T the freedom it had sought to explore some new telecommunications markets, but it barred the new AT&T from electronic publishing for at least seven years to give competition time to become established in what was considered a nascent market.<sup>35</sup> The court also allowed the regional Bell companies to offer information gateway services and to

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31. Kinsley, “The Latest Moos: Newspaper Publishers Protect Their Cash Cows,” 21.

32. *Ibid.*, 22.

33. *Ibid.*

34. Cole, Barry G., *After the Breakup: Assessing the New Post-AT&T Divestiture Era*, 8-11.

35. Rambo, “Court Approves AT&T Consent Decree,” 10.

provide a unified billing methodology for them. In subsequent rulings a year later, the court said the regional Bell companies also could provide other information services such as voice storage and retrieval services as long as they did not include “content generation or content manipulation.”<sup>36</sup>

The newspaper industry trumpeted the AT&T breakup as a “victory” and applauded the ruling by Judge Harold C. Greene, which prevented AT&T’s immediate entry into the broad electronic publishing industry on grounds that it could undermine the “First Amendment principle of diversity.”<sup>37</sup> The judge stated: “AT&T’s mere presence in the electronic publishing area would be likely to deter other potential competitors from even entering the market.” He added, “AT&T’s ability to use its control of the interexchange network to reduce or eliminate competition in the electronic publishing industry is the source of this threat.”<sup>38</sup> While the fine print of Judge Greene’s order defined for the newspaper industry what would be considered commodity information going forward, the industry reveled in the notion that the diversity principle it put forth had become, in essence, the “law of the land.”<sup>39</sup> AT&T was allowed to remain a provider of basic directory listings of name, addresses, and phone numbers as well as recorded time and weather information, but the newspaper industry had achieved a seven-year window in which to exploit the online information without competition from the telecommunications industry.<sup>40</sup>

During the time leading up to the historic consent decree, AT&T’s Brown had returned to the newspaper industry association again as a featured speaker. A trade journal’s account of the appearance said Brown “expressed amazement at the extent of the negative attitude toward AT&T within the newspaper industry” when he acknowledged that he had been identified “only half-jokingly ... as the enemy.”<sup>41</sup> The overall nature of Brown’s remarks, however, was conciliatory. He told his audience that while a revamped AT&T did not want to be precluded from the electronic “Yellow Pages” business, the ownership structure supporting that business was less important. “We don’t care who owns the data base. We make our money on the transmission,” he said. He called proposed legislation to bar his company from the business of information services “protectionism,” but added that he had grown

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36. Cole, Barry G., *After the Breakup*, 11.

37. Rambo, “Court Approves AT&T Consent Decree,” 10.

38. *Ibid.*, 11.

39. Maguire, “How the Diversity Principle Became the Law of the Land,” 23.

40. Rambo, “Court Approves AT&T Consent Decree,” 10.

41. *Presstime*, “Convention Report: AT&T’s Brown Rebutts Press Concerns,” 21.

“weary” and had “no stomach for argument over turf.”<sup>42</sup> In a nod to the newspaper’s industry’s successful lobbying effort, he told the publishers you “can get pretty much whatever you want” in terms of new legislation, and encouraged them to think of the AT&T that would emerge as a potential partner:

It is left largely to your own judgment as to how far you want to go to build fences around your primary communications supplier.... It is evident to me that what my business, telecommunications, and your business, publishing, should be debating is the prospect for collaboration.<sup>43</sup>

In retrospect, Brown’s remarks foreshadowed his company’s decision to sign the new consent decree a few months later. AT&T executives understood the political climate made it unlikely for them to win any major concessions in Congress. The consent decree, therefore, became the most plausible way for the company to remove the cloud of the antitrust suit in order to move forward.

### *The Aftermath of the Decree*

Initially, newspaper executives touted the virtues of the decree as fair to all parties involved. Marbut stated, “Nobody walked away with all the marbles, but everybody walked away with some of what they wanted for their own special interests.”<sup>44</sup> However, as details emerged regarding the practical application of the consent decree, it became clear that AT&T would have more opportunity to compete in the electronic marketplace than was originally thought to be the case by the newspaper industry. As Mowshowitz stated: “... AT&T’s newly won freedom to enter unregulated markets puts it in a position to compete with the publishing industry in providing information services.”<sup>45</sup> As this became more and more evident during the two-year period between the announcement of the new consent decree and the actual break-up of AT&T, the newspaper industry’s language of “victory” turned more cautious with phrases such as “mixed blessing” and “tone of uncertainty” creeping into industry articles about the unfolding events.<sup>46</sup>

On the one hand, newspaper companies began to view AT&T as a potential customer for information services they could create. On the other, as the terms of the consent decree became more widely understood, newspapers began to feel that the

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42. Ibid.

43. Ibid., 21-22.

44. Rambo, “Court Approves AT&T Consent Decree,” 10.

45. Mowshowitz, “Scholarship and Policy Making: The Case of Computer Communications,” 5.

46. Rambo, “Divestiture: How Will Breakup of Ma Bell Affect Newspapers?” 10-11.

competitive threat from AT&T was far from neutralized. While the agreement precluded—until at least 1989—AT&T from offering electronic information services over the long-distance lines it would still control, there were no restrictions that prevented it from creating services that could use the lines of its new children, the regional Bell operating companies. There also was growing concern among publishers that their phone service rates were about to soar in a deregulated environment.<sup>47</sup>

Nevertheless, on the eve of the break-up, AT&T was engaged in numerous partnership discussions with a variety of newspaper companies and said it was optimistic that arrangements could be made for newspapers to provide AT&T with editing and newsgathering services as it expanded its product offerings.<sup>48</sup> As one media consultant put it, “Deregulation has set in motion a series of events that newspapers can see either as a threat or opportunity.”<sup>49</sup> When viewed in those terms, the newspaper industry was in the exact same position following the breakup of AT&T as it was before: pondering how to react to perceived threats while at the same time considering how to exploit the opportunities arising from the changing marketplace.

### *A Period of Complacency*

As 1984 came to a close—the end of the first year of AT&T’s breakup—the newspaper industry decided that it was “quite clear that electronic publishing will not evolve as quickly as once predicted,” wrote Criner and Wilson, both telecommunications policy officials for ANPA.<sup>50</sup> Many issues remained far from settled given the expectations that AT&T and the regional Bell companies would be petitioning the court for permission to penetrate the information services in ways the original agreement prevented. Nevertheless, Criner and Wilson wrote that due to the slower than anticipated pace of change “... interest has cooled, some publishers have grown complacent.”<sup>51</sup> In a follow-up essay assessing the newspaper industry’s position at mid-decade, Criner was outwardly critical of the industry. She acknowledged the industry had experimented in a number of information services

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47. Ibid.

48. Ibid., 10.

49. Ibid. [Statement attributed to Christopher J. Burns who was identified as an independent consultant.]

50. Criner and Wilson, “An Uncertain Marketplace Takes Telecommunications Toll,” 23.

51. Ibid.

ventures “with mixed results,” but she stated that “newspapers have relinquished their leadership role in electronic publishing.”<sup>52</sup> She concluded the essay with a warning to her association’s membership:

Newspapers that have adopted a “wait and see” posture toward electronic publishing may find someday that entry costs and the learning curve are steeper and longer than anticipated.... Telecommunications equals competition. As newspapers reflect on the next five years, they must look beyond their traditional industry boundaries at a host of competitors who are developing new products and services. In many cases, those products won’t compete directly with newspapers, but they may begin to nibble away at newspaper revenues....<sup>53</sup>

Despite such cajoling from the leading trade association, newspaper publishers remained cautious and did not rush to back any significant electronic services initiatives. As noted in the previous chapters, newspapers around this same time had retreated from their cable television experiments and were winding down several videotext initiatives. The overall decline in electronic services activity reflected the refocus on the core printed product that was discussed in Chapter Two. However, when this retrenchment is juxtaposed with the lobbying against the telecommunications industry, the newspaper industry came across, according to Fink, as “self-serving, 20<sup>th</sup> century Luddites.”<sup>54</sup>

Nevertheless, newspapers began to deploy a wide array of voice services offered over the telephone in what became known as audiotex.<sup>55</sup> Several newspapers, such as *The Houston Chronicle*, offered information including sports scores, stock quotes, and weather, through a phone service as part of a promotional effort without the intention of making money. Other voice projects were intended to be money-makers, but one of the more ambitious examples undertaken by *The Los Angeles Times* was shutdown when expectations were not met after only seven months in operation.<sup>56</sup> The ANPA reported that less than 20 newspaper companies were operating voice information services in 1987, which led one executive to observe that

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52. Criner, “Newspapers at Mid-Decade and Beyond: Telecommunications,” 26.

53. Ibid.

54. Fink, *Strategic Newspaper Management*, 16.

55. Rambo, “Audiotex: Dial-up Services Now Provide Weather, Sports Scores; Could Bridge the Gap to More Complex Systems,” 28.

56. Ibid.

most newspapers were merely “dabbling” with such technology.<sup>57</sup> The number of papers involved with such services grew over the latter half of the decade. At least 75 papers were offering free audio services, while about 600—nearly a third of all newspapers—were selling paid content through phone-based systems by 1991.<sup>58</sup> Newspaper executives viewed such projects as low-cost ways to explore alternate methods of information delivery, but they were never embraced by large but in large numbers by a public waiting for the promises of the Information Society rhetoric.

### *A Period of Wary Cooperation*

The voice-based projects initially fostered an increased dialog between the telecommunications and newspaper industries in the mid-1980s. Executives from both industries held a series of meetings in an attempt “to cultivate common ground and nurture alliances.”<sup>59</sup> In the summer of 1985, representatives of various newspapers and telephone companies espoused a goal of creating “an efficient national videotex network in which the Bell companies supply the transmission lines and newspaper-owning companies provide information.”<sup>60</sup> Such a national platform never materialized, but the discussion of it contributed to pockets of regional cooperation. Once the Bell companies were cleared to provide information gateway services, several newspaper companies pursued partnerships with them. In one example, Cox Enterprises, the publisher of *The Atlanta Journal-Constitution*, launched an information service in connection with BellSouth, then the regional Bell company responsible for providing telephony services in the Southeast.

The service initially focused on movie reviews, a content area devoid of much of the controversy surrounding the issue of defining news. Nevertheless, the relationship between the newspaper company and BellSouth soon became contentious. The newspaper company charged BellSouth with failure to live up to its promotional timetable and said BellSouth was unwilling to share pertinent market information. BellSouth denied the allegations, but the incident is an example of how distrustful the newspaper industry was of the telecommunications industry at this time.

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57. Genovese, “‘VIS’ion of the Future: ‘Voice Information’ Offers a Relatively Low-Cost Way to Dabble in New Telecommunications Services,” 24. [The observation was attributed to Robert Johnson, publisher of *Newsday* and chairman of the ANPA’s telecommunications committee.]

58. Potter, “How to Build Your Own Audiotex System,” 10.

59. Friedman, “Waivers: Bell Regionals Get Green Light to Expand into New Areas,” 14.

60. *Ibid.*

The president of Cox Newspapers testified before a congressional subcommittee that his experience convinced him that if allowed to enter the information services business directly, the telephone companies would use the control of the network to create “a home field advantage.” He added, “To hurt other players [regional Bell companies] can be just a little bit slow in handling service problems. They can drag their feet in sharing market data. In subtle ways, they can deploy their own advanced technology to favor their own services.”<sup>61</sup> The notion that the telephone companies would use their own technology to their advantage, while creating a disadvantage for competitors was a recurring theme of the newspaper industry argument. However, it was usually theoretical posturing. The allegations were taken more seriously when the president of a large newspaper company testified that his company actually had experienced heavy-handed tactics by one of the Bell operating companies.

### ***Action vs. Inaction***

Judge Greene in 1987 reaffirmed his ruling that the “diversity principle” was an important construct to protect and continued to restrict the information services business in which AT&T and its offspring could engage.<sup>62</sup> The ruling angered AT&T and Bell officials who “had launched a major campaign to be freed from the restrictions in the consent decree,” but newspaper executives again declared victory.<sup>63</sup> This time, an industry executive from within trade association’s leadership argued the victory came with an obligation to invest in developing new services. Johnson wrote that “newspapers must take action or forever be prepared to live with the consequences of inaction.” He further explained his position:

... both the court and perhaps Congress will also be looking to see if the proponents of the Diversity Principle are actually willing to invest in development of the information industry, or whether they are simply using policy arguments to protect their own vested interest.... The time for standing behind a policy position is over. Newspapers will be asked to put up or shut up.<sup>64</sup>

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61. *Presstime*, BellSouth, ANPA Clash Over Progress of Gateway,” 64. [Statement attributed to David Easterly, president of Cox Newspapers.]

62. *Presstime*, “‘Diversity Principle’ Reaffirmed,” 42.

63. Johnson, “Use It or Lose It: Electronic Publishing; Between Now and 1990, Newspapers Must Act to Convince the Court They Are Serious about Offering High-Tech Information Services,” 10. [Robert Johnson was publisher, president and chief executive officer of *Newsday* in Long Island, NY, and also chairman of the ANPA telecommunications committee.]

64. *Ibid.*, 12.

Johnson's remarks reflected a personal passion, but he did not provide a convincing portrait of an industry about to be mobilized into action. Instead, the newspaper industry during this period drifted toward ambivalence regarding its role in the electronic services marketplace.

Johnson described the mindset of many within the industry as "dangerous, myopic and not in touch with what is truly happening in the marketplace." He observed that court rulings favouring the newspaper industry's position against AT&T had fostered complacency within the newspaper industry. Such complacency—when combined with the decisions of Knight-Ridder and Times Mirror to close their videotext projects—Johnson said resulted in a false sense of reality. He wrote that some: "... take comfort in the fact that electronic publishing seems to be a technology in search of a market. They conclude that there really was no threat to or opportunity for newspapers in the first place, making all the discussion surrounding Greene's decision so much wasted energy."<sup>65</sup> Johnson's activist rhetoric did little to sway the activities of the newspaper industry. Instead, industry leaders at the close of the 1980s positioned the newspaper industry's competitive circumstances in much less dire terms.

An industry conference held in Chicago in 1989 provides an example. Rather than issuing a call for action, Blethen told attendees that threats to newspapers from electronic information services were long-term in nature. "Technology won't replace us. Our readers aren't about to start calling up electronic newspapers on their computer screens," he said. "There is no single competitor that will crush us and no single bold stroke that can protect us.... To respond, every newspaper will have to take multiple steps. Solutions will vary from market to market."<sup>66</sup>

In a later presentation, Blethen deployed a phrase that summarized the newspaper industry's newfound approach to its telecommunications policy dilemma: "The threat is more imminent than the opportunity."<sup>67</sup> The phrase signalled that newspaper companies needed to continue to support the association's lobbying effort to keep the telecommunications threat in check during the short-term, but that it was also understood that newspaper companies were not expected to invest too heavily in technology until profitable markets emerged.

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65. *Ibid.*, 10.

66. *Presstime*, "Telecommunications Technology Beckons, But Is It a Boon or a Bane?" 46. [Frank Blethen was president and chief executive officer of *The Seattle Times* and succeeded Johnson as chairman of the trade association's telecommunications committee.]

67. *Presstime*, "Voice-Information Services Provide Successful Newspaper Ventures," 43.

Therefore, as the 1980s came to a close the newspaper industry was in a holding pattern in regards to its next technology initiatives. Instead, attention shifted to fighting a new enemy. As the telecommunications industry evolved, the threat from AT&T diminished. But the size and scope of the regional Bell operating companies increased significantly, which shifted the focus of the debate. The following section of this chapter explores the rise of the Bell companies and how the newspaper industry responded to a scenario it had not envisioned when AT&T was dismantled.

## The Bell Uprising

The end of the 1980s brought little in the way of resolution in the ongoing policy disputes between newspaper companies and the nation's telecommunications industry. If anything, the war of rhetoric grew more intense as the focus shifted away from AT&T in favour of the regional Bell operating companies that were established in the aftermath of the AT&T divestiture in 1984. In 1989, Judge Greene issued new rulings that kept these regional Bell companies from directly participating in information services. He stated, "There cannot be the slightest doubt that, should the regional companies be permitted to engage in information services on a more substantial scale, they would in short order dominate the information services market."<sup>68</sup> AT&T had filed its own petition to be freed from the restrictions<sup>69</sup> and eventually Greene relented in the case of AT&T, allowing that company into the electronic publishing arena. AT&T had already begun participation in a consortium along with Time Inc., Chemical Bank, and Bank of America on a proposed service built around home banking called Covidea.<sup>70</sup> There also were mounting efforts in Congress to back legislative reform that would overturn at least some of Greene's restrictions on the regional Bell companies.<sup>71</sup>

Once again, the newspaper industry's trade association prepared its members for another intense legislative fight on Capitol Hill, framing the industry's position again as a defence of the "diversity principle" that requires "a separation of content and conduit."<sup>72</sup> The regional Bell companies decided to take the fight directly to the

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68. *Presstime*, "Three BOCs Rebuffed in Bid to Offer Electronic Yellow Pages," 61.

69. *Presstime*, "AT&T Petitions Court for Removal of Electronic Publishing Curbs," 70.

70. Aumente, *New Electronic Pathways: Videotex, Teletext, and Online Databases*, 11.

71. Veronis, "The Bells Are Ringing: Newspapers and Telephone Companies Remain Adversaries Over Information Services, and This Year May be Critical," 14.

72. *Ibid.*, 15.

newspaper industry, filing briefs claiming that the court's refusal to allow them into the information services business violated their First Amendment rights.<sup>73</sup> An author specializing in the communications industry defined the two positions:

The [regional Bell companies] say they're being denied their First Amendment rights and should be allowed the freedom to publish electronically or otherwise as they see fit. ANPA argues that the First Amendment guarantees a diversity of free expression and that diversity would be subverted by allowing the [regional Bell companies] to enter the field as the provider of both the content and conduit of electronic information.<sup>74</sup>

It was essentially the same argument that had prevailed against AT&T earlier in the decade, but the evolution of the marketplace and advances in telecommunications technology caused judges to look at the situation differently.

In 1990, the U.S. Court of Appeals said Judge Greene was wrong in keeping the regional Bell companies out of the information services market and sent the issue back to his court for a retrial. Following nearly a year of additional legal wrangling, the regional Bell companies were free to enter the information services business using their own transmission lines in their own markets.<sup>75</sup> This turn of events triggered another intense lobbying skirmish between the newspaper industry and the regional Bell companies as the newspaper industry once again sought legislative intervention.

The newspaper industry returned to its earlier tactics and attempted to portray its opponent as the telecommunications equivalent of Goliath. Entering 1990, the seven regional Bell companies combined for more than \$77 billion in revenue, which included at least \$6 billion in Yellow Pages advertising. The nation's 1,600-plus daily newspapers had combined revenue of about \$45 billion.<sup>76</sup> Positioning itself as an industry that could be crushed by a giant, the newspaper industry launched an advertising campaign in many of the nation's leading newspapers designed to sway public opinion. The newspaper industry was joined by other businesses and trade associations with similar interests, such as the National Cable Television Association

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73. *Presstime*, "Regional Bell Companies Mount Strong Fight to Enter Electronic Publishing," 42.

74. Kahaner, "'Baby' Bells Grow into Giants: Newspapers Fear RBOC's May Become Information Providers Over Their Own Lines," 18. [Larry Kahaner was a founding editor of *Communications Daily* newsletter.]

75. Potter, "Changed Marketplace, Changed Attitudes: Newspapers and the Bells Have Changed Their Tone as They Seek Common Ground," 28-29.

76. *Presstime*, "Telecommunications Is a 'Pathway to the Future,'" 35.

and Dialog Information Services, in a print campaign that featured the slogan: “Don’t baby the Bells. Keep Competition alive.”<sup>77</sup> The ads read in part:

If the regional Bell telephone companies are permitted to provide their own information services, they will have the ability—and the incentive—to compete unfairly with the companies they now serve. The Bells will deny competitors the latest technological advances. They will even find ways to make telephone ratepayers foot the information-services bill.<sup>78</sup>

The regional Bell companies countered with their own ad campaign aimed squarely at the newspaper industry with the theme: “America’s Future. Too Important To Leave On Hold.” The campaign portrayed the newspaper industry as an obstacle to progress claiming that history revealed how newspapers tried to stop radio, then television ‘and now they’re trying to stop the benefits of the information age.’<sup>79</sup> The Bell ads read in part:

A revolutionary array of information services could be available to the American public through the regional Bell telephone companies. Americans could enjoy broad and affordable access to crucial information services in the worlds of education, medical services and entertainment. Many of these benefits are already available overseas. Yet America’s largest newspapers are fighting to deny them to the American people. Why? Because they fear the threat of competition. They are reacting as they historically have when new technologies offer people new information choices—radio, cable television and now, even new uses of the telephone.<sup>80</sup>

Despite such posturing and the introduction of several proposed bills, neither side could convince Congress to act in the early 1990s. This was largely due to the rapidly changing telecommunications landscape, which saw the emergence of new long distance carriers, local market telephone competition, data-specific networks and a rapidly expanding cellular industry. “Technology has superseded rules governing the industry broadly and the telephone companies specifically,” said a government affairs executive with U.S. West, then one of the regional Bell companies.<sup>81</sup> By the early 1990s, the rapid changes in the telecommunications industry made the argument between regional Bell companies and the newspaper industry over “information services” look almost archaic if not irrelevant. Lawmakers and regulators struggled with how to regulate the new

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77. Potter, “Papers Battle RBOC’s on All Fronts,” 54.

78. Ibid.

79. Ibid., 56.

80. Ibid.

81. Potter, “Bells’ Worries Range Far and Wide,” 28.

telecommunications marketplace; so much so that it would take Congress until 1996 to rewrite the nation's principal telecommunications law. And by then the Internet had begun to influence the market, which will be discussed in Chapter Six.

## **Discord Replaced with Partnerships**

As the newspaper industry took stock of its electronic publishing efforts as the '90s began, there were few tangible results following a decade that included periods of experimentation and investment and a relationship with the telecommunications industry that alternated between outright enmity and wary partnerships. A newspaper executive described the assortment of electronic publishing projects underway in the newspaper industry at this time as "augmentation media," which he said included low-cost videotext, voice services and news summaries delivered by facsimile.<sup>82</sup>

Cabletext had fallen out of the mix. And in regard to videotext, the executive reiterated that it represented a medium "a lot of people in our industry are trying to forget."<sup>83</sup> Facsimile editions had limited consumer appeal because most facsimile, or fax, machines were located in businesses, which discouraged personal use such as receiving a "faxpaper." Perhaps there was also a bias against a "new" medium that was not new at all, but one recycled from the pre-World War II era. As Light noted in a history of the facsimile, "from the 1920s through the 1940s ... facsimile was one of the most exciting innovations of its day,"<sup>84</sup> even attracting the participation of some of the nation's leading newspapers including *The New York Times*.<sup>85</sup> But more ironic than the return of facsimile-based newspaper editions was that much of the development of this "augmentation media" was undertaken through partnerships between newspaper companies and telephone companies.

At first, there was the perception that such arrangements were tantamount to breaking from the ranks and joining the enemy camp. For example, the publisher of the *St. Louis Post-Dispatch* said his company's discussions about projects with one of the regional Bell companies upset some of his industry colleagues. "We wanted to be loyal members of the club, but our own business interests had to come first," he

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82. *Presstime*, "Voice-Information Services Provide Successful Newspaper Ventures," *Presstime*, 43 [Statement attributed to James Lessersohn, manager of corporate planning for The New York Times Co.]

83. *Ibid.*

84. Light, "Facsimile: A Forgotten 'New Medium' from the 20th Century," 356.

85. *Ibid.*, 358.

said.<sup>86</sup> An executive with BellSouth, one of the regional operating companies, said other publishers expressed similar sentiments. “A lot of them believe there’s a way that we can work together,” he said, but with the lobbying battle that had taken place, “they don’t want to be the first or maybe even the second.”<sup>87</sup> By late 1993, however, newspaper companies were largely over such concerns. Newspapers and the regional Bell companies had more than a dozen joint projects underway.

For example, the *Chicago Sun-Times* partnered with Ameritech to create a phone-based fantasy baseball service; *The Rocky Mountain News* in Denver created a health newsletter delivered via fax in cooperation with U.S. West; *Newsday* teamed up with Nynex to launch an audio news service that used voice mail and a group of newspapers in Utah formed a consortium to create a classified advertising network with U.S. West.<sup>88</sup> Cox Newspapers, through its flagship paper *The Atlanta Journal-Constitution*, teamed up with BellSouth to offer voice information through a 511 service, a direct 3-digit dial number intended to boost usage of such services by providing an easier number for consumers to remember.<sup>89</sup>

Dow Jones & Co., the publisher of *The Wall Street Journal*, was perhaps the most prolific dealmaker with phone companies, even creating a “Telco Alliance” department.<sup>90</sup> It had projects with at least four of the regional Bell companies, including a reader line service in partnership with BellSouth and a cell phone-based information service with Southwestern Bell.<sup>91</sup> The Dow Jones manager of those alliances said the attitude regarding newspapers and telecommunications had evolved due to market realities: “The industry has matured. We have a better understanding now of what is involved with information services, and we’re better able to protect ourselves. The phone companies have gone through a similar maturation process. They realize they have to work with others.”<sup>92</sup> A telecommunications executive concurred: “as companies explore new technologies, former adversaries sit down

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86. Scully, “Media Market: The Bells Toil for Them,” par. 4. [Statement attributed to Nicholas Penniman, publisher of the *St. Louis Post-Dispatch*.]

87. Ibid. [Statement attributed to Dick Holzapfel, assistant vice president for information services at BellSouth.]

88. Potter, “Changed Marketplace, Changed Attitudes: Newspapers and the Bells Have Changed Their Tone as They Seek Common Ground,” 29.

89. Crowe and Jones “Countdown to N11,” 33.

90. Potter, “From Concept to Strategic Plan: Dow Jones Makes Some Connections,” 6.

91. Potter, “Changed Marketplace, Changed Attitudes,” 29.

92. Ibid., 27-28. [Statement attributed to Thomas Pace, alliances manager at Dow Jones & Co.]

together and find it's in their interests to make a deal."<sup>93</sup> Newspaper companies had pursued their videotext projects of the early 1980s independently, while the industry's short-lived incursion into the cable television business was largely through partnership deals as discussed in Chapter Three. The partnership model was carried forward in the latter half of the decade when newspapers set aside their differences with the telephone companies to bring several information services projects to market. By this juncture in the evolution of online media, newspaper companies had settled on a strategy of risk management in terms of the financial investment and level of effort they were willing to put into online ventures.

A survey of 250 newspaper industry executives in 1992 found that 61 percent of the respondents felt that newspaper companies should enter joint ventures with telephone companies as a way to expand into electronic information services. Perhaps the more telling result, however, was that only 20 percent of respondents said they actually planned any such venture with a telephone company.<sup>94</sup> The ANPA Chairman wrote in January 1992 that the association's lobbying effort would continue as a way to protect the industry's interests, but the focus of the rhetoric had shifted. He wrote: "The point is not to bar the Bells from information services forever...."<sup>95</sup> And in an act that was perhaps most illustrative of the changed environment, AT&T joined with the newspaper industry that year in signing a "unity statement" encouraging Congress to enact legislation that reflected the spirit of consent decree that had broken up the telephone monopoly.<sup>96</sup>

Bogart believed that the negative experiences of the newspaper industry's own projects during the 1980s caused many executives to question the rhetoric regarding telephone companies as eventual competitors. He wrote that many publishers wondered: "If these all flopped, why should the phone companies have better luck?"<sup>97</sup> However, if the telephone companies were to generate any market traction, newspaper executives figured that—at least in the short-term—it would be due to the fact that telephones were the entry point for online services. As personal computer adoption expanded, so did the adoption of modems used to connect home telephone lines to computer-based services. It was a technology trend the newspaper

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93. *Ibid.*, 30. [Statement attributed to Laird Walker, vice president of federal relations for US West Inc.]

94. *Presstime*, "Assessing the Challengers," 36.

95. Erburu, "We Can Win Information Services Fight Because Newspaper Position is Right," 5.

96. Potter, "Broader Fight Looms in House Over Restrictions on RBOCs," 38.

97. Bogart, "There's Plenty to Do Before the Unthinkable Happens," 58.

industry could not ignore. As the ANPA Chairman stated at an industry technology meeting: “Telephones are tomorrow’s new medium. Wherever you look in the next few years ... we’re going to see new uses of telephones.”<sup>98</sup> The recognition of this market condition led the newspaper industry to soften its hard-line opposition to the telecommunications industry.

Given that the telephone technology had assumed this key role, the public mostly viewed the telephone industry as progressive, while the newspaper industry was perceived as defensive and technically deficient. Industry leaders began to address the negative perception proactively. During an industry address, one key leader stated bluntly that “if we become defensive and rigid in dealing with change, we will wither,” adding that newspaper companies “cannot direct all of our energy and resources into attempts to force the market to accept a medium that in some cases is simply not the best for its needs.”<sup>99</sup> He explained, for example, that printed newspapers could not serve a businessman’s need for real-time stock information.

It was such tacit admissions of weakness that led to resurgence in activist rhetoric. The president of Cox Newspapers warned his industry brethren: “Newspapers that have not been investigating electronic avenues of information—and that’s most of them—had better get on the ball now.”<sup>100</sup> Nevertheless, the technologies mostly under consideration by newspapers at this time were described earlier as augmentation media such as fax services and inexpensive bulletin board systems. An industry executive explained that these technologies largely were considered “temporary platforms,” or transitional technologies that would help “prepare us for that new market,” but he admitted that few in the newspaper industry could envision what that new market would entail.<sup>101</sup>

## Conclusion

Newspaper industry executives arrived in the early 1990s with an assortment of emotions. There was disappointment and frustration that a decade-plus of

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98. *Presstime*, “Newspapers Must Adopt New Technology To Improve Role of ‘Print Gateway,’” 30.

99. *Presstime*, “Papers Must Deliver Information in Many New Ways, Erburu Says: Traditional Print Publication is Not for Everyone,” 26. [Robert Erburu was chairman and chief executive officer of The Times Mirror Co. and chairman of ANPA.]

100. *America*, “RBOCs Battle Enters New Phase,” 45. [Statement attributed to David Easterly, president of Cox Newspapers.]

101. *Presstime*, “Tomorrow’s Technology: Be There Now,” 40. [Statement attributed to Scott Whiteside, vice president of strategic planning and advanced systems at *The Baltimore Sun* who later held strategic positions at Times Mirror and Cox Enterprises.]

experimentation and hundreds of millions of dollars in collective capital spending had failed to produce any significant breakthroughs in the electronic information arena. Nevertheless, a sense of relief also permeated the industry's executive suites. Printed newspapers had survived—some would argue thrived—in the 1980s, a decade that was supposed to usher in an electronics-based Information Age. The ongoing financial success of the core product contributed to the disdain many newspaper executives had for projects such as electronic bulletin boards and facsimile editions that attracted users only in the hundreds and low thousands—far from the mass media numbers they were accustomed to selling to advertisers.

As the telecommunications landscape continued to evolve, the newspaper industry softened its lobbying stance against the telecommunications industry as it no longer considered the telephone companies to be as scary as they were previously perceived. Part of this change of attitude was due to recognizing the role telephone technology was playing as the entry point for online services. Newspaper executives also understood that their lobbying war with the telephone industry throughout the 1980s and early 1990s had damaged the newspaper industry's public reputation. The telephone industry's rhetoric that positioned the newspaper industry as an obstacle to progress resonated far more deeply with the American public than did the newspaper industry's characterization of the telephone companies as out-of-control monopolies.

The newspaper industry's attitude shift following its decade-long dispute with the telephone companies forms the backdrop for the next chapter, which explores another attempt by the newspaper industry to exploit online media. Many in the newspaper industry were hungry for a breakthrough in electronic information services that had so far eluded them. Therefore, when proprietary online systems began to accumulate a critical mass of subscribers, newspaper companies became very interested. They wanted to learn if a viable electronic distribution model had emerged.

Newspapers still were not interested in making huge financial investments in their own electronic services infrastructure, which made partnerships with the proprietary online companies an attractive alternative. Furthermore, publishers recognized a business model that made sense to them: centrally-controlled content partially subsidized by subscribers and supported by advertisers. Rather than turn adversarial as it had with the telephone companies, the U.S. newspaper industry almost seemed in a rush to embrace these systems even though some had the backing

of giants such as IBM. These services, including Prodigy, AOL, and a revamped CompuServe, appealed to newspapers by achieving momentum in the marketplace with a value proposition to consumers that eclipsed the earlier failed videotext projects. The newspaper industry's relationship with these companies is the subject of Chapter Five.

## **Chapter Five:**

### **Newspapers Embrace Proprietary Online Services**

U.S. newspaper companies invested more than \$100 million in online newspaper projects in the early 1980s,<sup>1</sup> but the most ambitious efforts were closed by the middle of the decade. They had failed to generate a sufficient enough audience to sustain them. In subsequent years, newspaper companies deployed a disparate collection of experiments ranging from audiotex and fax services to online bulletin boards as the industry struggled to find its role in the electronic marketplace. Furthermore, the industry's political lobbying against the telecommunications industry's expansion into the electronic information services left the public with the impression that newspaper companies were obstructionists rather than innovators.

Against this backdrop, Chapter Five explores a relatively brief period in newspaper history when newspaper publishers turned to a new group of partners they believed would help them capitalize on electronic information opportunities that had so far proved elusive. These companies became known as proprietary online services, and they sought to create an online mass consumer market where others had failed. Researchers said newspapers pursued partnerships with companies such as Prodigy and AOL because they were seen as mutually beneficial at a time of nascent market development:

The Catch 22 of early electronic newspaper services was that consumers did not want to subscribe if a wide range of services was not available, but information providers did not want to spend development money on systems that had no subscribers. The linking of electronic newspapers with commercial information services bypasses this problem.<sup>2</sup>

Still, the decisions by newspaper companies to partner with these companies were complex due, at least in part, to the uncertainties of technology direction and concerns over the financial stability of these newcomers.

This chapter examines the newspaper industry as it confronted an array of

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1. Cameron, et al., "Electronic Newspapers: Toward a Research Agenda," 3.  
2. Ibid., 34.

confusing choices during this period. A discussion of market and industry conditions provides context for the industry's response and frames the exploration of business concerns that guided the complex decision-making process. The chapter principally deals with the relationships that emerged between newspaper companies and proprietary online services. The chapter discusses several companies that were active partners with the newspaper industry during this period with particular attention given to AOL and Prodigy. These two proprietary online services emerged as the most influential in their dealings with the newspaper industry.

This chapter contributes to the overall thesis in several important ways. By examining the newspaper industry's rationale for partnering with proprietary online services rather than creating such services on its own, the industry's conservative business culture is further revealed. The chapter illustrates that shifting attitudes regarding technology helped newspaper executives overcome the stigma of the failed Viewtron project, but not to the extent that they were willing to venture into the online media business on their own. In partnering with proprietary online services, newspaper companies found a comfortable alternative that allowed them to provide content while others worried about the technical infrastructure and the investment it required. Finally, this chapter serves as a bridge within the overall thesis by focusing on a period that connects the newspaper industry's videotext past and its Internet future. Newspaper executives had turned away from their protectionist rhetoric that had dominated the late 1980s and again were venturing into the online arena slowly and on their own terms. But their reliance on the new partnerships would be brief as the emergence of the Internet forced newspaper companies to confront a new marketplace once again.

## **An Emerging Market**

When Knight-Ridder launched its Viewtron project in the early 1980s, the notion of a computer-based information service was still in the realm of science fiction to most Americans. Not only did Knight-Ridder have to develop and market the distribution technology, it also had to explain what exactly its service was for and what it did. But during the decade following the Viewtron failure, consumer exposure to computers had increased appreciably. *The Washington Post* wrote that "Americans are acquiring skills that the new services ... require," noting that "more and more

office workers and students use PCs; tens of millions of Americans have home video game units ..., which make them comfortable interacting with a screen.”<sup>3</sup> More importantly, the increased exposure to computers affected consumer attitudes regarding electronic information services, which *The Post* article reflected: “Americans’ attitudes toward information are changing in ways that will create demand. They are comfortable getting it off a screen. They want it in greater quantities and variety, delivered faster, at lower cost.”<sup>4</sup> Newspaper publishers had invested heavily in new technologies to operate their own companies, so they could see firsthand how computers in the workplace influenced people’s general attitudes about technology. Publishers were also aware that the number of home computer users had grown beyond the hobbyists, which in turn provided a promising mass audience for online information services.

The Videotex Industry Association reported that by the late 1980s about 700,000 homes were connected to at least one of the 40 “fee-based consumer videotex systems” known to be operating. The group said 500,000 homes also were using free electronic bulletin board systems. After accounting for crossover users between the fee-based and free services, the trade association concluded that 960,000 households were tapping into information via online services. While this user base accounted for only about 1 percent of all households, the growth trend was encouraging. The trade group even forecasted that by 2000, 97 percent of the country’s households would be connected to such online services.<sup>5</sup> Such lofty prognostications led to resurgence of the optimistic rhetoric surrounding the market for online information services. This time, however, the rhetoric regarding the prospects for an online information marketplace in the U.S. reflected the experiences of the early 1980s as illustrated by this example:

Gingerly referring to the past failures of videotex in this country, [proponents of consumer videotext] say the industry has matured and learned valuable lessons about marketing and distribution. And they note that once skeptical lawmakers and regulators have begun

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3. Burgess, “Firms Face Questions of Technology’s Timing, Cost,” par. 37.

4. *Ibid.*, par. 6.

5. Booker, “Consumer Videotex: The Perilous Path (Prospects for the Videotex Industry in the US),” pars. 1,7.

to see the need for videotex if the U.S. wishes to compete in the 21<sup>st</sup> century.<sup>6</sup>

The last point of this statement regarding U.S. competitiveness should not be overlooked when discussing the rhetoric surrounding the development of the country's online services market. The failure of several early consumer-focused projects had stalled momentum in the U.S. causing some to question the country's commitment to develop an electronic information market. Kinsley, for example, suggested that the U.S. was in danger of losing its "international competitiveness" because the market for online services had been slow to develop in comparison to Western Europe, especially France.<sup>7</sup> Others argued that the market in Europe was not an accurate comparison because state-owned telephone monopolies there had subsidized online information services and provided consumers with incentives to use the systems.

Efforts to import and deploy technology from some of Europe's successful systems such as France's Minitel met with specific resistance in the U.S. market. For example, an executive from a U.S. telecommunications company said that borrowing business models or technology from elsewhere "is to have failed in the effort to be the world leader in technology."<sup>8</sup> In the face of such polarizing rhetoric, the emergence of U.S.-based services such as Prodigy and AOL was important. These companies diffused the discussion about American technology, clearing away another obstacle that some believed had contributed to slow market development.

*Information Today*, an industry trade publication, declared 1989 as the year when a concerted effort began to make online services "attractive to consumers."<sup>9</sup> And in the early 1990s—the years immediately preceding the Internet—Prodigy, AOL, CompuServe, and a few smaller players represented the promise of the Information Society. Consumers could use home computers to connect affordably to a vast array of information databases and electronic services just as the pundits had

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6. Ibid., par. 5.

7. Kinsley, "America Is Losing the Information Revolution," pars. 1-3.

8. Booker, "Consumer Videotex," par. 20. [Statement attributed to C. Sidney Boren, a vice president with BellSouth.]

9. Conhaim, "Developing Videotex as a Consumer Medium," par. 3.

predicted. AOL's slogan "You've Got Mail" became symbolic of its time.<sup>10</sup> Collectively, these services attracted more than 3.5 million subscribers during this period.<sup>11</sup> Kyrish reported that by 1993—five years after its official commercial launch—Prodigy had attracted about one million subscribers, while two other services—CompuServe and AOL—had 1.5 million and 285,000 subscribers, respectively.<sup>12</sup> Kyrish wrote that "an historical review of the period between 1989 and 1993 suggests steady but hardly explosive growth."<sup>13</sup> Nevertheless, the growth created an audience significant enough to cause newspaper publishers to take notice.

The emergence of these proprietary online services coincided with a period in the newspaper industry when publishers were especially introspective. Newspaper companies struggled during the economic recession of the early 1990s, but publishers were considering their next moves as business conditions showed signs of improving. As the newspaper industry's interest in the electronic marketplace began to ramp up in the early 1990s, the *American Journalism Review* attempted to place the activities in a proper societal context:

Certainly, there's a bit of the "millennium syndrome" afoot, as the approaching turn of the century makes people feel they're on the brink of a new age, with a Task Force 2000 forming in almost every industry. The problem is that no one really knows how newspapers will be read and distributed in the next 10 or 15 years, or even five years.... But the industry is in hot pursuit of the answer.<sup>14</sup>

An industry executive said the opportunities presented by the propriety online systems created "exhilaration and enthusiasm" in the newspaper industry, adding that advertising prospects were favourable because "everyone has had their consciousness raised about the information highway."<sup>15</sup> In the following section, this thesis examines the status of the newspaper industry during this period and discusses the

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10. The phrase was ubiquitous in the late 1990s; it was also used as the title of a popular film released in 1998 starring Meg Ryan and Tom Hanks.

11. Reid, *Architects of the Web: 1,000 Days that Built the Future of Business*, 14.

12. Kyrish, "From Videotext to the Internet: Lessons from Online Services 1981-1996," 15.

13. Ibid.

14. McKenna, "The Future is Now: Newspapers Are Overcoming Their Fears of Technology and Launching a Wide Array of Electronic Products," par. 44.

15. Carter, "Online Advertising," 38-39. [Statement attributed to Frederick J. Tuccillo, director of electronic publishing for *Newsday* in New York.]

factors that led many newspaper companies to partner with proprietary online systems.

## **Newspapers in the Early 1990s**

Even though profit margins in the newspaper industry remained strong relative to other industries, many issues had publishers rethinking their approach to the business. Declining circulation and eroding market share, combined with the lingering effects of economic recession that had depressed advertising revenue, forced publishers to consider that their industry was in the midst of fundamental change.

Underwood observed that “amid all the flailing about as newspapers prepare for an uncertain tomorrow, three general strategies” emerged: “effort[s] to save the newspaper as it is, efforts to augment the newspaper electronically, and efforts to look beyond the newspaper-on-print.”<sup>16</sup> Several examples illustrate his first category, such as shorter stories, more graphics, and increased use of colour photography. He also cited Gannett Inc.’s “News 2000” program, which emphasized coverage of community issues, as an example of the efforts aimed at redefining content to improve readership.<sup>17</sup> The “efforts to look beyond” print were deemed too futuristic and were pursued half heartedly by the industry. Underwood discussed Knight-Ridder’s investment in researching and developing the prototype of a flat-panel electronic tablet with a touchscreen as an ambitious illustration of innovative thinking. A contemporary media commentator recalled that project as “an eerily prescient 1994 vision of” Apple’s iPad released in 2010.<sup>18</sup> At the time, however, Knight-Ridder’s tablet concept was stymied by the technical shortcomings of its era and an industry culture that viewed such projects as science fiction. Most newspaper executives could not envision a future without the printed newspaper form at the forefront. Therefore, most activities undertaken by the newspaper industry during

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16. Underwood, “Reinventing the Media: The Newspapers’ Identity Crisis,” par. 8. [Doug Underwood was a communications professor at the University of Washington and a former newspaper journalist.]

17. *Ibid.*, par. 4.

18. Weintrob, “An eerily prescient 1994 vision of the 2010 iPad,” par. 1.

this period took place within Underwood's second category: "efforts to augment the newspaper electronically."<sup>19</sup>

Within this category, newspapers began to think seriously again about an electronic future and how those activities could be integrated into existing operations. However, the desire to find business models that would prevent the financial disasters associated with the failed online efforts of a decade earlier was paramount. Despite the newspaper industry's financial profitability during this period and the bravado it exhibited during the political battle with the telecommunications industry, newspaper publishers were scarred by the memory of financial losses from those early online projects. This aftermath influenced the decisions regarding how newspaper companies would proceed with electronic information services.

### *Viewtron's Lingering Effects*

Newspaper companies—wary of placing too much emphasis on the electronic information marketplace—preferred to take small steps rather than embark on bold moves. The Viewtron failure loomed large: as *The New York Times* put it, "[Viewtron] has been cited ever since by skeptical news executives as a warning that electronic ventures can be business disasters."<sup>20</sup> In monetary terms, the \$50 million that Knight-Ridder had invested in Viewtron for no return had little material effect on the company's financial position. However, in the conservatively managed newspaper industry any financial loss was difficult to accept, and over time, the Viewtron project became remembered—not as a pioneering effort—but as a financial boondoggle.

"The scars from Viewtron are still very vivid," said an editor at a Knight-Ridder newspaper. "It took a while to get it into people's minds that we should get back into electronic distribution."<sup>21</sup> Another industry executive echoed those remarks: "That project poisoned the water for all of us. All people could see was the

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19. Underwood, "Reinventing the Media," par. 8.

20. Glaberson, "The Media Business: In San Jose, Knight-Ridder Tests a Newspaper Frontier," par. 10.

21. Markoff, "17 Companies in Electronic News Venture," par. 12. [Statement attributed to Robert Ingle, Executive Editor of *The San Jose Mercury News*, part of the Knight-Ridder chain that created Viewtron.]

red ink.”<sup>22</sup> With such negative sentiment regarding the Viewtron experience so pervasive in the industry, proponents for new initiatives had to find ways to promote the potential for success rather than allow the industry to continue to dwell on the past failures.

Some have suggested that the modest financial success of low-cost bulletin boards services such as StarText operated by *The Fort Worth Star–Telegram* (and discussed in Chapter Two) helped the newspaper industry to once again think about electronic distribution in broader terms. “Just because we built a few Edsels doesn’t mean the car is wrong,” said the StarText marketing director.<sup>23</sup> By demonstrating that not all online projects were money losers, these bulletin board systems offered promises that more robust systems could be developed within a profitable cost structure. As the industry began to shake off the effects of the early 1990s economic recession, newspaper companies seriously began to explore again their options for returning to the electronic arena in a more meaningful way. The next section will show how these activities represented a significant shift in the newspaper industry’s approach to the online services market.

### *Shifting Newspaper Industry Attitudes*

The newspaper industry’s reluctance to invest directly in electronic information services seemed to be even more pronounced during the most heated periods of the industry’s political battle with the telecommunications industry. The lingering effects of Viewtron may have been a contributing factor, but newspaper companies had evolved into defensive operators rather than strategic planners. As one industry executive stated:

For a while there, newspapers were primarily identified with blocking the Baby Bells. It gradually dawned on newspapers that they couldn’t—and shouldn’t—depend on Judge Greene to save them from the future. That defensive kind of strategy was ridiculous. We should recognize these changes and go on.<sup>24</sup>

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22. McKenna, “The Future is Now,” par. 32. [Statement attributed to Gerry Barker, online service marketing director at the *Fort Worth Star-Telegram*.]

23. Underwood, “Reinventing the Media,” par. 16. [Statement also attributed to Gerry Barker.]

24. McKenna, “The Future is Now,” par. 12. [Statement attributed to Frank Hawkins, a vice president at Knight-Ridder.]

This statement underscored the shift in the industry's approach. It represented a new way of thinking and marked a break with the latter half of the 1980s when the industry faced a lack of direction regarding the future of electronic information. Industry leaders were once again seeking an active role for newspapers in the development of the electronic information market.

Researchers had suggested that the industry's historical approach had less to do with the emotions of its leaders and more do with the process-driven nature of the industry. An industry manufacturing and distributing a new product every day was by its nature internally focused. It had little intrinsic interest in long-term strategic planning.<sup>25</sup> To alter the industry's dynamics, Wilson and Igawa wrote that newspaper companies needed to embrace systemic change if they expected to succeed with new information services. They concluded:

The hallmark of innovation and new ideas is ambiguity, asking upside down, inside-out questions, then shaping ideas in tandem with the people you want to serve. Overall, the rigid routine of a newspaper works against that process.... So newspapers adapt pragmatically, feeling their way, which accounts for the piecemeal response to the relentless tides of change.<sup>26</sup>

The industry's structure was also a factor contributing to the "piecemeal response." The term "newspaper industry" is used throughout this thesis, but, as noted in the thesis introduction, its usage refers to a collective of newspapers that vary in size, format, financial strength, and corporate ownership. These newspaper companies rarely competed directly with each other in a local market, but their variety also made cooperation difficult to achieve. When newspaper companies did rally around a common technology initiative, it was recognized as another sign of the industry's shifting attitude.

In May 1993, 17 companies, including Gannett Inc., Knight-Ridder Inc., Tribune Co., Hearst Newspapers, and Times Mirror Inc. founded a consortium called the "News in the Future" project at the Media Laboratory of the Massachusetts Institute of Technology (MIT). Designed as a five-year project, the consortium planned to spend up to \$2 million each year researching emerging electronic

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25. Wilson and Igawa, "On Our Minds: Worry, Worry, Worry, or Innovate?" 27

26. Ibid.

technology for delivering news to consumers. Several interested parties outside the newspaper industry also joined the project, including computer manufacturer IBM, broadcaster Capital Cities/ABC, regional telephone provider BellSouth, and advertising agency McCann-Erikson.<sup>27</sup> The participation of an advertising agency was seen as especially significant given that a goal of the project was to develop ways for news and advertising to form "a seamless information landscape that ranges from the most serendipitous to the most urgent information."<sup>28</sup>

An industry executive involved with the consortium said it was needed to bring the industry together and address technology development in a coordinated way. "There are a lot of ants running off in different directions. But I [now] see a different anthill being built ... we all were going down separate streets ... now it's all sort of coming together and we need to sit down together to operate it properly."<sup>29</sup> Boczkowski wrote that a consortium of newspaper companies collectively investing in research and development represented a fundamental shift in behaviour because it is "an industry not used to investing money in this type of activity."<sup>30</sup> He quoted an industry executive who noted how exceptional the MIT project was: "I don't think anything like this has ever happened in the newspaper business before."<sup>31</sup> This activity represented a tangible example of the changes Wilson and Igawa had suggested was necessary for the industry to succeed in electronic services.

Nevertheless, the ongoing struggle between the industry's recognized need for innovation and its deeply rooted conservative business practices was evident as the events unfolded in the early 1990s. In the following sub-section, the chapter examines the business discussions taking place during this period and how they pointed to partnerships with proprietary online services as the only logical conclusion to the collective thinking during this period.

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27. Markoff, "17 Companies in Electronic News Venture," pars. 1-4.

28. Massachusetts Institute of Technology, "Consortium to Probe News Presentation," par. 5. [Statement attributed to Nicholas Negroponte, director of MIT's Media Laboratory.]

29. McKenna, "Where the Action Is," par. 2. [Statement attributed to Jack Driscoll, a former editor of *The Boston Globe* who was managing the newspaper's electronic information initiatives.]

30. Boczkowski, *Digitizing the News: Innovation in Online Newspapers*, 36.

31. Ibid. [The statement was attributed to Frank Hawkins, a vice president at Knight-Ridder.]

### ***Business Concerns***

The newspaper industry's newfound approach—proactively researching the possibilities of electronic delivery—met with positive reactions from the financial and investment communities. The prevailing sentiment on Wall Street was that emerging electronic competitors could undermine the newspaper industry's advertising pipeline, especially its long-established dominance in classified advertising. As one industry analyst stated: “The threat of these developments is reason enough for newspapers to invest in electronic publishing, especially now when they have the money to do it.”<sup>32</sup> In fact, many newspaper companies—especially those who were publicly traded businesses—felt pressured by investors to shore up their defences against a perceived onslaught of new electronic competition.

But how to accomplish that while also delivering the relatively high profit margins investors had come to expect from the industry left many executives exasperated. The comment from a senior executive with The New York Times Co. illustrated the frustration: “We’ve got the media on our backs, Wall Street on our backs ... But I don’t know how to spend \$1 billion [on electronic services] and make it pay out.”<sup>33</sup> This comment also shows that even though newspaper executives in key positions at the major U.S. dailies were not immune to criticism, they also were not interested in investing heavily in new technology simply to silence their critics.

Newspaper publishers may have recognized the potential of a threat from new electronic competitors, but they did not consider the threat to be imminent. Spending too heavily—and possibly spending on the wrong technology—was a risk they were unwilling to take. One comment in particular summarizes how afraid the industry was of making the wrong investment: “If you can show me somebody who says, ‘Yeah, I know exactly what the future holds,’ there’s a good chance he won’t be in business soon.”<sup>34</sup> The comment indicated how little interest there was for pioneering. Instead, the newspaper industry remained committed first and foremost to its printed format.

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32. Morton, “Papers Will Survive Newest Technology,” 48.

33. Potter, “Media Merger Mania II: The Quest for Content,” 29. [Statement attributed to Gordon Mendica, vice president of operations and planning, at The New York Times Co.]

34. Ibid. [Statement attributed to Frank Hawkins, a vice president with Knight-Ridder Inc.]

Even an executive charged with managing electronic information projects at a major daily expressed the prevailing opinion: “There’s nothing wrong with a mature business, if it’s managed properly. We in the newspaper business shouldn’t give up our day jobs.”<sup>35</sup> These sentiments reflect Boczkowski’s observation that although newspaper companies wanted to participate in the electronic marketplace—and even saw a competitive need to do so—the “pragmatic” approach took precedent. He wrote: “American dailies were often more interested in the short-term health of the core print business than, more idealistically, in projects that seemed more promising with comparatively higher payoffs that could only pan out in a longer term.”<sup>36</sup> Financial analysts, industry commentators, and academic researchers realized that despite the creation of a research consortium and an increase in rhetoric about exploiting electronic information services, the U.S. newspaper industry had no appetite for grand innovation on its own.

The majority of newspaper companies seemed most comfortable with a partnering approach that limited capital investment, but positioned them to reconsider if market conditions changed. An executive with *The Los Angeles Times* described the strategy: “If there’s a big upside for newspapers on the so-called superhighways of the future, we intend to participate in it. If there’s a downside, we should, with these [partnering] programs, be able to cushion it.”<sup>37</sup> Therefore, as the newspaper industry expanded in the area of electronic delivery, it did so in a way that mitigated risk. Boczkowski observed that “the bulk of activity in the period 1992–1994” involving electronic or online newspapers “took place in relation to online services.”<sup>38</sup> Most newspaper publishers liked an arrangement where the online companies would manage the technology infrastructure, while the newspaper companies would provide content and share in the advertising revenue. In the

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35. Ibid. [Statement attributed to Eugene Quinn, general manager of Chicago Online, the electronic operations of *The Chicago Tribune*.]

36. Boczkowski, *Digitizing the News*, 49.

37. *Presstime*, “Print Still Prime,” 34. [Statement attributed to EuGene L. Falk, executive vice president and general manager of *The Los Angeles Times*.]

38. Ibid., 39.

following section, the thesis explores how this partnering strategy took shape.

## Partnership Strategy

The decisions to pursue partnerships with the proprietary online systems were not without controversy and there was considerable tension within the newspaper industry regarding the best course of action to take. Newspaper companies were noted for their independence and moving forward with a strategy based on partnerships required a level of cooperation to which most of these companies were unaccustomed. One executive observed: “Those of us in a business in which we own the printing press have a certain level of discomfort about using somebody else’s.”<sup>39</sup> The realization that newspaper companies would have to give up—or at least share—control led to concerns about how to structure the partnerships. For example, an executive advised his colleagues to enter such arrangements only if they understood that “issues of control and management can be so complex and divisive that the ties holding non-traditional partners together can snap if the match isn’t right.”<sup>40</sup> The newspaper industry had been down this path before, however. The arrangements with cable television companies in the early 1980s, for example, involved partnerships that were just as complex, if not more so, than the deals contemplated with the proprietary online services.

Nevertheless, the harshest criticism came from those who believed that the industry’s direction was strategically short-sighted. For example, one outspoken critic charged that partnering with the proprietary online services was tantamount to “hauling your presses off to the dump and hiring your competition to print your paper,” adding that “the only way to protect ourselves from more of an invasion by electronic services is to start those services ourselves.”<sup>41</sup> But this level of dislike was in the minority and did not deter the industry’s direction. There were no companies

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39. Potter, “A Guide to Online Avenues,” S2. [Statement attributed to Donald K. Brazeal, editor and publisher of The Washington Post Co.’s online media subsidiary.]

40. *Presstime*, “Panel’s Advice: Get in Gear; Content, Identity Drive Development,” 27. [Statement attributed to Charles T. Brumback, chairman, president and CEO of Tribune Co.]

41. Toner, “Getting on Boards,” 47-48. [Statement attributed to David Carlson, director of the new media lab at the University of Florida’s College of Journalism and Communications. He had earlier worked for the *Albuquerque Tribune*’s electronic edition.]

within the newspaper industry at this time willing to invest the resources to either acquire a proprietary online service or to create one.

In most cases, partnering with the online proprietary services was viewed as the most prudent option available. One executive with The Tribune Co. said his company decided that a partnership would allow it to think differently about the role it plays: “Our role as a company wasn’t to develop technology but to take technology that others had developed and make it useful.”<sup>42</sup> Newspaper companies strategically justified their partnership decisions with this line of thinking—one that separated concerns about production, distribution, and content.

Most of the deals that were signed during this period followed this pattern. The deals allowed newspaper companies to control the content they provided, while sharing production responsibilities. Distribution largely was the purview of the proprietary online services. The biggest issue, however, involved how the newspaper companies would be compensated for their content, which is explored in the following sub-section of this chapter.

### ***Deal Terms***

When asked by an industry trade publication why he had agreed to partner with one of the online services, the president of a large newspaper company said it was simple: “Greed. Because we’re going to make some nice money on this.”<sup>43</sup> But newspaper executives understood that making money on these endeavours required striking the proper balance between the revenue they would receive and the investment they would be required to make in gathering and producing the content.

A sales executive for *The Hartford Courant* described the conundrum confronting newspapers this way: “How much to invest and what return to expect have never been more fuzzy. Newspapers aren’t going to receive the returns to which we are accustomed, and that makes everybody nervous.”<sup>44</sup> Newspaper companies understood that partnerships designed to mitigate risk also meant some limit to the

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42. Moeller, “The High-Tech Trib,” par. 59. [Statement attributed to Jim Longson, corporate vice president of technology at The Tribune Co.]

43. McKenna, “The Future is Now,” par. 16. [Statement attributed to David Easterly, president of Cox Newspapers.]

44. *Presstime*, “Print Still Prime,” 34. [Statement attributed to Marty Petty, vice president of sales and marketing for *The Hartford Courant*.]

upside of the market, but the challenge was to get the most favourable terms possible. Industry analysts, however, were concerned that some of the earliest negotiations favoured the online services rather than newspapers.

Analysts feared that the newspaper companies were not doing enough to protect their franchises should the proprietary systems succeed as local information providers, supplanting newspapers in their own markets. “Don’t let on-line services cannibalize your readers,” one analyst warned.<sup>45</sup> A business development executive at Gannett’s *USA Today* framed the question facing the industry this way: “Who owns the customer?” She added: “Newspaper publishers don’t want their products to be thought of as mere mastheads in someone else’s mall.”<sup>46</sup> At the very least, industry analysts wanted the newspaper companies to be more aggressive in negotiating the split in subscription revenue. An analyst told publishers they should increase their share of subscription revenue from 10 to 20 percent common in the early deals to at least 50 percent, arguing that newspaper companies involved in the early deals “are getting undercompensated” for bringing new users to the electronic services.<sup>47</sup> Subscriptions, however, were considered an ancillary source of revenue in the newspaper business and this was no different when publishers negotiated their online deals. Advertising was viewed as the most important revenue stream and executives wanted to get the best deal for this aspect of their online partnerships.

One industry executive urged his colleagues to accept nothing less than a 50 percent split of the advertising revenue in their online partnerships. He argued: “Advertising is one of our biggest advantages;” adding “Don’t make a bad business deal.”<sup>48</sup> The newspaper industry’s efforts to negotiate favourable terms and avoid the bad deal were exacerbated by the selection of possible partners. Companies such as AOL, Prodigy, and CompuServe are remembered because they achieved the largest audiences during the early 1990s. But newspaper companies had numerous other potential partners to sort through, including such companies as Delphi, Interchange

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45. *Presstime*, “Partner Power and The Next Media Age,” 38. [Statement attributed to Susan Decker, a newspaper industry analyst with the brokerage firm Donaldson, Lufkin & Jenrette.]

46. *Ibid.*, 39. [Statement attributed to Susan Bokern, associate director of new business for Gannett’s *USA Today*.]

47. *Presstime*, “Partner Power and The Next Media Age,” 39. [Statement attributed to Susan Decker, a newspaper industry analyst with the brokerage firm Donaldson, Lufkin & Jenrette.]

48. *Presstime*, “Panel’s Advice: Get in Gear; Content, Identity Drive Development,” 27.

Network, and General Electric's GENie. The following material examines the choices available to newspaper companies and how publishers went about selecting an online service partner.

### *Confusing Choices*

The newspaper industry's official trade publication observed that in the 10 years following the first wave of videotext projects online options available to newspaper companies had "exploded," adding that "commercial online services are proliferating and starting to compete for newspaper content."<sup>49</sup> As newspaper companies began to reengage with the marketplace for online services, many executives found the assortment of options bewildering. Said one executive with Gannett: "Now there are more questions and fewer answers. The online landscape has not cleared up a bit but rather has gotten a lot more complicated."<sup>50</sup> In deciding on a potential partner, newspaper companies wanted answers to a myriad of questions: Would it be better to align with a company offering a familiar advertising model or with one demonstrating the promise of cutting-edge technology? Should the decision be based strictly on expenses or was the timing right to worry less about cash outlays and more about the potential to share in significant revenue? Would a better partner come from the computer industry or would it be one owned by a prominent global media company?

It is not hyperbole to suggest that newspaper companies agonized over these choices. Executives formed partnership selection committees, attended conferences, met with multiple potential partners, assigned dedicated personnel to study the technical differences, and hired new executives and consultants to sort out the best possible partner choice. For its part, the industry's trade association—the NAA—promoted an educational agenda aimed at assisting newspaper managers who were wrestling with these partnership decisions.

The following descriptions of five services were derived from a *Presstime* planning guide published in late 1994. These descriptions—presented

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49. Potter, "A Guide to Online Avenues," S1.

50. *Ibid.*, S1-S2. [Statement attributed to Kenneth Paulson, executive editor and vice president for news at Gannett's suburban newspaper division.]

alphabetically—illustrate the range of proprietary online services from which newspapers could choose a partner. These description excerpts are included because they also provide insight into how these services were viewed by the newspapers industry’s trade association, including some of the attributes that were deemed to be most important:

*AOL:*

Its mind-boggling expansion during the past 12 months—quintupling its membership with more than a million new subscribers—has made AOL the darling of both Wall Street and Infobahn newbies. The simplicity of its point-and-click interface ... lured many new users and convinced several newspaper companies to cast their lots with AOL.<sup>51</sup>

*CompuServe:*

Newspapers desiring an inexpensive experiment with online publishing through a commercial service that still reaches millions of people worldwide should consider CompuServe ... newspapers on CompuServe are probably the only ones partnering with a commercial service that already make a profit.<sup>52</sup>

*Delphi:*

Fans of “Beverly Hills 90210”—exactly the young consumers newspapers long to attract—have been following their TV idols lately to an information-highway address that is seeking newspaper partners: Delphi Internet Services Corp. On several November episodes of the popular Fox TV network show, the college-age characters took to their PCs to dial into Delphi, the online service that Fox owner Rupert Murdoch bought in 1993, and the Delphi logo was repeatedly conspicuous on their computer screens. Such tie-ins with other media suggest the advantage of linking with a global information company like Murdoch’s News Corp.<sup>53</sup>

*Interchange Network:*

Interchange Network Co., designed by former computer-magazine magnate Ziff-Davis Publishing Co., is gaining partners by being the first commercial service to offer content providers “third generation” publishing tools ... a software platform that offers powerful searching capabilities, hypertext links and other state-of-the-art

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51. Ibid., S7.

52. Ibid., S9-S10.

53. Ibid., S11.

features.... The risk in partnering with Interchange, however, is the uncertainty that surrounds the ... company's future.<sup>54</sup>

*Prodigy:*

Prodigy is the only service that sends ads to customers along with any information they request. The ads take up the bottom portion of the user's computer screen, much as newspaper ads traditionally run at the bottom of pages. Also, until the past few months, when most commercial services began upgrading their software platforms, newspapers considered Prodigy's graphics and color-heavy interface the best bet for attracting advertisers to online ads.<sup>55</sup>

These brief excerpts highlight the issues that ranked highest in terms of publisher concerns: audience size, profitability, promotional opportunities, financial stability, and commitment to developing the advertising market. Newspaper companies, in their final analysis, gravitated toward AOL, CompuServe, and Prodigy. CompuServe was the choice of many middle market newspaper companies where the requirement for the lowest cost option ruled the process. A Gannett executive explained this rationale: "Some markets simply won't support online newspapers in any significant way. Under those circumstances, it makes sense to go with CompuServe and a very modest model."<sup>56</sup> A business development executive with *The Los Angeles Times* concurred: "If you're a mid-sized market, then you can afford to be casual. But not if you're in a large market with competition around you, with major players—cable companies, telephone companies—eyeing our revenue streams hungrily."<sup>57</sup> In these larger markets, however, there was not a consensus regarding a single best partner. The publishers who went with one of the major players were seen as aligning with market momentum in the case of AOL or advertiser acceptance in the case of Prodigy.

*Presstime* published an extensive review of AOL and Prodigy, attempting to explain both services from the perspective of a consumer user for the trade publication's audience of newspaper executive audience. The publication concluded that AOL's 'virtue is its greater ability to search databases.'" Prodigy, however, had

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54. Ibid., S12.

55. Ibid., S4.

56. Ibid., S9.

57. McKenna, "The Future is Now," par. 27. [Statement attributed to Victor Perry, director of new business development for *The Los Angeles Times*.]

several “virtues we newspaper people like” including “ease of use and bright color graphics and advertising.” The publication said that Prodigy’s “interface easy to navigate, the graphics fun and the advertisements useful and unobtrusive.”<sup>58</sup> From a negative perspective, the reviewer found that AOL’s search features were limited, while Prodigy’s graphics-rich interface could be slow to render and that its software sometimes interfered with other computer programs.<sup>59</sup> In the end, most partnering decisions were based on achieving a level of comfort with the online service and determining that the newspaper and the online partner could co-exist. To provide further insight into how these partnerships were developed, the thesis explores in more depth the newspaper industry’s relationships with the two companies that emerged as the most prominent partners: AOL and Prodigy.

### ***AOL***

Tribune Co., the parent company of the *Chicago Tribune*, led the newspaper industry’s relationship with AOL. Tribune had acquired a minority ownership stake of about 11 percent in AOL in its formative stage and aggressively pushed its services.<sup>60</sup> Although AOL was creating a nationally branded service, Tribune embarked on a plan to use its newspapers to create local affiliates within the AOL service. Tribune later helped fund and establish Digital City as a separate jointly owned business intended to exploit local market opportunities.<sup>61</sup> Tribune deployed classified advertising and online shopping services as part of its local affiliation strategy and worked to develop a transactional model in addition to news and information. *American Journalism Review* described Tribune’s approach:

Tribune decided to focus on its local markets rather than chase the dream of national supremacy on some lane of the information highway. The company also decided it couldn’t compete with phone companies and other players in the big bucks efforts to build distribution systems on that highway. Instead, it saw its future in creating content and using technology to find new and profitable ways to sell that content to consumers.<sup>62</sup>

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58. Potter, “Joe Reader Meets the E-Paper: You’ve Read about Them. We Decided to Actually Read Them,” 44-45.

59. Ibid.

60. Potter, “A Guide to Online Avenues,” S8.

61. America Online, “Digital City, Inc., to Launch Four New ‘Virtual Cities.’”

62. Moeller, “The High-Tech Trib,” par. 56.

Tribune executives said they were attracted to AOL as a partner because of the vision it brought to the market. “We feel AOL is on the cutting edge as a marketing company in terms of how these services will develop,” said the Tribune executive in charge of managing the partnership.<sup>63</sup> A key component of AOL’s marketing strategy was to convince consumers that the service was simple to use. Although this marketing message was directed at the service’s end-users, it also resonated with many of the newspaper executives responsible for selecting an online partner.

For example, a key decision maker at the New York Times Co. said AOL offered newspapers the best access to the online services market because of its simple design. “It was the best and easiest because you didn’t need a manual to figure it out,” he said.<sup>64</sup> For the newspaper companies engaged with AOL, the concept of simplicity also extended beyond its design to encompass broader issues. These companies were complimentary of AOL’s willingness to cooperate regarding the complex issues involved in launching newspaper services within the platform even as the company struggled with its own growth pains.<sup>65</sup>

An executive with Knight-Ridder’s *San Jose Mercury News*, which reached an agreement to deliver a full-text version of this daily newspaper via AOL, said he was “very glad to have started with AOL,” adding that it had “taught us a lot about the online world.”<sup>66</sup> Given its history with Viewtron, Knight-Ridder executives felt they had to choose an online service partner carefully and present the company’s return to the consumer online services market to investors in a way that reflected a methodical, long-term approach. According to the editor of *The Mercury News*, AOL represented the best platform to accomplish this goal.<sup>67</sup> Careful to avoid industry criticism about unfounded expectations and a repeat of the Viewtron experience, this Knight-Ridder editor intentionally set the bar low for the endeavour with AOL:

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63. Potter, “A Guide to Online Avenues,” S9. [Statement attributed to Eugene Quinn, general manager of Tribune Interactive Network Services.]

64. Ibid., S7. [Statement attributed to Henry Scott, vice president for new media and new products at The New York Times Co.]

65. Ibid., S8.

66. Ibid. [Statement attributed to Bill Mitchell, head of Mercury Center, the online information services division of the *San Jose Mercury News*.]

67. Markoff, “17 Companies in Electronic News Venture,” pars. 14-15.

We're in a continuum of long, slow change and innovation. People aren't going to flock to the electronic newspaper instantly. We need to use the printed newspaper to lead people into the new form, and this [agreement with AOL] is Step 1.... We don't know what the economics are, but we created a low-enough cost structure that it won't take very much to break even.<sup>68</sup>

For the newspaper companies engaged with AOL, the platform represented a simple, straightforward approach to the electronic services market. The publishers also recognized value in a marketing effort that propelled the service to 3 million U.S. subscribers by 1995, which was a growth trajectory that allowed AOL to tout a year later that it had become the “first billion dollar interactive services company.”<sup>69</sup> However, many of the newspaper companies that did not affiliate with AOL indicated that they were seeking a partner with an approach that relied on advertising for the primary source of revenue.

AOL's business model relied primarily on subscription revenue and was, as a *Newsday* executive described, “the reverse of the newspaper model.”<sup>70</sup> Indeed, at this point in the business' evolution AOL executives viewed advertising very differently than newspaper publishers. Advertising was treated as transactional content and relegated to a portion of the platform so that it would be “unobtrusive.” One of AOL's key executives explained the company's rationale:

We don't think advertising works in this new medium. Members are looking for information and a sense of community, and they want that in a safe and unobtrusive place. Typical advertising is designed to be intrusive.<sup>71</sup>

Newspaper publishers were intrigued by the prospect of improving on the ratio of revenue derived from subscriptions as promised by the AOL model. But they were principally in the business of selling advertising, which translated into a lukewarm response to AOL's advertising strategy.

By 1994 and into 1995, large newspaper companies were increasingly aware that advertiser interest in online media platforms was undergoing a transformation. A

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68. Ibid. [Statement attributed to Robert Ingle, executive editor of the *San Jose Mercury News*.]

69. America Online, “America Online Becomes First Billion Dollar Interactive Services Company,” pars 1, 5.

70. Carter, “Online Advertising,” 38-39. [Statement attributed to Frederick J. Tuccillo, director of electronic publishing for *Newsday*.]

71. Ibid., 40. [Statement attributed to Ted Leonis, president of AOL Services Co.]

senior executive with a large New York advertising agency described the shifting attitude by observing that in fall 1993 advertiser “interest in online was zero,” but less than two years later “on a scale of one to 100, we probably see interest at 120 now.”<sup>72</sup> As newspaper publishers sensed this shifting mood, their choice for an online service partner was influenced by the desire to capitalize on an emerging opportunity.

The next portion of this chapter explores how Prodigy attempted to exploit the market for online advertising during this period and, in the process, emerged as the principal online services partner for the newspaper industry.

### *Prodigy*

Due in large part to its deep-pocketed corporate backers—IBM and Sears—Prodigy established credibility quickly in a marketplace full of lesser-funded competitors. Although Prodigy claimed to have officially launched in 1989, the business actually had its roots in a failed videotext project from 1984 known as Trintex.<sup>73</sup> By 1990, however, its owners had invested more than \$600 million in retooling the business and Prodigy was on its way to achieving status as an icon of its era.<sup>74</sup>

The Poynter Institute, a newspaper research and training organization, underscored the importance of Prodigy within the timeline of the newspaper industry’s involvement in electronic media by stating: “From an historical standpoint, Prodigy serves as a bridge from videotex to the new media projects of the 1990s.”<sup>75</sup> Within the context of this thesis, Prodigy is important because it emerged as a strategic partner to several newspaper companies who were attracted largely because of its stated commitment to develop a revenue model based on online advertising. This is significant, of course, because advertising - not subscriptions - was the primary source of newspaper industry revenue. Advertising was the basis for a business model newspaper publishers understood, and one they wanted to translate into an online model that would work for them as well. Prodigy was seen by many

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72. Ibid., 38. [Statement attributed to Erica Gruen, a senior vice president with the New York advertising agency, Saatchi & Saatchi.]

73. Shedden, “New Media Timeline (1988).”

74. Shapiro, “The Media Business; New Features are Planned by Prodigy,” par. 6.

75. Shedden, “New Media Timeline (1988).”

within the newspaper industry as providing the best assistance in achieving that goal.

Soon after its launch, Prodigy had established relationships with more than 200 national advertisers.<sup>76</sup> Prodigy had made a concerted effort to appeal to these advertisers by embracing a radical departure from the technology norms of its day. Prodigy eschewed existing videotext technology in favour of a different presentation architecture designed to render colourful, graphical elements on the computer screen much more readily than previous systems. Prodigy sought to appeal to advertisers and consumers by going beyond the typical user experience that was common up to this point. *Information Today* described what Prodigy was attempting to accomplish:

Being attractive to users is what consumer videotex is all about. Videotex for business users can be simply utilitarian, but for the general public, it must be more than that. When appropriate, it should provide quick answers or meet users' immediate needs. But also, it should have some element of surprise, even fascination. Design elements have become all the more important now.<sup>77</sup>

Prodigy's efforts to create colourful, user-friendly designs were heavily influenced by its relationship with advertising agencies, especially the J. Walter Thompson agency. Prodigy realized that most advertisers would be uncomfortable developing material for online services and would seek assistance from established agencies they trusted with television, radio and print advertising.

J. Walter Thompson, a leading advertising agency at that time, had demonstrated a long commitment to working with potential new advertising delivery platforms. The agency even worked on advertising campaigns that had appeared on Viewtron and Gateway, but the failures of those services did not deter Thompson from an aggressive approach involving Prodigy. Working primarily with its auto industry clients, the agency opened an office in Detroit dedicated to creating campaigns for the online market, and it became "the first full-service agency for Prodigy." The agency was responding, its managers said, to what *Information Today* described as "two important transitions" occurring with online services: "The visual impact of online material is greatly expanding, and the ... the influence of advertisers in transforming videotex into something akin to another media."<sup>78</sup> Prodigy's

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76. Conhaim, "Developing Videotex as a Consumer Medium," par. 4.

77. *Ibid.*, par. 3.

78. *Ibid.*, par. 12.

relationship with Thompson and other agencies was not exclusive, but its leadership role in reaching out to the advertising community and actively catering to its needs is a major reason why it attracted the attention of the newspaper industry.

As AOL found early newspaper industry support from Tribune Co., Prodigy received an early and important endorsement from Cox Newspapers. Cox entered into a multi-newspaper deal and emerged as the industry evangelist for Prodigy, spearheading efforts to create a consortium for other newspaper companies to join the platform. Cox had a partnership underway with BellSouth's online gateway service as was discussed in the previous chapter, but Cox's president said he was attracted more to Prodigy because its approach so closely resembled a newspaper model. He specifically noted that Prodigy's design, which featured "substantial display advertising," was a close proxy for the format of a printed newspaper page.<sup>79</sup>

Cox deployed the Prodigy platform to put several of the company's newspapers online, including *The Atlanta Journal-Constitution*, *The Palm Beach Post* in West Palm Beach, Florida, and *The Austin American-Statesman* in Texas. During this process, Cox touted the Prodigy platform as a low-cost way for publishers to enter the re-emerging online marketplace. The newspaper company also boasted that Prodigy offered a technologically superior network that would serve newspapers well in local markets because its 130 local dial-in numbers across the country reduced long distance access requirements.<sup>80</sup>

Prodigy initially launched with its own content staff, becoming the only one of the proprietary online services to promote original content as a service differentiator. Prodigy's staffing initiatives rekindled the newspaper industry's concerns that had surfaced in the 1980s debate with AT&T when newspaper executives fought to keep the telecommunications industry out of the news creation business. As recounted in Chapter Four, AT&T tried to appease newspaper executives with assurances that the telecommunications giant had no intentions of creating news content, but only wanted the ability to freely distribute such content. Prodigy made no such concessions at the outset, thereby stoking newspaper industry

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79. Potter, "Cox Seeks Power in Partnerships," 19. [Statement attributed to David Easterly, president of Cox Newspapers.]

80. Ibid.

concerns regarding a new breed of competition. Newspaper companies recognized the same kind of electronic threat that AT&T had represented, but Prodigy did not have the regulatory restraints imposed on the telecommunications industry.

Nevertheless, perceptions of competition gave way when both sides decided that cooperation represented a greater opportunity. As Prodigy embraced the notion of partnering with media companies, it abandoned its original content plans. After entering into deals with several media companies, including at least eight major newspapers by the end of 1994, Prodigy eliminated its internal content staff of at least 100 employees and turned solely to its new media partners for content. As part of this switch, Prodigy took steps to address some of the production issues and control concerns that newspaper companies had expressed.<sup>81</sup> A Prodigy spokesman described the company's transition as "moving toward an open-network strategy, allowing publishers to come on and maintain their brand identity, providing authoring tools to create the same look and feel as their newspapers."<sup>82</sup> Prodigy also teamed up with its partner newspapers and independent software companies to create new services and functionalities, including, for example, a tool that allowed users to select specific newspaper stories and assemble them into "personal on-line newspapers."<sup>83</sup> In addition to its advertising relationships, system functionality was also cited as significant reason why newspaper companies chose Prodigy as its online partner.

*The Los Angeles Times*, for example, followed Cox onto the Prodigy platform,<sup>84</sup> creating TimesLink, which was described by an executive as "a powerful, local, online gateway to commerce." This executive maintained that it was the "functionalities" of online services including interactive chat and message boards, more so than content, which attracted users and created community. "By drilling deep, we can begin to move the needle beyond the high-tech audience" to a mainstream audience, he said.<sup>85</sup> An executive with the *Tampa Tribune* also expressed the desire for pursuing a mainstream audience as a factor in selecting Prodigy. He

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81. Potter, "A Guide to Online Avenues," S4.

82. Ibid. [Statement attributed to Michael T. Darcy, Prodigy's communications manager.]

83. *Presstime*, "Atlanta's Custom Connection," 8.

84. *Presstime*, "Partner Power and the Next Media Age," 38.

85. Gipson, "Wiring the Waltons," 16. [Statements attributed to Victor Perry, vice president of new business development at *The Los Angeles Times*.]

explained: “If we had wanted to go with strictly the techie market, we would have chosen CompuServe or America Online. But the feeling was that with Prodigy we could go get new people who had just purchased a computer for the first time.”<sup>86</sup> It is difficult to grasp such basic concerns when viewing them through a contemporary lens, but consider that in 1993 less than 13 percent of U.S. households had a personal computer equipped with a modem capable of accessing an online service. Newspaper executives believed the market would expand rapidly, so aligning with an online partner was essentially placing a bet on the one considered to be the best horse in the race.

## Transition to the Internet

Newspaper companies never had the chance to see how their bets with the proprietary online systems would pay out, because the unexpected emergence of the Internet disrupted the market. Even as newspaper companies were signing their deals with proprietary online service companies, the Internet was creeping into the market. The newspaper industry’s ability to adapt would be challenged again as consumers began to embrace the Internet in the mid-1990s.

Newspaper publishers can be excused for not appreciating in 1993 and 1994 how disruptive the decentralized Internet would become. Although a few pioneering newspapers, including *The News & Observer* in Raleigh, North Carolina,<sup>87</sup> experimented with the Internet as early as 1994 most newspaper companies did not see the potential. They were not alone. Even the technology giant Microsoft is remembered as slow to grasp how transformative the Internet would become. As late as August 1995, Microsoft was just getting around to launching its own proprietary service, the Microsoft Network. Some newspaper executives fretted over Microsoft’s entry as a possible new competitor, but a newspaper in Microsoft’s backyard—*The Seattle Times*—announced that it would experiment with providing content on the new platform.<sup>88</sup>

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86. Potter, “A Guide to Online Avenues,” S7. [Statement attributed to Carl Crothers, deputy managing editor for the *Tampa Tribune* and team leader for its Tampa Bay Online.]

87. Davis, “Profiles: Frank A. Daniels III; George Schlukbier,” 24-25.

88. Gipson, “New Media: Newspapers and Related Organizations Continue to Launch On-Line Services,” 13.

With the Internet looming and a potential powerful new proprietary service backed by Microsoft entering the market, newspaper companies were again confronting a confusing and unsettled time. They once again faced critical questions about strategic direction. One executive describing this period said that “if the new media landscape is Oz, we are about a half a step down the yellow brick road.”<sup>89</sup> The comment was prescient as the media landscape changed rapidly in the mid- to late 1990s, especially as the proprietary services morphed into Internet service providers before fading in importance.

In revisiting this period of transition, Reid noted that services such as Prodigy, AOL, and CompuServe “were flourishing” as the Internet appeared. Given the demonstrated popularity of these services, Reid questioned how the Internet was able to attract so many users so quickly. He wrote that the success of proprietary online systems “indicated an increasing interest in connecting and communicating among computer owners,” but he observed that “while the commercial services helped satisfy that urge, none ever attained the kind of content and user growth momentum that the Web generated.”<sup>90</sup> Reid’s conclusion as to the reason for the Internet’s ultimate success and the subsequent decline of the proprietary services is essential to understanding the conundrum facing newspaper executives as they contemplated their next moves. Reid wrote:

... each commercial service’s subscribers and content were sequestered from the others’. Subscriber growth at CompuServe therefore did nothing to help Prodigy’s content reach more of its natural audience, and growth in America Online’s content did nothing to enrich the CompuServe or Prodigy experiences. Segregated and barricaded, the aggregate online population could never achieve the full benefits of mutual affiliation that open networks offer.<sup>91</sup>

Newspaper executives who had worked hard to hammer out their partnerships with the proprietary online services were glad to have found a role in the electronic marketplace that made business sense. Providing content within the gated communities of the proprietary online systems was comfortable. The Internet was

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89. Carter, “Online Advertising,” 39. [Statement attributed to Eugene Quinn, general manager of Tribune Interactive Network Services.]

90. Reid, *Architects of the Web*, 14.

91. *Ibid.*

not. Many in the newspaper industry initially believed that the open network of the Internet would lead to information anarchy. Without central control how would consumers know where to turn? Without standards how would advertisers ever trust the medium?

The newspaper industry's response to such questions is the focus of Chapter Six. But it is important to note that there was no clean transition for newspapers from the period of proprietary services to the Internet era—no date on a calendar that marked a seminal event. Until 1995, the American newspaper industry had largely responded to the renewed possibilities of online media by forming partnerships with proprietary online service companies. These companies also did not anticipate the revolutionary impact that the Internet – in the form of the World Wide Web – would have on their plans and expectations for online media. Even as late as May 1996 when other services were migrating most services to the Internet, AOL said it would remain a proprietary service. “We have no plans to become a HTML shop anytime soon,” said its head of product marketing.<sup>92</sup> Its newspaper partners continued to be an important source of content during the transition years, especially in areas that emphasized local, geographically-focused content.

Nevertheless, as newspaper executives realized the staggering rate at which the Internet was achieving household penetration, they began to take their content there as well. Boczkowski summarized the period covered so far by this thesis—the 1980s to the mid 1990s—as a time that “American dailies tinkered with an array of alternatives to print.”<sup>93</sup> He elaborated:

... the 1980s was a decade of exploration of multiple technical, editorial and commercial options. While newspapers continued to explore these options during the first half of the 1990s, they progressively narrowed down their efforts around products delivered to personal computers connected to online services until they finally settled on the web circa 1995.<sup>94</sup>

Boczkowski's notion of an industry tinkering for a decade and a half perhaps implies that the efforts were half-hearted. Maybe they were in some cases, but that does not

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92. Taylor, “AOL: Won't Tangle With Web,” 6. [Statement attributed to David Gang, vice president of product marketing for America Online.]

93. Boczkowski, *Digitizing the News*, 48.

94. *Ibid.*

diminish the influence these projects had on the collective industry thinking about electronic distribution of news, information, and advertising.

## Conclusion

The brief period of concerted engagement with the proprietary online services can be viewed as the time when newspaper publishers turned away from their protectionist rhetoric of the late 1980s and became seriously engaged once again in efforts to exploit online media. Working with companies such as Prodigy and AOL gave newspaper companies a renewed sense of purpose in the electronic era and fostered optimism throughout the industry. While the earlier failures of Viewtron and Gateway had tarnished the industry's reputation, the work with the proprietary online systems restored it.

The fact that newspapers were active again in pursuing new technology represented a seminal change for an industry that had spent the better part of the 1980s fighting the telecommunications industry and allowing its reputation to be cast as a group of naysayers and obstructionists. The notion that the industry's future success would require conquering and exploiting new technology was once again a commonly held belief.

By 1993, it was no longer considered optional for a serious daily newspaper to be involved in the online world. This attitude shift is corroborated in an influential textbook on newspaper management, which listed a key strategy for success as "joining high tech companies in jointly producing interactive electronic services or in other ways using new technology"<sup>95</sup> The key part of the strategy involved partnerships. Despite the renewed optimism, the skittishness about the cost of electronic information services lingered over the industry. It fostered a climate where few newspaper companies wanted to invest in online services independently.

Even so, the recognized shortcomings of the new proprietary online services—unproven technology and business models—would have been more than enough to dissuade newspapers from teaming up with them only a few years earlier. But the underlying climate had changed. *American Journalism Review* called it "not

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95. Fink, *Strategic Newspaper Management*, 26.

a revolution, but an evolution,” adding that “recent shifts with the cable and telephone industries, the surge in popularity of personal computers, and a drawn-out economic recession that has sliced into advertising revenues have combined to force newspapers to look forward.”<sup>96</sup> In looking forward, however, the newspaper industry envisioned an online marketplace that would largely resemble its offline world. In this market, large media companies centrally created the content, controlled its distribution and relied on advertisers to pay for it all. In this regard, newspaper companies understood the proprietary online services largely because they also relied on central control.

In Chapter Six, the thesis continues with an examination of the newspaper industry’s ongoing desire to participate in the online services market. The chapter tracks the newspaper industry as it transitioned from the proprietary services to the Internet. The next chapter explores the latter half of the 1990s as newspaper companies launched numerous Internet ventures and tried to adapt to an emerging media model that called for radical changes in the way newspaper companies preferred to operate. This thesis has shown that the newspaper industry often acted defensively and—after the early 1980s—with risk management concerns at the forefront of its strategies, but there was a résumé of online experience in place when the Internet arrived. Chapter Six examines how newspaper industry executives thought they could use that experience and their local market dominance to exploit the Internet to their advantage.

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96. McKenna, “The Future is Now,” pars. 9, 11.

## Chapter Six: The Emerging Internet Threatens Established Publishing Model

Newspaper publishers contemplating their industry's role in online media in the mid-1990s were confounded by the accelerating pace of change. The emergence of the World Wide Web during the period when newspaper companies were aligning their future with proprietary online services was unexpected and unsettling. *Wired* magazine published an article in October 1994 under the headline: "The (Second Phase of the) Revolution Has Begun." For any newspaper executive who may have read the article, the opening would have provided reason for pause: "Don't look now, but Prodigy, AOL, and CompuServe are all suddenly obsolete—and Mosaic is well on its way to becoming the world's standard interface."<sup>1</sup> Newspaper executives, just getting comfortable with their new online strategy and the ensuing partnerships, were forced to confront this new development.

Chapter Six explores the newspaper industry's reaction to the World Wide Web as it established the Internet as a full-fledged content distribution platform. Initially, newspaper executives were sceptical. After all, the giant Microsoft was seen by the newspaper industry as a technology bellwether and its actions during this period did not portend the Internet to be as revolutionary as some commentators were suggesting. Microsoft, for instance, largely followed the proprietary model when it launched the Microsoft Network (MSN) in August 1995,<sup>2</sup> which was ten months after the *Wired* article pronounced such endeavours as obsolete.

Once the movement to Internet began, however, the newspaper industry represented significant activity. This chapter examines several of the projects undertaken by the industry that illustrate its response during the period that led up to the Internet industry's financial bubble collapse in 2000. In explaining how this profound transition unfolded, this chapter looks first at the development of Mosaic, which was critical to the overall acceptance of the Internet as a mainstream platform. The focus then turns to the newspaper industry's migration to the web, and highlights the NCN initiative. The chapter examines the demise of NCN and includes

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1. Wolfe, "The (Second Phase of the) Revolution Has Begun," par.1.

2. Microsoft, *Microsoft Announces Availability of the Microsoft Network; Consumers Worldwide Invited to Get Online with Windows 95 and MSN*, par. 1.

retrospective comments from participants and observers regarding what its failure represented in terms of the newspaper industry's ability to exploit the changing marketplace. The chapter also addresses how the industry wrestled with numerous issues involving content, structure, and business models. There is particular emphasis given to the classified advertising component of the newspaper industry's business model and how emerging businesses on the Internet began to alter the dynamics of that market.

## The Mainstream Internet

When newspapers first encountered the Internet, wired households in the U.S. were far from ubiquitous. Only 11 percent of the country's households owned modems in 1994. The number grew to 26 percent by 1997 and to about 33 percent by the end of the decade.<sup>3</sup> The overwhelming majority of households during this period did not own the equipment necessary to access the Internet. Therefore, newspaper executives were not reacting to the Internet's market penetration, but rather to its growth trajectory. In looking back over the Internet's development, many assume that its dominance was recognized as inevitable from the outset. For those with only the perspective of the mid-1990s, however, the future of the Internet was only speculation.

AOL, Prodigy and CompuServe were attracting enough mainstream audience to entice Microsoft into the arena for proprietary online services, but none of these businesses contemplated an Internet-based service at this juncture. The conversations about the Internet during this period were found in the academic and technical communities and among some early adopters. As the conversations about the Internet gained momentum, they were joined by entrepreneurs and venture investors, which formed a collective that would become known as the *digerati*.<sup>4</sup> The rhetoric emanating from these early conversations foreshadowed why the Internet would be different from the online information services that preceded it.

Mitchell Kapor's essay published by *Wired* in the summer of 1993 captured the sentiments of the *digerati* and explained why they believed the Internet would deliver on the promises of an Information Society where other systems had failed:

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3. Raine and Bell, "The Numbers That Count," 44.

4. The Merriam-Webster Dictionary reported the first known use of this play on the word *literati* occurred in 1992 and was applied to "persons well-versed in computer use and technology." (<http://www.merriam-webster.com/dictionary>)

This dream has been promoted extensively, but until recently little visible progress has been made toward its realization. In the past, political gridlock has snarled telephone companies, newspaper publishers, cable television operators, and other potential players in lengthy and fruitless congressional and court battles. A justifiable cynicism developed to fill the gap between vision and reality. Meanwhile, the pioneers of the computer-mediated communication networks collectively referred to as cyberspace are not willing to wait. Employing whatever tools they can find, they are constantly pushing the techno-cultural envelope. Life in cyberspace is often conducted in primitive, frontier conditions, but it is a life which, at best, is more egalitarian than elitist, and more decentralized than hierarchical. It serves individuals and communities, not mass audience, and it is extraordinarily multi-faceted in the purposes to which it is put.<sup>5</sup>

The essay reflects the notion that traditional media, including newspapers, had not done enough to develop electronic information services. The implication was that the established players had failed to exploit the technology available to them, and therefore, it was time to allow a new breed of businesses—those not wedded to models of control—to establish a new operating model.

Traditional media, however, saw no reason to simply step aside. The newspaper industry specifically forged ahead with plans based on its long-established media model that relied on creating content centrally and distributing it en masse from the point of creation to multiple end-users. Newspaper industry executives believed their view of the electronic information market had been corroborated by the success of commercial databases, which operated on a similar model. In these services, data was collected in large central repositories and delivered through proprietary computer connections to customers who subscribed. In both the media model and this database model, centralized control of content and distribution was the fundamental element.

The Internet, however, was not conceived as a publishing tool in the traditional sense. Rather, its roots were in the research labs of the nation's government, defence, and academic institutions. An original purpose was for researchers to collaborate more readily by sharing information; therefore, its design allowed content to flow from any point on the network. There was no central authority to control what was shared, how much was shared, or when it was shared. Based on the discussion of interactivity in Chapter One, therefore, it is possible to

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5. Kapor, "Where is the Digital Highway Really Heading? The Case for a Jeffersonian Information Policy," pars. 3-4.

understand that the Internet was inherently interactive because it was specifically designed to foster the sharing of data and to facilitate communication about the data that was being shared. Traditional publishing, on the other hand, was designed to empower the owners of content who intended to profit by controlling its dissemination.

This fundamental difference empowered the users of the Internet in ways that traditional publishing was not designed to do. It gave them control over the content they consumed, while traditional publishing restricted control. For years, however, the Internet's users were limited to technically savvy individuals who understood how to write and communicate in complex computer languages. The Internet did not become a useful consumer platform until an application was developed that hid the computer complexity behind a simple graphical interface. In the following material, this chapter explores the significance of this development and examines the implications it had for increasing the popularity of the Internet and the ramifications for the newspaper industry and its traditional publishing model.

### ***The Game-changing Mosaic***

*Online* magazine explained that the mid-1990s represented a transformative point in media history because of the functionality unleashed by the World Wide Web:

... it was the genius of linking pages and hyper-jumps in digital space that turned the trick. The next revolution was unleashed. The Internet became the computing infrastructure, the definitive metaphor for electronic information.... In 1987, online included the Internet. By 1997, online was the Internet.<sup>6</sup>

There is little attempt in current discussion to distinguish the Internet from the World Wide Web, but at the outset there was a clearer understanding of the Internet as the network and the World Wide Web as its primary content layer. The distinction began to evaporate with the introduction of Mosaic, a software application that provided a graphical interface for finding and navigating through content using the Internet.

Hypertext had been around for years, but Mosaic brought its potential to life in a way that general computer users could understand and use. In doing so, the application triggered a rush to create content and fostered the notion of the Internet as a media platform. An early user of Mosaic recalled her experience as transformative: "For many of us involved in early online and interactive publishing

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6. Arnold, "Vectors of Change: Electronic Information from 1977 to 2007," par. 56.

experiments, Mosaic, or as I liked to refer to it in a time of less potent bandwidth, ‘The Little Browser That Could,’ changed our world.”<sup>7</sup> In the case of Mosaic, descriptions such as revolutionary, world-changing and transformative were not hyperbole. CNET News, for example, explained the significance of Mosaic:

... the modern concept of the Internet would not exist if the browser had remained in the exclusive realm of academia.... Mosaic transformed the Internet from the esoteric province of researchers and technophiles to a household appliance, creating a multibillion-dollar industry and changing the way society works, communicates and even falls in love—in short, affecting nearly every facet of life.<sup>8</sup>

Before the creation of Mosaic, the Internet and World Wide Web were not topics of mainstream discussion. *The New York Times* published its “first article about the Web” on December 8, 1993<sup>9</sup> and described Mosaic as “a map to the buried treasures of the Information Age.” The article explained that Mosaic did not provide connections to the Internet, only a more convenient way of finding information once a person was connected.<sup>10</sup> Effusive in its praise, the article noted that Mosaic’s “many passionate proponents hail it as the first ‘killer app’ of network computing—an applications program so different and so obviously useful that it can create a new industry from scratch.”<sup>11</sup> Many would argue that Mosaic did just that. From the outset it was treated as an exciting new software application, but in less than two years it was a global sensation as it enabled the Internet—as we understand it today—to exist.

Its significance also stems from the role it played in igniting the Internet as business phenomenon. Mosaic’s success gave rise to the Internet as a breeding ground for innovation and a lucrative place for venture capital investors to find opportunities. Tim Berners-Lee, a British researcher, is credited with establishing the technical protocols that created the World Wide Web as a way of organizing information. Mosaic, however, represented a “better way of displaying the information that the Web had so brilliantly organized.”<sup>12</sup> Mosaic represented such a powerful innovation that its creator Marc Andreessen, a student at the University of

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7. Osder, “The Little Browser That Could and the New Media Revolution,” par. 1.

8. Yamamoto, “Legacy: A brave new World Wide Web,” par. 5.

9. Carlson, “Online Timeline,” 69.

10. Markoff, “Business Technology: A Free and Simple Computer Link,” par. 1.

11. *Ibid.*, par. 3.

12. Reid, *Architects of the Web: 1,000 Days that Built the Future of Business*, 2.

Illinois, used it as the foundation for launching Netscape.<sup>13</sup> The company was also a game-changer, representing the first in a series of Internet-based start-ups that altered the face of American business during this period.

### *A New Business Climate*

In less than two years from its creation, Netscape went public in August 1995 through a landmark stock offering.<sup>14</sup> Despite losses that had reached nearly \$13 million, Netscape soared to a market value of \$2.7 billion on its first day of trading.<sup>15</sup> The unprecedented event on Wall Street touched off the investment frenzy surrounding Internet companies in the latter half of the 1990s. The losses notwithstanding, the success of Netscape's stock offering was supported by the perceived potential of its flagship product, the graphical browser that had its roots in Mosaic. The exuberance investors showed for money-losing Internet start-up companies transformed the capital markets during this period. The events confounded executives in many industries, including the newspaper business. They were dismayed by the magnitude of capital investment that was flowing freely to companies that were unproven, had posted only losses, and were operating in a market with no established history.

One newspaper industry consultant observed that the financial markets were rewarding companies that brought innovative products to markets without regard to their business pedigree. The consultant stated: "Content kings are now vulnerable," adding that "newspapers bring capability and capital ... but they won't be chosen over the kid down the street who knows how to make and use those tools. We need to get to know those kids."<sup>16</sup> The implication of the statement was that newspaper companies were unlikely to be innovative enough on their own to compete in the new Internet market. Previously, traditional media companies such as newspapers were thought to be important players in electronic information because of the inherent value of their existing content. The early developments of the Internet, however, demonstrated that functionality, interactivity and community building could perhaps trump the importance of content held by the traditional media. This chapter explores this topic later. Meanwhile, the newspaper industry was concerned

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13. Ibid.

14. Ibid.

15. Ibid., 44.

16. *Presstime*, "The Content Kings' Conundrum," 27. [Statement attributed to Kathleen Criner, an industry consultant who had been senior vice president for industry development at the NAA.]

about other shifts in the media landscape beyond the emergence of the Internet during this period.

Newspaper executives were forced to consider their strategic decisions in the context of an escalating pace of mergers occurring among their more traditional electronic rivals—radio, broadcast television, and cable television—as well as among the phone companies. Chan-Olmsted found that among those industries, the number of mergers and acquisitions—transactions valued at more than \$5 million—soared from 68 deals in 1991 to 204 deals in 1996.<sup>17</sup> The period was marked by a surge of activity in 1996 spurred on by new telecommunications legislation that sought to bring policy in line with the new technologies. The legislation brought the spectre of more wholesale changes to the media landscape. As Chan-Olmsted concluded:

The sweeping changes in telecommunications regulation signed into law in 1996 by President Clinton set the stage for a new era of strategic alliances among communications services companies in the country. By striking down the rules that have prohibited cross-ownership between telephone and cable companies, limited broadcast station ownership by a single entity, and separated local and long-distance telephone service providers, the new regulatory environment will likely foster the convergence of broadcasters, phone companies, and cable TV services.... Convergence through M & A seems to provide the best opportunity for companies to accelerate the implementation of new technologies and at the same time capture a developed customer base.<sup>18</sup>

The newspaper industry was at a crossroads. The emerging Internet had many executives questioning whether their alliances with the proprietary online services were sufficient. This new concern contributed once again to a fear of being left behind. When combined with the concomitant changes in telecommunications regulation, the newspaper industry was compelled to do more in the electronic arena than it had since the early 1980s.

Boczkowski wrote that “caught in the middle of these rhetorical and policy developments, many newspaper people imagined the Internet and related technological changes to be tied to dramatic transformations in their own industry.”<sup>19</sup> As newspaper executives began to accept the Internet as a paradigm shift of immense proportion, the industry mobilized in ways that were unprecedented. The

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17. Chan-Olmsted, “Mergers, Acquisitions, and Convergence: The Strategic Alliances of Broadcasting, Cable Television, and Telephone Services,” 41.

18. *Ibid.*, 33-34.

19. Boczkowski, *Digitizing the News: Innovation in Online Newspapers*, 37.

newspaper industry committed to new investment in technology, new hiring, and a new industry-wide effort to collaborate as the industry collectively embraced the Internet as its path to the future. The remainder of this chapter critically examines specific aspects of the newspaper industry's Internet effort during the latter half of the 1990s.

## **Newspapers Mobilize for Changing Market**

Newspaper companies committed to their Internet efforts amid a sense of urgency that had been missing from the industry's electronic endeavours for some time. As the head of the industry's trade association put it: "if we sit back and [it] ends up becoming a major information channel, we'll never catch up."<sup>20</sup> Many newspaper company leaders expressed confidence that the industry's earlier shortcomings in online media could be overcome. An industry leader stated: "It is information *processing* that is newspapers' greatest strength," adding that "newspapers must understand that what they do best—gathering, packaging and distributing news and information—is much more than ink on paper."<sup>21</sup> Another executive's comments also are illustrative of the strident views expressed about the ability of newspapers to become formidable competitors in the new arena:

Without a doubt, newspapers are best positioned to thrive in the electronic future. We already have strong brand recognition, established credibility and strong relationships with our customers.<sup>22</sup>

In using such attributes to describe the newspaper industry's strengths, leaders were seeking to reaffirm the value in their existing franchises and explain how that should differentiate newspaper companies in a new media market where upstart competitors had no history to build upon. Throughout this early Internet period, industry leaders also wanted constituents—readers and advertisers—to view newspaper companies as being in control of the rapidly evolving events.

The industry's trade association played an important role in developing this message. For example, when the association launched its own website in the summer

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20. *Presstime*, "Future Bound: Products, Systems and Practices Preview What's Next," 31. [Statement attributed to Cathleen Black, president and chief executive officer of the NAA.]

21. *Presstime*, "Putting it Together: The Las Vegas Trade Show Proved a Technological Oasis of Shared Ideas, Strategies and Solutions," 31. [Statement attributed to Charles T. Brumback, chairman and chief executive officer of Tribune Co. and a chairman of the NAA.]

22. *Presstime*, "Future Bound: Products, Systems and Practices Preview What's Next," 31. [Statement attributed to Uzal Martz, publisher of the *Pottsville Republican* in Pennsylvania and a chairman of the NAA.]

of 1995, a statement described newspaper companies as “in the vanguard, exploring how this new medium can help translate their information and community-building franchises to cyberspace.”<sup>23</sup> The language used, such as “vanguard,” illustrates how the industry promoted its role as a leader in the emerging Internet-based media industry. Such efforts were effective in helping the newspaper industry shed the negative perceptions associated with its lobbying stance against the telecommunications industry and its early failed videotext projects.

As newspaper companies began to launch Internet editions, the industry received recognition for pioneering work. *MediaWeek*, for example, noted the newspaper industry’s tenacity for pursuing electronic media projects:

Newspaper executives don’t give up easily. In the 1980s, many large dailies considered videotext a can’t-miss technology for an industry that was suffering from stagnating circulation and rising newsprint and distribution costs. A decade later, a confluence of those same problems, and the emergence of modem-equipped personal computers, has newspaper executives talking electronic delivery again, substituting the Internet for failed videotext experiments like Knight-Ridder’s Viewtron and Times Mirror’s Gateway.<sup>24</sup>

The industry’s public relations efforts would have had little effect in changing perceptions had newspaper companies not responded to the Internet in a significant way. But industry statistics show that the rhetoric was supported by significant activity.

In February 1995, about 60 daily U.S. newspapers were publishing an online version of some kind, either via a website, a bulletin-board service, or through a proprietary service.<sup>25</sup> By the end of that year, there were 175 papers online via the web,<sup>26</sup> a number that would explode to 1,749 U.S. daily newspapers on the web by May 1998.<sup>27</sup> Newspapers placed so much emphasis on their web presence that most other electronic publishing activities, such as audiotex, fax services, and partnerships with proprietary online services, were abandoned or curtailed during this period. Knight-Ridder also closed its information design laboratory in 1995, which had been working for three years to develop an electronic tablet newspaper. In announcing the

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23. *Presstime*, “Association Now at Home on the Web,” 6.

24. Shaw, “Videotext, the Sequel,” 14.

25. *Ibid.*

26. Newspaper Association of America (NAA), <http://www.naa.org>.

27. Peng et al., “Trends in Online Newspapers: A Look at the US Web,” par. 4.

closure, the company said it planned “to concentrate our resources on Internet and online publishing.”<sup>28</sup>

Boczkowski observed the newspaper industry’s years of experimentation led to its adoption of the Internet in 1995 as its electronic platform of choice. As he surmised, had newspapers not experimented with earlier forms of electronic media, the transition to the web would have unfolded very differently than it actually did. The efforts newspaper companies had put into electronic distribution made it easier for them to accept the Internet as the next step in a development process that was already underway.<sup>29</sup> One research team wrote that projects such as videotext and commercial online databases were all “early forms of online publishing” that “in some way shaped the path of Internet publishing.”<sup>30</sup> These efforts, chronicled throughout the preceding chapters of this thesis, led many newspaper executives and researchers to believe that the industry’s experiences had produced knowledge that would be transferred to the Internet endeavours.

Lee, for example, observed that “early trials and offerings of electronic newspapers have provided some useful insights valuable to the development of newspapers on the Internet.”<sup>31</sup> Lee said the advances in technology represented by the Internet over videotext limited any direct knowledge transfer, but he added that several overarching lessons should be applicable. For example, he wrote the early online projects taught newspaper that they should be concerned with audience critical mass, onscreen readability, intuitive navigation, and interactivity.<sup>32</sup>

Even though the newspaper industry entered the Internet era with this reservoir of online experience, its many critics contend most of the lessons learned went unheeded. In this chapter’s subsequent sections, the thesis critically examines how the newspaper industry approached a number of operating decisions related to the emerging Internet marketplace. These decisions included a range of issues such as business partnerships, production processes and competitive responses.

In the early going, newspaper companies were willing to experiment and approached the Internet as an opportunity. They entered business arrangements that were considered radical by the newspaper industry’s previous standards—creating

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28. Knight-Ridder Inc. “Knight-Ridder Closes Information Design Laboratory,” par. 2.

29. Boczkowski, *Digitizing the News*, 48.

30. Peng et al., “Trends in Online Newspapers,” par. 8.

31. Lee, Ya-Ching, “Newspaper Online Services: A Successful Business?; Lessons Learned from Videotext Failure,” 11.

32. *Ibid.*, 23.

partnerships and making investments that challenged the industry's cultural make-up. The most notable example is an industry consortium called the New Century Network (NCN) that at one time represented the industry's best idea for achieving success in the Internet era. The thesis next explores the creation and eventual failure of this effort and discusses its role as the newspaper industry's early response to the Internet.

### ***New Century Network: An Aggressive Move***

The newspaper industry's most aggressive attempt to gain an upper hand at the outset of the Internet era was in creating NCN, a consortium of several major newspaper companies. Its mission was to lead the industry's transition to the Internet, providing a framework for the nation's daily newspapers to establish a consistent online presence. The consortium's founders at its launch in April 1995 included Advance Publications Inc., Cox Newspapers Inc., the Gannett Co., Hearst Corp., Knight-Ridder Inc., the Times Mirror Co., the Tribune Co., and the Washington Post Co.<sup>33</sup> A few weeks later, The New York Times Co. joined, stating that once it had reviewed the membership proposal the consortium was determined to be "a good fit for the company."<sup>34</sup> With The New York Times Co. on board, the ownership of the consortium represented more than 200 daily newspapers, and it planned to have 75 of those papers operating within the framework of NCN within two years.<sup>35</sup> The timeframe reflected a cautious and methodical approach, but one that underestimated the speed at which the Internet would develop.

A cornerstone of NCN's mission was to bring order to the Internet, and by doing so, allow the newspaper industry to exercise significant control over the emerging platform. NCN was founded during a narrow window in the Internet timeline that came after the creation of Mosaic, but before there was a clear sense of the Internet's development trajectory. How the Internet would develop was an unknown, but newspaper companies believed their local market presence and relative economic strength would give them enormous influence in determining how the technology would be deployed. In these early years, newspaper executives saw the emerging Internet as simply another electronic connection to the home. Although the

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33. Lewis, "The Media Business: Big Newspapers to Help Locals on Internet," par. 3.

34. *The New York Times*, "Information Technology: The Times is Joining New On-Line Service," par. 4.

35. *Ibid.*, par. 5.

Internet's presence in the media marketplace was unforeseen, newspaper companies did not react out fear in this case. Rather, than a defensive move, NCN represented a bold offensive strategy for a newspaper industry that was uncomfortable with the early anarchy of the web. Instead of waiting for order to emerge, many executives within the newspaper industry believed NCN could translate the industry's clout into standards regarding how the emerging Internet would operate as a media and advertising platform.

Newspaper executives especially wanted NCN to develop platform standards for advertising. Many newspaper companies were reluctant to move forward with Internet initiatives in the absence of known advertising standards, including things such as common sizes that would allow agencies to place the same advertising across multiple websites. In discussions about how to bring standards to market, NCN once considered developing its own browser software.<sup>36</sup> While creating a new browser was deemed impractical, NCN was guided in its early months by its standards focus. One executive active in the NCN creation stated: "standards will allow newspapers to take precedence."<sup>37</sup> The newspaper industry's belief that it could influence the direction of the Internet's development through NCN underscores the importance of this initiative within the industry's early Internet efforts.

The NCN initiative surprised some of the financial analysts who followed the newspaper industry, but the concept was generally well-received. An analyst stated: "It's surprising, because the industry doesn't often get together like this, but it makes a lot more sense than somebody trying to do something on their own."<sup>38</sup> The word "portal" had yet to be applied to the concept of an Internet destination intent on aggregating users, but that describes the early vision for what NCN could become. The initial business model was based on creating a newspaper industry hub, linking "member publications through common search, financial-transaction and advertising engines."<sup>39</sup> It also intended to provide a standard technical platform for delivering ancillary services such as home shopping, electronic mail, chat services and discussion boards.<sup>40</sup> Nevertheless, *The New York Times'* description of how the

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36. Toner, "Standards Bearers Enter the Web," 76.

37. Ibid. [Statement attributed to Robert Ingle, vice president of Knight-Ridder's new media operations and the company's NCN representative.]

38. Lewis, "The Media Business," par. 5. [Statement attributed to John S. Reidy, a media analyst for Smith Barney, Inc.]

39. Toner, "Standards Bearers Enter the Web," 76.

40. Lewis, "The Media Business," par. 7.

consortium would operate seems quaint given an understanding of how the Internet evolved:

Each newspaper would be able to create its own “look” on the Internet and retain its own reporting and editing staff for local news. But each would also be able to link with other newspapers, allowing, for example, a reader of the electronic Austin American-Statesman to buy a single copy of the electronic *Des Moines Register*, if he or she were particularly interested in news developments in Iowa that day, or to buy a subscription to the electronic *Houston Chronicle*.<sup>41</sup>

NCN’s primary content activity was to aggregate news content from newspapers around the country, but to accomplish this in such a way that local branding remained intact. NCN’s model reflected a television model. NCN would operate as the national network, while each newspaper would serve as a local affiliate.

To pay for itself and to share revenue with its newspaper affiliates, NCN planned to establish an interactive advertising network that could leverage the capabilities of the medium. NCN’s interim chief executive explained: “On-line media are response-driven, and that means that the advertising content itself has to be entertaining and informative. This is the only medium that allows a user to make an immediate impulse request or purchase, so every package must have that capability.”<sup>42</sup> NCN projected that advertisers would begin transitioning from print to the Internet when at least 25 percent of consumers—a critical mass—began regularly using the Internet. In 1995, NCN believed that threshold would be met by the end of the decade. The interim chief executive told his colleagues: “This means we have a five-year window, which is not long, to become competent in the intricacies of developing new interactive content and figuring out which advertising models best suit those new applications.”<sup>43</sup> The sense of urgency implicit in these remarks illustrates that the industry was beginning to recognize the rapid pace of change the Internet had created. But agreeing on an approach to act on that recognition proved elusive for the newspaper industry.

Even though NCN had been created to embrace change, many newspaper executives remained ensconced in their risk-averse, conservative approach. Therefore, creating a vehicle for change did not immediately translate into support for action. NCN was created as an offensive organization with ambitious plans to

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41. *Ibid.*, par. 16.

42. *Presstime*, “Interactivity: On-line’s Edge,” 50. [Peter Winter was vice president of market development for Cox Newspapers and the interim chief executive officer for NCN.]

43. *Ibid.*

bring advertising standards and uniform media processes to the Internet, but translating that into an actual operating plan proved difficult to achieve. *The New York Times* wrote that “... a partnership of large newspaper companies formed [NCN] to bring the country’s dailies into the age of the Internet. Then they sat down to figure out what that meant.”<sup>44</sup> The ensuing internal debate about how the goals for the consortium should translate into actual products and services lasted too long for many newspaper companies. *The New York Times* observed that “the project was quickly overtaken by the speed of Web development among papers.”<sup>45</sup> Also, the overall pace of Internet development led many newspaper executives to concede that their industry’s ability to influence Internet standards was not as immense as originally thought. As this realization took hold, the original dream of NCN leading a united newspaper industry into the new Internet-based market began to fade.

In less than six months from its inception, the first major crack in the unified effort appeared. On October 17, 1995, six major U.S. dailies announced the founding of CareerPath.com, touting an ambition to “offer the most comprehensive listing of jobs on the global computer network.”<sup>46</sup> The six papers—*The Boston Globe*, *Chicago Tribune*, *Los Angeles Times*, *The New York Times*, *San Jose Mercury News*, and *The Washington Post*—were owned by the companies who had been part of creating NCN. CareerPath said it intended to “coordinate” its activities with NCN, and an NCN statement described CareerPath “an example of the type of initiative we envisioned when NCN was formed,” adding that “our affiliate strength will give us the opportunity to create, promote and provide easy access to a uniquely powerful interactive employment marketplace.”<sup>47</sup> Nevertheless, CareerPath represented a significant breach of industry solidarity that NCN was thought to have represented. Knight-Ridder Inc. also stepped outside the NCN boundaries to create a venture with Landmark Communications to provide Internet services for newspapers, an effort in which it hoped to attract 100 daily newspapers as clients. The joint venture said it intended “to complement—not compete with—NCN,” but it was not specific about how it intended to do that.<sup>48</sup>

By the end of 1995, NCN’s mission was muddled. NCN’s owners appeared uncomfortable casting their entire Internet lot with their industry brethren, but they

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44. Peterson, “New Service Skims 150 Newspapers for Its Users,” par. 1.

45. *Ibid.*, par. 2.

46. *Presstime*, “Six Papers Blaze CareerPath,” 15.

47. *Ibid.*

48. Gipson, “New Media: Strategic Moves,” 12.

did not shut down the consortium at that time. Instead, NCN brought in new leadership from outside the newspaper industry in the person of Lee DeBoer, an entertainment industry executive most recently with Home Box Office (HBO).<sup>49</sup> Under DeBoer, NCN attempted to regroup by launching a content syndication product called NewsWorks, which was described by its editor as follows:

Imagine having a personal news assistant who reads every word published every day in more than 125 newspapers ... and then gives you exactly the news and information you need and want. That's what NewsWorks does.<sup>50</sup>

NewsWorks was positioned as network service and emphasized its role as a content aggregator. The service touted the scope of its offering by explaining that its content was drawn from newspapers across the country and represented the collective effort of more than 25,000 journalists.<sup>51</sup>

*CNET* called NewsWorks one of the newspaper industry's "most aggressive efforts" to counteract a "sleepy response to online advertising."<sup>52</sup> Although the size and scope of the offering was impressive, reviews of its execution were mixed. *CNET* explained that NewsWorks did not post news articles as stories broke, opting instead to aggregate them after they had appeared in the affiliate's print edition. "That may make them too stale for some Netizens' appetites," *CNET* wrote.<sup>53</sup> Another analyst concurred, stating that NewsWorks represented "one more stage of recycling the same old news."<sup>54</sup> However, *Information Today*, which catered to research professionals, called NewsWorks "one of the most powerful news research instruments on the web." The review favourably compared NewsWorks to commercial services such as DIALOG and NEXIS. Given that NewsWorks was advertiser-supported and free to users, the magazine said that choosing NewsWorks over an expensive commercial database was "a no-brainer," adding that "nowhere are the peculiar economics of cyberspace demonstrated more sharply than with NewsWorks."<sup>55</sup> In NewsWorks, NCN had created a robust research tool, but it

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49. Wronski, "Media Companies Seeking New Turf," 8.

50. Peline, "Print to Try Packaging with NewsWorks," par. 5. [Statement attributed to John Papanek, NCN's Editor-in-Chief.]

51. *Ibid.*, par. 14.

52. *Ibid.*, par. 7.

53. *Ibid.*, par. 15.

54. Peterson, "New Service Skims 150 Newspapers for Its Users," par. 6. [Statement attributed to Steve Mitra, an analyst with Jupiter Communications.]

55. O'Leary, "NewsWorks Brings New Depth to Web News," par. 10.

reflected the newspaper industry experiences with commercial information business models more so than consumer experience.

Knight-Ridder, for example, was a significant operator of commercial database services, and it had purchased DIALOG in 1988.<sup>56</sup> Other newspaper companies had distribution agreements with commercial database companies as well. It was believed that such experience would be useful to newspaper companies as they moved electronic services to the Internet, but NewsWorks demonstrated how difficult it would be to translate the learning achieved in a commercial setting to the consumer Internet.

*Information Today* wrote that NCN needed to deliver “highly attractive locally oriented services,” and “and convince local advertisers that local services are a legitimate media buy,” but the magazine concluded that the newspaper industry’s “dismal record of previous attempts” made success difficult to predict.<sup>57</sup> NCN’s prospects were further diminished when key companies decided against the platform. Although the New York Times Co. and Gannett were NCN owners, neither of their flagship newspapers—*The New York Times* or *USA Today*—ever affiliated with NCN,<sup>58</sup> rejecting the common platform in favour of creating their own web initiatives.

By January 1998, NCN had all but abandoned its NewsWork site. It eliminated 10 percent of its staff and said it was shifting to a model of delivering content via HTML-based email on behalf of its affiliates.<sup>59</sup> That effort never launched, however. In the following month, NCN withdrew from providing news content, stating in a press release that NCN would focus only on delivering advertising: “Our newspaper affiliates create a vast amount of rich interactive content every day. The network can add the most value by creating marketing solutions for national advertisers built around affiliate content,” the statement read.<sup>60</sup> The repeated attempts to change strategy could not overcome a deeply divided ownership structure.

Less than two weeks after abandoning NewsWorks, the entire NCN business was closed. The board of directors representing NCN’s newspaper ownership issued

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56. Knight-Ridder Inc., “Knight-Ridder Inc. Agrees to Purchase Dialog Information Services, Inc. from Lockheed Corp. for \$353 million.”

57. O’Leary, “NewsWorks Brings New Depth to Web News,” pars. 18-19.

58. Cole, David M., “Industry Saddened, Chastened by Demise of NCN,” par. 16.

59. Miles, “New Century Networks Regroups,” pars. 1, 5.

60. Miles, “News Megasite Cuts Content, Staff,” par. 8.

a statement on March 10, 1998 stating that it had “voted to dissolve the partnership.” The statement added: “The challenge of concurrently finding a common strategy for NCN ... has proved too daunting.”<sup>61</sup> The creation and ultimate demise of NCN may be only a footnote in the overall history of the Internet, but it was a watershed event when viewing the development of the Internet from the perspective of the newspaper industry. The creation of NCN underscored the newspaper industry’s recognition of the Internet as an important new development in the media landscape, but its failure reinforced the perception that the newspaper industry would struggle to compete in the new market.

Therefore, examining its brief history provides insight into the industry’s collective thinking during this period. An industry executive observed that NCN marked a time when “a bunch of newspaper companies got together and imagined an online future in which newspapers would be key players,” believing that they could build “the definitive news resource on the Internet.”<sup>62</sup> In retrospect, NCN illustrates how internal arrogance and naivety regarding external forces affected the newspaper industry’s early response to the emergence of the Internet.

For example, 18 months lapsed before NCN launched NewsWorks, its first major product. The long delay demonstrated a failure to understand and react to the speed at which the Internet was developing. An industry participant recalled it as a time when “technology was evolving faster than anyone’s business vision.” He added:

I remember seeing one of the early NCN definitions in the form of a request for proposals to provide infrastructure for the network. The idea was for a federation of closed, paid-access websites, where you could navigate from site to site on a single membership pass.... By the time the RFP made it through the fax machine (yes, it was faxed) the idea was obsolete. Switch gears: Open portal. Switch gears: search engine. Switch gears: ad network. None of it worked and some players were left angry and bitter.<sup>63</sup>

By the time NewsWorks was in the marketplace, the industry support for the consortium had diminished. Newspapers were concentrating on their own independent websites and were openly questioning for the need of a national network. The following anecdote illustrates how indifferent the industry became of its own creation.

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61. Cole, David M. “Industry Saddened, Chastened by Demise of NCN,” par. 5.

62. Yelvington, “Nostalgia for the New Century Network,” par. 1

63. *Ibid.*, pars. 3-4.

In reporting on an NCN reception at a newspaper industry convention, *BusinessWeek* wrote:

A thousand bottles of champagne emblazoned with “New Century Network: The Collective Intelligence of America’s Newspapers” awaited the hordes expected to come toast the watershed new-media joint venture.... When fewer than 100 people showed up, Chief Executive Lee [DeBoer] made an abbreviated speech before retreating.<sup>64</sup>

*BusinessWeek* recalled the incident as NCN’s “first public humiliation,” but added that it was “only one in a series of blunders that culminated in the company’s abrupt shutdown.”<sup>65</sup> The magazine quoted an advertising executive who summarized the NCN experience: “They built a business and nobody came.”<sup>66</sup> The reasons behind NCN’s failure are multifaceted, and represent broader issues newspaper companies faced when deciding what to do about the Internet.

In terms of content, newspaper companies highly valued the idea that NCN would provide a gateway to vast archives of content from newspapers across the country. The regional nature of the newspaper business in the U.S. made it difficult to create a national network where that did not naturally exist. There are a few newspapers such as *The Wall Street Journal*, *USA Today*, and *The New York Times* that have national distribution, but the daily newspaper business in the U.S. is largely based around metropolitan areas. NCN represented the attempt to address this market reality by allowing advertisers to use its national service to target advertising based on content from specific geographic regions.<sup>67</sup> Analysts thought this idea had merit, but by the time NCN’s content feature was functioning there was competition from “about 30 sites such as those run by Yahoo, Netscape, Microsoft and a dozen big papers.”<sup>68</sup> The newspaper industry was praised for creating NCN as an early response to the Internet, but it was criticized heavily when it did not turn the vision into action quickly enough to ward off such competition.

The failure of NCN is also remembered as a missed financial opportunity for the newspaper industry given that it was created during the period when investors were lavishing new Internet ventures with capital and their initial public stock

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64. Dugan, “New-Media Meltdown at New Century: How a Big Online Newspaper Venture Bit the Dust,” par. 2.

65. *Ibid.*, par. 3.

66. *Ibid.*, par. 2. [Statement attributed to David Morgan, president of Real Media Inc.’s online advertising agency.]

67. Pelline, “Print to Try Packaging with NewsWorks,” par. 15.

68. Peterson, “New Service Skims 150 Newspapers for Its Users,” par. 5.

offerings were soaring in value. *BusinessWeek* reported that Cox Newspapers, one of NCN's owners, wanted to bring the venture capital firm Kleiner Perkins Caufield & Byers into the NCN ownership structure. Cox wanted the venture capital firm to invest in NCN and then assist the consortium with a public stock offering of its own.<sup>69</sup>

The proceeds from such a plan during these heady days would have endowed NCN with enough working capital to free its newspaper owners from further capital investment, while providing a significant return on their initial investment. Gannett remained neutral on the proposal, while Cox was supported by Tribune and Hearst. The other owners argued, however, that NCN should remain a private company. They believed the newspaper industry was flush with enough capital to fund the consortium and wanted its profits distributed back to the newspaper owners rather than public shareholders. The final vote defeating the outside investment strategy was 5-4, setting the stage for more disagreement over ownership issues when the financial performance did not happen as expected.<sup>70</sup>

Each of the nine founding newspaper companies had seeded NCN with \$1 million, eventually investing more than \$25 million total into the venture. However, NCN generated only \$1 million in advertising revenue. More capital was needed to operate the business, but The New York Times Co. refused to invest, which forced the decision to close the business. The disagreements over how to capitalize NCN had resulted in deep rifts among the partners. Knight-Ridder's representative said the trouble began with the earlier rejection of the plan to accept venture capital and take the venture public during the overheated stock market of 1996. "The fallout from that plagued New Century Network," he said.<sup>71</sup>

Although newspaper industry leaders had done little to support the organization they created, the closing nevertheless was met with the rhetoric of failure similar to the sentiments expressed a decade earlier when Viewtron was shut down. An industry newsletter wrote:

While the closure of the New Century Network was not completely unforeseen, the reaction of the newspaper business was. Sadness and disappointment reigned as word spread ... that the on-line partnership of nine newspaper companies would end. The depth of feeling stemmed not only from a public failure, but also from a

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69. Dugan, "New-Media Meltdown at New Century," par. 9.

70. *Ibid.*

71. *Ibid.*, pars. 4, 9, 14.

concern that the newspaper business had missed the boat—once again.<sup>72</sup>

The NCN closing was recognized as the industry’s tacit admission that competing in the Internet era would be more difficult than originally assumed. It once again cast doubt that a traditional media industry could adapt existing business models to new market realities.

Most of the post-mortem analysis blamed the failure of NCN on its organizational structure. An executive with Hearst observing how NCN operated said: “Organizations of a number of co-equals can’t turn on a dime.”<sup>73</sup> The organizational structure was exacerbated by the diversity of the companies involved as expressed by a *Los Angeles Times* executive: “You had private companies and public companies and companies that were risk-averse and those that were risk-tolerant. You had big city papers and small chains. We share a need. But it was frustrating trying to come together.”<sup>74</sup> This executive believed NCN problems reflected the independent nature of the newspaper business in the U.S. and was allowed to fail because “we didn’t need it, and it was competitive.”<sup>75</sup> Rather than invest in a common industry platform, most newspaper companies decided it was in their best interest to develop their own Internet operations. The businesses behind most newspapers decided that in the face of escalating value for Internet companies, it made more sense to own outright than to share. The question remained, however, if newspaper companies would invest to compete offensively in the emerging market or choose to react defensively.

Some executives viewed the failure of NCN as the industry’s inability to grasp the larger ramifications of the Internet. A key executive in NCN’s creation commented that its closure reflected that “Newspapers are reacting in very traditional ways to a very untraditional marketplace. And they’re being superseded fast.”<sup>76</sup> Nevertheless, there was a flurry of activity in the newspaper industry in the latter half of the 1990s as companies established websites and the production processes to

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72. Cole, David M., “Industry Saddened, Chastened by Demise of NCN,” par. 2.

73. Dugan, “New-Media Meltdown at New Century,” par. 7. [Statement attributed to Al Sikes, a former commissioner of the FCC who was president of Hearst New Media.]

74. Ibid., par. 6. [Statement attributed to Harry Chandler who ran the new media operations for *The Los Angeles Times*.]

75. Ibid., par. 12.

76. Ibid., par. 3. [Statement attributed to Peter Winter, an executive with Cox Enterprises who had served as NCN’s interim chief executive officer at its creation.]

support them. The history of how newspaper companies in the U.S. approached the web aside from the NCN consortium forms the remainder of this chapter.

### *Newspapers Independently Adopt the Internet*

The period in which NCN failed also was a time of intense development as newspaper companies moved on their own to place content on the web. There was no clear pattern to how newspaper companies approached the web during this period, but there was a lot of activity. The list of newspapers moving content to the web in the mid-1990s was a long one and included such early adopters as *The St. Petersburg Times*, *USA Today*, *The Philadelphia Inquirer*, *The Boston Globe*, and *The Arizona Republic*.<sup>77</sup>

Some newspaper companies that were part of media conglomerates joined forces with internal partners. Cox Newspapers, for example, joined with its sister media companies, Cox Television, Cox Communications (cable television), and Cox Radio, in 1996 to form a new entity called Cox Interactive Media. The new unit was charged with creating a local Internet experience in all the markets in which Cox operated, including its newspaper markets. The flagship effort was based in Atlanta and attempted to combine the resources of Cox's media properties there, including *The Atlanta Journal-Constitution*, WSB-TV, and WSB Radio AM 750.<sup>78</sup> By early 1997, Cox had announced plans for 30 online sites to be operational by year-end, prompting CNET to call Cox's agenda one of the "most aggressive by any company to date."<sup>79</sup> Knight-Ridder created a network of its newspaper sites under the banner, Real Cities,<sup>80</sup> and *The New York Times* emerged as an early Internet bellwether for the newspaper industry due to its national brand and distribution.

*The New York Times* debuted on the web January 22, 1996. The event was touted in a company press release as "part of a broad strategy to extend the newspaper's reach and create new editorial and business opportunities in electronic media."<sup>81</sup> The newspaper's publisher stated:

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77. Shedden, "New Media Timeline (1995)."

78. *The Atlanta Journal and Constitution*, "New Cox unit to focus on the Internet," D1.

79. Pelling, "Cox Muscles into Local Markets," par. 3.

80. Snyder and Kerwin, "Publishers Fight for Local Dollars in Online Space; Newspapers Get More Aggressive with Web Sites," par. 6.

81. The New York Times Co., "The New York Times on the Web; Newspaper Establishes Internet Presence."

Our site is designed to take full advantage of the evolving capabilities offered by the Internet. At the same time, we see our role on the Web as being similar to our traditional print role—to act as a thoughtful, unbiased filter and to provide to our customers information they need and can trust.<sup>82</sup>

The *Times* had tested the web the previous October when it posted content about the Pope's visit to New York.<sup>83</sup> The experiment drew criticism from financial executives of the newspaper who viewed it as an editorial exercise without any thought given about how to pay for it. An executive recalled the episode:

... it was really an exercise of the publishing system more than anything.... The thing went up and we were very happy with it. And I got a call from the fellow who was running the company at the time, screaming at me about how it didn't have any ads in it.<sup>84</sup>

The episode is illustrative of many early endeavours when newspaper companies were more concerned about a content presence on the Internet than how to establish an advertising business model. When *The New York Times* formally launched its web presence, however, the advertising issue was addressed. A press release said the newspaper intended its website to become a money-making business, noting that "charter advertisers" included Toyota and Chemical Bank.<sup>85</sup> *The New York Times* understood its national brand would allow the newspaper to compete online more broadly than other newspapers given that its printed newspaper was distributed nationally. Two years after its launch, the national market approach appeared to be working. Statistics discussed by Aikat revealed that the paper's website had achieved 4 million registered users by May 1998 with 83 percent of those registrants living outside metropolitan New York.<sup>86</sup> The national—even global—reach of *The New York Times* allowed it to pursue a different Internet strategy than regional newspapers.

*The Boston Globe*, by contrast, provides an example of a newspaper that followed a regional approach. It created an electronic publishing division that pursued partnerships with other Boston area media to launch a regional Internet destination. The website was named "boston.com" and was marketed as "New

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82. Ibid. [Statement attributed to Arthur Sulzberger, Jr., publisher of *The New York Times*.]

83. Toner and Gipson, "New Media: On Line," 10.

84. Goldstein, "A Few Veterans Look Back: Considering the Early Years of Internet Journalism," par. 16. [Statement attributed to Martin Nisenholtz, chief executive officer of *New York Times* Digital.]

85. The New York Times Co., "The New York Times on the Web; Newspaper Establishes Internet Presence."

86. Aikat, "News on the Web: Usage Trends of an On-Line Newspaper," 100.

England's first Megawebsite, a one-stop interactive resource on the Internet's World Wide Web." The newspaper's content was featured alongside material from more than a dozen Boston television stations, radio stations, magazines, and other sources of content.<sup>87</sup>

*The Boston Globe's* approach was considered a radical departure for the newspaper industry. A trade publication described boston.com as "not what you'd call a newspaper on the Web," adding that it "breaks traditional rules of branding by partnering with broadcast and print competitors." The article described the effort as an attempt to create "a cyberbrand with greater clout—a whole greater than the sum of its parts" by featuring content as the drawing card.<sup>88</sup> The article illustrated that much of the newspaper industry held a narrow view of what an online newspaper should be, but companies continued to push the boundaries. *The Washington Post*, for example, partnered with competing media—*Newsweek* and ABC—to launch ElectionLine, a website focused on the 1996 elections.<sup>89</sup>

As noted earlier, Boczkowski wrote that years of online experimentation by the newspaper industry culminated in 1995 when most newspaper companies adopted the Internet and the World Wide Web as the electronic delivery platform. The implication was that by deciding on the web as a delivery platform, the newspaper industry's online evolution had reached a conclusion. However, the variety of partnerships and types of websites newspaper companies developed in the early years of the Internet demonstrated that that an acceptable electronic publishing model had yet to be achieved.

The latter half of the 1990s was a transitional period for newspaper companies and their online efforts. Some newspapers hedged their bets by investing in a web presence while also retaining other partnerships. *The Houston Chronicle*, for example, established a website, but continued to post content through its Prodigy affiliation and agreed to market Prodigy as the "preferred means" of accessing the Internet.<sup>90</sup> Over time such alliances with proprietary services would give way to exclusive web-based operations, but the industry's experimentation process was far from over and it was influenced by a myriad of business concerns. The following

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87. Gipson, "Behold the Megawebsite," 11.

88. Ibid.

89. Toner and Gipson, "New Media: On Line," 10.

90. Ibid.

sections of the chapter examine several pertinent business issues newspaper publishers and editors faced when deciding on content, access, and financial models.

## **Newspaper Business versus Information Business**

Picard wrote that a business model reflects “the conception of how the business operates,” including “its underlying foundations, and the exchange activities and financial flows upon which it can be successful.”<sup>91</sup> By this definition, most newspaper executives in the late 1990s did not view the business model of an online newspaper as being very different from the business model of a printed newspaper. In both cases, the fundamental objective was to produce content that attracted an audience of sufficient size that would, in turn, attract advertisers.

The emergence of the web, however, forced the newspaper industry to assess the fundamental nature of its business. The American Society of Newspaper Editors (ASNE) framed the issue in an essay that asked: “Are you an organization that supplies newspapers or are you an organization that supplies information?”<sup>92</sup> In proposing to explain why the industry’s response was so important, the essayist wrote: “Remington and Underwood saw themselves as being in the typewriter business. IBM saw itself as being in the word-processing business. The rest is history.”<sup>93</sup> In a similar vein, a speaker at an industry conference said newspaper companies should “be prepared to decouple from paper,” adding that “perhaps when I come back a few years from now, it’ll be the News Association of America,”<sup>94</sup> rather than the Newspaper Association of America.

Whether or not newspaper companies defined their product as news or information rather than by the physical product a newspaper was much more than a philosophical issue. How newspaper companies defined their business, also determined how they operated. In retrospect, the production process of a daily newspaper led to many-preconceived notions that influenced decisions about producing content in the online arena. Lapham recognized the difficult challenge newspapers faced in this regard. “Reinventing itself is a tall order for an industry that

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91. Picard, “Changing Business Models of Online Content Services: Their Implications for Multimedia and Other Content Producers,” 62.

92. Hooker, “A Library on My Belt,” 49. [Michael Hooker was president of the University of Massachusetts.]

93. Ibid.

94. *Presstime*, “Tomorrow Today,” 46. [The speaker was W. Russell Neuman, a research fellow at the Massachusetts Institute of Technology Media Laboratory.]

works under constant deadline to produce a new product each day,” she wrote.<sup>95</sup> Newspaper companies had invested in computer-based production systems in the 1980s and believed they should leverage those systems to also produce content for the Internet. A Knight-Ridder executive said of his operation: “we figured out a way to automate” the transfer of content from the printed newspaper to the online version “so that it didn’t cost a lot.”<sup>96</sup> While efficient, the approach allowed the printed product to control the flow of information and reduced the online edition to ancillary status.

### **Cultural Artefacts Take Precedent**

The process of transferring content from a printed newspaper to its online sibling became a ubiquitous practice in the newspaper industry. So much so, that the software applications developed to automate the process became known as “shovelware.”<sup>97</sup> This example illustrates how business processes applied to the web echoed the cultural artefacts of the printed products and often became an obstacle that prevented newspaper websites from absorbing and reflecting what was happening elsewhere in Internet-based media.

Chyi and Sylvie described the production processes that relied on shovelware as “moving whatever is published in the newspaper onto the Web without further developing the information,” adding that it “requires a very small staff.”<sup>98</sup> Keeping labour costs under control within their online versions was indeed a goal of newspaper managers who chose to deploy shovelware. In the early going, however, the motivation was less about expense control and more about leveraging what was perceived to be most valuable asset a newspaper company owned—its content.

### ***Anticipated Value of Content Influences Action***

A prevailing belief among newspaper publishers and editors at the outset of the Internet was that newspaper content was valuable and represented a competitive barrier to entry given the large staff of reporters, editors and photographers required to create it. The newspaper industry believed that placing its valuable content online

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95. Lapham, “The Evolution of the Newspaper of the Future,” par. 9.

96. Ingle, “Newspaper vs. On-Line Versions: a Discussion of the Old and New Media,” par. 22.

97. Chyi and Sylvie, “Competing with Whom? Where? And How? A Structural Analysis of the Electronic Newspaper Market,” 5.

98. Ibid.

would make it more accessible and, in turn, even more valuable. This view influenced the efforts at many newspapers to move historical content into online archives, allowing consumers to access newspaper morgues—an industry term for libraries—for the first time. In many newspapers, the effort to create digital archives and online Internet versions became a co-mingled process.

How newspaper companies valued their content at this time is illustrated in an example from the industry's trade press. A special report about online archives opened with a reference to the 1960s television sitcom, "The Beverly Hillbillies." In the opening sequence to the show, the patriarch Jed discovered oil, which the theme song describes as "black gold."<sup>99</sup> The article made the connection as follows:

Much like the pre-Beverly Hillbilly Jed, North American newspaper publishers sit on pools of wealth.... The black gold is information, potentially gigabytes of it, archived in digital form. Intelligence scribed by a room of smart, experienced reporters and editors. Images captured by talented photojournalists. Graphics created by savvy info-design specialists. Not to mention the display ad for Bernie's Grocery or the classified for a cherry 1957 Chevy.<sup>100</sup>

Through the Internet, newspaper executives saw new possibilities to extract value from their troves of data as one executive expressed: "Publishers can put material out for the whole world.... We'll see the death of the middlemen."<sup>101</sup> Newspaper companies had relied on deals with commercial database companies to compile their material for sale in the secondary research market, often receiving only token royalties.

The lure of extracting more value from archived material and the relative simplicity of shovelware systems contributed to the rapid increase in the number of newspapers migrating to the web in the late 1990s. However, newspaper companies were more fixated on the process of transferring content than they were with what to do with their online content. In many cases, the result was a static presentation of the printed paper in electronic form, sparking a wave of criticism.

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99. Cole, David M., "Planner: The Virtual Library; Yesterday's Paper Will Provide Tomorrow's Revenue through Digital Access," 47.

100. Ibid., 47-48.

101. Ibid., 52. [Statement attributed to George Schlukbier, a professional librarian and vice president and editor of NandO.net, the Internet operations of *The News & Observer* in Raleigh, North Carolina.]

### *The Backlash against Shovelware*

A leading industry executive said one of the biggest lessons newspaper companies had learned from their earlier online efforts with videotext and propriety services was the need to provide consumers with an engaging experience. “Don’t just replicate the newspaper.... Text on screen isn’t enough,” this executive stated.<sup>102</sup> Yet, that is precisely what most newspaper companies did with the Internet in the 1990s. Online editions were electronic renditions of the printed newspaper that reflected little of the functionality described in Chapter One as necessary for making a medium interactive. A more detailed discussion of interactivity as it relates to this period is included later in this chapter. Meanwhile, the discussion of online production processes illustrates that newspaper companies did not convince their critics they were heeding lessons learned from previous online experiences.

As one commentator asked and answered: “What will make you stand out on the Internet? Certainly not dumping the entire contents of your newspaper on the Web.” This criticism said newspaper companies had “to learn how to select material and package it in exciting ways,” adding that success depended on treating online content as more than an archive.<sup>103</sup> Chyi and Sylvie found that reliance on shovelware resulted in online editions that failed to differentiate from the printed newspaper. They wrote: “Due to the almost inevitable relationship with—or dependence upon—their print counterparts, many electronic newspapers have not become an independent entity, not even conceptually.”<sup>104</sup>

Most online newspapers relied on repurposed printed material for the majority of their content because it was an efficient production process, but that “does not necessarily imply quality content,” according to Chyi and Sylvie who referred to the tactic as “folly.”<sup>105</sup> They concluded that the practice undermined the newspaper industry’s ability to compete, stating that “online newspapers that lack original content do not appear to be engaging in successfully strategic behavior.” This lack of original content made it difficult to establish an independent brand identity for the online products, which they argued was necessary for long-term viability. “Newspapers are relying on the brand preference established by their print

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102. Shaw, “Videotext, the Sequel,” 14. [Uzal Martz was president/publisher of *The Pottsville Republican* in Pennsylvania and a vice-chairman of the NAA at the time of these remarks.]

103. Cole, David M. “Webservations,” 69.

104. Chyi and Sylvie, “Competing with Whom? Where? And How?,” 13.

105. Chyi and Sylvie, “Online Newspapers in the U.S.: Perceptions of Markets, Products, Revenue and Competition,” 75.

versions, hoping that the print newspaper's credibility and desirability will transfer to the new medium," they wrote.<sup>106</sup> Despite such observations, newspaper companies were unapologetic for attempting to build their online presence based on the brand recognition of their printed newspapers.

The publisher of *The New York Times*, for example, stated that one of his key strategies was "to take the brand we have today and to translate it for this new medium." He acknowledged, however, that the online product would likely turn into something different over time. "Some of the parts will be shockingly familiar to all of us. Twenty and twenty-five years from now, other parts none of us can even imagine," he said.<sup>107</sup> The use of such a long time horizon, however, illustrated the newspaper industry's belief that there was ample time to sort out operating issues. Newspaper companies seemed to operate their early websites on the premise that short-term decisions would have little effect on long-term strategic concerns. The most illustrative example of this notion was the practice of embargoing news coverage, preventing publication on a website until after the material had appeared in print.

### ***Online Embargos Echo Culture of Control***

Publishers and editors considered their printed newspapers preeminent over their online versions during the early days of the Internet. This favoritism was not only reflected in the repurposing of content, but also with the timing in which the repurposing occurred. In most cases, newspapers embargoed their own content until after it had appeared in print. *The New York Times* summarized such practices:

Virtually all of the hundreds of Web sites set up by the nation's newspapers still do not take full advantage of one of the Internet's most compelling features: its immediacy. Instead, most newspapers, including *The Washington Post*, *The Los Angeles Times* and *The New York Times*, rely on reports from news agencies to update their sites during the day, while holding back their crown jewels—what their own journalists have discovered—until the actual papers are nearly on the street.<sup>108</sup>

Newspaper editors explained the rationale for content embargoes as an attempt to preserve the role of the printed product. The practice also revealed how newspaper journalists were deeply-rooted in competitive traditions.

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106. Ibid.

107. Fulton, "A Tour of Our Uncertain Future," part 2, par. 7.

108. Zuckerman, "Newspapers Balk at Scooping Themselves on Their Own Web Sites," par. 6.

Journalists did not want material available that would alert local television and radio stations, and other newspapers in some cases, about exclusive material. Therefore, allowing their work to be read in advance of print publication was a concept many editors and reporters could not fathom. An editor involved in online operations stated: “The whole idea of scooping ourselves is troubling to a lot of people. There are grave concerns within the newspaper industry about the extent to which new media are going to cannibalize the existing services that we provide to our consumers.”<sup>109</sup> As late as 2000, an industry survey found that 45 percent of its print respondents said they did not allow their websites to scoop their printed newspaper. While this represented a decline from 58 percent in the prior year, it still reflected widespread use of embargoes.<sup>110</sup> The embargo issue underscored how complex the newspaper industry’s relationship with the web was during this period. The newspaper industry’s reliance on content repurposing reflected the notion of the web as an extension of the printed product, but at the same time, content embargos reflected the fears of the web as an emerging competitor.

The practice of using wire service material rather than original content to update online newspapers between print editions also may have contributed to consumers undervaluing the newspaper’s own content. Researchers, including Leckner<sup>111</sup> and Lee,<sup>112</sup> discussed a phenomenon described as the commoditization of news brought on by the Internet’s capability of aggregating large amounts of information from multiple sources and making it readily available to anyone who wants to receive it. As Lee stated: “The Internet ... created a platform for easy distribution of news information.”<sup>113</sup> By embargoing their own material and exposing readers to the extensive amount of generic information from services such as the Associated Press and Reuters, the newspaper industry perhaps contributed to the commoditization process, especially in the areas of national news, financial data, and sports coverage.

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109. Ibid. par. 7. [Statement attributed to Bob Ryan, a director at Knight-Ridder Inc.’s online operations known as Mercury Center.]

110. Wright, Donald K., “The Magic Communication Machine: Examining the Internet’s Impact on Public Relations, Journalism, and the Public,” 20. [Statistics attributed to *The Seventh Annual Middleberg/Ross Survey of Media in the Wired World 2000* (New York: Middleberg, 2001).]

111. Leckner, “Is the Medium the Message?: The Impact of Digital Media on the Newspaper Concept,” 77.

112. Lee, William Chee-Leong, “Clash of the Titans: Impact of Convergence and Divergence on Digital Media,” 109.

113. Ibid., 86.

On a more fundamental level, however, newspaper companies were being challenged to assess their position in the flow of information. A media critic wrote:

Newspapers might begin to think about reversing their long-standing priorities, recognizing that everyone with electricity has access to more breaking news than they provide, faster than they provide it. They should, at last, accept that there is little of significance that they get to tell us for the first time.<sup>114</sup>

The Internet represented another reminder that newspaper control over information had been declining in the face of electronic competition. Editors had believed that newspapers succeeded in the face of electronic competition because they provided more depth and perspective than television or radio. The Internet, however, challenged those assumptions with limitless storage, the capability of linking vast amounts of related material and by providing access to a diversity of sources.

Media critics said newspapers would be forced to change and, as one wrote, acknowledge that “they don’t get to tell us only what they think we should know,” adding that “they’ll also have to really listen to us, not just pretend.”<sup>115</sup> This reflected the notion that newspapers could alter their relationship with their readers by using technology to foster a dialogue. The Internet was seen as an interactive medium, but the newspaper industry’s early websites were widely criticized for not taking advantage of this capability. The following section of the chapter examines the calls for newspaper websites to become interactive and how newspaper companies responded.

### *A Call for Interactivity*

Interactivity was discussed in Chapter One to provide an understanding of its meaning in a broad conceptual context. In revisiting the topic as it applies to the Internet and newspaper websites, interactivity is explored as a pragmatic attribute. Newspaper companies were expected to use interactive functionality to create a two-way communication system and establish dialogue with their constituencies. An executive who pioneered the use of the Internet in the newspaper industry wrote:

Effectively used, an Internet presence can transform static information, whether articles or ads, into real-time interaction—

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114. Katz, “Online or Not, Newspapers Suck,” par. 51. [Jon Katz was a media critic.]

115. *Ibid.*, par. 46.

between sources and the newsroom, between the newsroom and readers, and between readers and advertisers.<sup>116</sup>

Just because the Internet could facilitate interaction, however, did not translate into why newspapers should want to solicit interaction. Therefore, it makes sense to explore how this concept was considered at a practical level in the early days of the Internet and how it affected what newspaper companies did.

The executive quoted above said interaction would allow newspapers “to cement relationships with customers.”<sup>117</sup> Some called on the newspaper industry to embrace interactivity as a natural way to offset the effects of news commoditization and the diminished role of reporting on events as they happen. Hollander supported the notion that interactivity would foster community and allow newspapers to “recapture from talk radio the position of community forum.” He maintained that “people can easily find information if they want it,” but indicated that newspapers could differentiate themselves online by creating “the place where the community communicates with itself, where ideas are debated, policy is discussed, problems are confronted.”<sup>118</sup> Lapham also wrote of newspapers using online tools to become “a facilitator of public discussion.”<sup>119</sup> Therefore, the Internet was seen as providing the tools newspapers could use to elevate their role far beyond soliciting feedback through letters to the editor.

It represented, as Pavlik noted, a dramatically altered content paradigm—one that had been at the core of newspaper content for decades.<sup>120</sup> He wrote: “No longer can most journalists and editors be content merely to publish the news. Instead the process is becoming much more of a dialog between the press and the public.”<sup>121</sup> But Pavlik recognized that “not all news organizations are comfortable with this emerging model” because they feared that interactivity would require sharing control of the message.<sup>122</sup> Pavlik observed that a newspaper’s centralized control over its content gave it immense power in a particular market. Over time editors came to understand that such power allowed them to set the agenda for their market, a role

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116. Schlukbier, “Internet: Newspapers’ Best Strategy?” S15. [Schlukbier was director of new media for *The News & Observer* in Raleigh, N.C.]

117. Ibid.

118. Hollander, “Talk Radio, Videotext and the Information Superhighway,” 60. [Hollander was a journalism professor.]

119. Lapham, “The Evolution of the Newspaper of the Future,” par. 30.

120. Pavlik, “The Impact of Technology on Journalism,” 235.

121. Ibid.

122. Ibid., 236.

they viewed as key responsibility rooted in journalism history.<sup>123</sup> Real-time feedback questioning news coverage decisions and challenging editorial authority was not an appealing proposition for most newsrooms.

However, if newspaper editors were uncomfortable supporting interaction of this nature, then newspapers were left to determine how they would take advantage of the Internet in other ways. Pavlik addressed this quandary in a rhetorical question directed at the industry, in which he asked if the Internet “is little more than another delivery system for “old media”—even if it’s a potentially better delivery system—what’s all the fuss about?”<sup>124</sup> Many of the newspaper industry’s early online efforts did not represent an answer to this question. They were content with using the Internet as a distribution system. But over time, the industry explored other aspects of Internet functionality and experimented with interactivity—not principally as a mechanism for dialogue and feedback—but for content selection and presentation.

Linking content with interactivity led to the construct of personalization, a term that described functionality for allowing users to select the information they wanted from a menu of choices.<sup>125</sup> In the newspaper industry, personalization had been expressed as “The Daily Me,”<sup>126</sup> which held particular fascination with editors. In this model, editors retained significant control given that content remained centrally produced. User interaction was limited to selecting the information they received, and in some cases, determining how the information was presented on the screen.

This model represented a step forward for newspapers in deploying Internet functionality and was adopted widely. Some newspapers—the *Christian Science Monitor* and *The Wall Street Journal* are two examples—thought of personalization as such an important functionality that it initially was sold to readers as a premium service.<sup>127</sup> Critics cautioned that although personalization starts with the user’s selection process it was only partially interactive because it relies on “computerized ‘butlers’ or ‘agents’” that “are acting on the reader’s behalf,” to process the

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123. Ibid., 235 [Pavlik attributed the agenda-setting concept to Bernard Cohen (1963), a political scientist, quoted as stating: “The press may not be successful much of the time in telling us what to think, but it is stunningly successful in telling us what to think about.”]

124. Pavlik, “The Future of Online Journalism: Bonanza or Black Hole?” 30.

125. Mings and White, “Profiting from Online News: The Search for Viable Business Models,” 70.

126. The origin of the phrase “The Daily Me” is often attributed to work from the Media Laboratory at MIT.

127. Mings and White, “Profiting from Online News,” 68-70.

information that is presented.<sup>128</sup> As such, personalization became a tool of the Internet, but it was not a construct that defined the content relationship between an online publication and its audience.

Kilker observed that personalization providing users with basic levels of control did not go far enough in using the functionality of the Internet and would not satisfy consumers who have “additional expectations.” Kilker concluded that “users expect to control their media consumption through not only filtering, but also time-shifting, archiving, and reformulating content.”<sup>129</sup> As the Internet unleashed increasing expectations, consumers expected traditional media companies to keep up with developments. Therefore, newspaper publishers were facing a marketplace very different from traditional media. These differences would affect publishers’ ability to transpose familiar business practices onto an online market that had spawned new competitors free of the newspaper industry conventions.

## **New Competition**

Newspaper companies in the latter half of the 1990s faced an unsettled online environment. Proprietary online systems such as AOL and Prodigy still were adding subscribers and Microsoft had launched MSN, a proprietary system of its own. As discussed in the previous chapter, these proprietary systems had been allies of the newspaper industry. Even Microsoft had forged partnerships with several newspapers, including *USA Today* and *The New York Times*.<sup>130</sup> However, Microsoft’s decision to target local markets with an extension of MSN called Sidewalk drew the newspaper industry’s ire. A trade article referred to Microsoft’s founder Bill Gates as the industry’s “favorite devil in a blue suit.”<sup>131</sup> When trade articles reported that Microsoft planned to spend as much as \$600 million developing online content—more than the entire newspaper industry would invest in online projects—publishers realized the investment needed to compete had been elevated to unexpected levels.<sup>132</sup>

Newspaper executives began to understand that online platforms provided friends and adversaries new ways to compete. As online morphed into only the

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128. Bender, et al., “Enriching Communities: Harbingers of News in the Future,” 379.

129. Kilker, “Shaping Convergence Media,” 20.

130. Gipson, “Bill’s On-Line AdVenture,” 31.

131. Toner, “Competing for Cyberturf,” par. 1.

132. *Ibid*, par. 6.

Internet, the speed at which it developed also led to new competition eager to exploit what many saw as the newspaper industry's myopic view of the media landscape. An executive with Yahoo!, one of the emerging competitors, observed that newspapers have "killer, killer content, but too much pride in their own distribution."<sup>133</sup> The implication of that remark was that newspaper companies were too enamoured with their own way of operating. The result was a slow response to market changes shaped by new competition.

Only two years into the Internet era, a trade association report identified "as many as 40" new online content companies and several more online classified advertising businesses that could be deemed as competitive to newspapers.<sup>134</sup> A technology writer with *The New York Times* wrote the newspaper industry found that by taking "its revenue model online, it becomes vulnerable to a phalanx of new competitors," because "geography no longer matters."<sup>135</sup> An industry analyst later described the result of this activity when he wrote that "the components of what we historically know as the newspaper have become unbundled."<sup>136</sup> In considering these effects of the new online competition, this chapter next examines the portal phenomena followed by a section exploring the emergence of online classified companies.

### ***Portals Threaten Using Familiar Model***

Newspapers were accustomed to competing in local markets against other print publications, television and radio. The Internet, however, led to national competitors with plans to siphon away advertising from local markets as well. As these companies quickly evolved from their roots as search engines or content aggregators, they became known as portals. These portals represented a significant early effort by non-media companies—for the most part—to apply media-like business models to the Internet. The business objective was to aggregate an audience through a variety of services and then monetize that audience through advertising supplemented with subscriptions and other transactional revenue.

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133. Ibid., par. 11. [Statement attributed to Ellen Siminoff, director of Yahoo! Communities.]

134. Ibid., par. 4.

135. Caruso, "Show Me the Money!" par. 15. [Denise Caruso wrote a column on digital commerce for *The New York Times*, was a visiting lecturer on interactive media at Stanford University, and a visiting scholar at Interval Research, an industry think tank.]

136. Fine, "The Daily Paper of Tomorrow: It Won't Look the Same. But with Reimagining, the Local Daily Ain't Dead Yet," par. 2. [Statement attributed to Mark Colodny, managing director of Warburg Pincus.]

According to Hinton, the term “portal” surfaced in industry and trade sources in late 1997 and became a mainstream topic for discussion in early 1998.<sup>137</sup> Shaw defined a portal as website with “at least five core features,” which were listed as search, news, reference tools, online shopping, and communications (such as e-mail, chat, or message boards).<sup>138</sup> The portal construct emerged out of a design “to perform two functions.” The first function was to provide utility through the types of features just listed, while the second was “to concentrate users and create large audiences, thereby generating revenue, typically through advertising.”<sup>139</sup> Despite business models that relied on advertising support, early portals were not described by analysts as media companies. Traditional media and telecommunications companies were not involved in creating the portal phenomenon, but as Mansell observed they did not “move aggressively into the portal market despite the market potential and their existing strengths.”<sup>140</sup> In effect, portals were seen as developing independent of traditional media, which did little to mount a competitive resistance.

AOL and MSN launched portals on the Internet using their roots as proprietary online services. But the portal companies attracting the most attention were those that evolved from Internet search engines such as Yahoo! and Excite. As the market developed, traditional media—especially newspaper companies—were seen as in danger of being outflanked by portal competitors that were not so much defining a new market as they were redefining an old one.

For example, publishers and editors maintained that newspapers would be best at translating to the Internet their ability to filter and organize content. However, Shaw noted that organizing content was a major strong suit of the portal companies:

Portals have also taken on the equally important role of aggregators of Web-based content, a role that many Web surfers wholeheartedly welcome. A good number of Internet users believe portals are helping to tame the Internet by organizing its abundant resources and helping users better focus their surfing time.<sup>141</sup>

The acceptance of this functionality by consumers further enhanced the portals’ media-type business model and allowed them to occupy a position many newspaper publishers thought would be theirs.

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137. Hinton, “Portal Sites: Emerging Structures for Internet Control,” 17.

138. Shaw, “Portals: An Introduction,” 2.

139. Hinton, “Portal Sites,” 17.

140. Mansell, “New Media Competition and Access: The Scarcity-Abundance Dialectic,” 160.

141. Shaw, Rochelle, “Portals: An Introduction,” 2.

Damsgaard said the successful portals went beyond content organization and also captured audience by using their own search engines and proprietary e-mail and messaging platforms to make their websites destinations on the Internet rather than portals to outside content. Damsgaard described this as “closed self-referring systems or wall-gardens.”<sup>142</sup> Mansell referred to these efforts as “supplier monopolization strategies” and credited many of the portal companies with achieving a perception of exclusivity or product scarcity through the “balkanization of service offerings.”<sup>143</sup> It was a market achievement newspaper companies had originally sought, but failed to achieve, through their partnerships with the proprietary online services.

The success of the portal companies and the business models that supported them reflected a market that had come full circle in a short time. Consider Hinton’s conclusion:

By establishing centralised points of access—the construction of transactional spaces to mediate users’ interaction with the medium—portal sites effectively re-establish the structure of power and control that early proponents of the Internet hoped would be rendered useless and archaic in the distributed, anarchic medium of the Internet.<sup>144</sup>

In essence, the portal companies established a media business model on the Internet at the expense of newspaper companies and other traditional media companies. As the chief executive officer of Yahoo! Stated: “I don’t think old media is what people are going to spend most of their time doing on the Internet. This paradigm needs its own inventions, its own methods, its own way to go forward.”<sup>145</sup> Traditional media had been too slow to react, giving credence to the description of these upstart companies as the “new” media.

Meisel and Sullivan were among the researchers to study and write about portal companies as new forms of media companies. They wrote that portals became media in that they deployed familiar media business models, but were “new” in that they operated on the Internet and were not tethered to any traditional medium. These “new media” companies, they wrote, emerged from technology innovation, but also were often collections of smaller businesses brought together through mergers and acquisitions. But Meisel and Sullivan also observed that the emergence of these

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142. Damsgaard, “Managing an Internet Portal,” 408.

143. Mansell, “New Media Competition and Access,” 167.

144. Hinton, “Portal Sites,” 29.

145. Schonfeld, “The Flickrization of Yahoo!,” 158. [Statement attributed to Terry Semel, chief executive of Yahoo!]

portal companies was aided, at least in part, by the mistakes of competitors.<sup>146</sup> Even if the newspaper industry was complicit in allowing the emergence of new media competition, publishers had to confront the new reality in moving forward.

The Internet had reduced barriers to entry (large capital outlays, economies of scale) that had protected newspapers from many forms of direct competition in the past.<sup>147</sup> Not only did reduced barrier to entry facilitate the rise of news competition, it also contributed to the development of businesses taking aim at niche markets. These new competitors were focusing on “consumer decision” content that included such things as employment, real estate and automotive classified advertising, and entertainment listings, which were all areas “where new technology can replace static newspaper lists with searchable online-city guides, intelligent search agents and personal content.”<sup>148</sup> The emergence of this type of competition was most threatening to newspaper classified advertising. The following section of the chapter explores how the newspaper industry reacted as it faced new electronic threats to its very important classified franchise.

### ***The Classified Advertising Threat***

In 1990, newspapers derived \$11.5 billion, or 35 percent of overall advertising revenue, from classified advertising. By 2000, classified advertising had grown to \$19.6 billion and represented 40 percent of total newspaper advertising—and an even greater percentage at some large metropolitan dailies.<sup>149</sup> The growth, however, reflected in large measure the industry’s practice of raising rates to help offset declines in volume. In the first half of the 1990s for example, classified advertising rates “rose an average of nearly 8 percent per year,” outpacing the inflation rate of 3 percent annually.<sup>150</sup> An industry analyst commented that newspaper publishers “worry about preserving profits, and they ought to be worrying about preserving [the] franchise.”<sup>151</sup> The remark suggested the rate increases had allowed newspaper companies to maintain revenue growth, but had obscured erosion of the industry’s share of classified advertising.

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146. Meisel and Sullivan, “Portals: The New Media Companies,” 477-486.

147. Chyi and Sylvie, “Competing with Whom? Where? And How?,” 17.

148. Toner, “Competing for Cyberturf,” par. 10.

149. Newspaper Association of America (NAA), <http://www.naa.org>.

150. *Presstime*, “Convention Report: A Classified Wake-up Call,” 18.

151. *Ibid.*

Therefore, within the context of this thesis it is important to understand that the arrival of Internet-based competition for classified advertising occurred when newspapers already were struggling with this category. By 1996 apartment guides printed by competitors, for example, were claiming \$1 billion in annual revenue that at one time had been in newspaper classifieds.<sup>152</sup> A study by an industry trade association found that employers were spending about 80 percent of their recruitment budgets in media other than newspapers, while about 58 percent of real estate classified advertising was spent elsewhere. The study prompted the association's economist to warn: "The entire classified category should be considered at risk." The economic importance of classified advertising was illustrated by an industry report that showed a newspaper with a typical operating margin of 14 percent would see that margin decline to nine percent with a 25 percent decline in classified advertising revenue. Should classified revenue fall by 50 percent, the study said operating margins would decline to three percent.<sup>153</sup>

Many newspaper companies believed early on that the Internet would be useful in mitigating their risk in classified advertising rather than spawn outright competition. As such, newspaper companies often provided online listings for free or at a reduced price as part of the print-based purchase.<sup>154</sup> In doing so, however, newspapers devalued their online classifieds and contributed to a market climate where low-cost competitors could thrive. Newspapers had learned from the popularity of "buy-and-sell sites" on electronic bulletin boards and early videotext systems that classified advertising likely would perform well on the Internet.<sup>155</sup> To its credit, the industry launched several classified advertising ventures and most online newspapers featured classified advertising sections. But the industry was criticized for failing to implement an effective online classified strategy. In terms of production, newspaper companies treated classified advertising in much the same way they treated news and information content. Automated systems were developed to transmit classified advertising from the printed newspaper to the online newspaper.

Although newspaper companies could claim their online editions had classified advertising, the presentation was often static, providing users limited

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152. Ibid.

153. Burroughs, "Crisis in Classifieds," 39-40.

154. Mings and White, "Profiting from Online News," 76.

155. Peng et al., "Trends in Online Newspapers," par. 55.

options for searching and interacting with the advertising. A trade publication summarized the newspaper industry's approach to online classified advertising:

... although many newspapers have set up Web sites that include classified advertising sections, the strategies and functions of those sections are generally weak and ineffectual in comparison to the innovative systems deployed by the leading non-newspaper cyber-classifieds companies.<sup>156</sup>

Mings and White cited other industry sources that also concluded newspaper companies were outmanoeuvred by new Internet companies, including monster.com, hotjobs.com, and e-Bay.com in areas such as “immediacy; customizability; and special functions such as keyword search and retrieval.”<sup>157</sup> A research company specializing in Internet-based businesses predicted in 1999 that newspapers would lose more than \$3 billion in classified advertising revenue over five years to Internet competitors.<sup>158</sup> Another research firm wrote that “newspapers are going to suffer in that they’re going to find an erosion in the big three classified categories—jobs, homes and automobiles—and that’s going to put pressure on their traditional business.”<sup>159</sup> As the scope of the newspaper industry’s classified problem emerged, critics began expressing the issue in terms of losing newspapers losing the classified franchise.

For example, an industry consultant stated: “It is not going to be a matter of if they lose their classified lineage, but when and to whom.”<sup>160</sup> One of the more critical essays accused newspaper publishers of forfeiting their classified advertising business without a fight:

This loss of franchise is not the result of pitched battles between the traditional holders, the newspapers, and the new upstarts. Rather, it’s all happening very peacefully as the newspapers simply watch and study events from the sidelines. The upstarts aren’t “winning” market positions that someone else held online, rather, they are simply filling in a void that the newspapers as an industry have seemingly refused to value.<sup>161</sup>

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156. Mings and White, “Profiting from Online News,” 76. [This research referenced an “Online Classifieds Report” produced by *Editor & Publisher*.]

157. *Ibid.*, 77.

158. *Ibid.*, 78. [Projection attributed to Jupiter Communications.]

159. Romenesko, “What the Near Future Holds,” par. 7. [Statement attributed to Mary Modahl, an analyst with Forrester Research.]

160. Burroughs, “Crisis in Classifieds,” 39-40. [Statement was attributed to James Williams, an advertising consultant.]

161. Wyman, “The Last Link: Employment Listings are Another Forfeited Franchise,” par. 4.

Industry leaders acknowledged some of the criticism directed their way. For example, a trade association's technology executive conceded that newspaper classifieds should be "more facile to work with," indicating that improvements were needed in search and other interactive functionality.<sup>162</sup> As for the overall strategic approach, however, industry executives continued to position their online classified advertising as complementary, not competitive, to their printed product.

An example of this approach was Classified Ventures, a partnership that included Times Mirror Co., Tribune Co., and the Washington Post Co. The venture launched online classified advertising sites, including cars.com and apartments.com, and structured distribution agreements through newspaper company websites. But as late as 1997, the head of the venture stated that over the next three year horizon, "we believe the Internet is not going to have much effect on the newspaper business." Based on that outlook, he added, "we don't want to do anything in any way to threaten the traditional print business."<sup>163</sup> The statement about timing reflected the newspaper industry's attitude about technology—that is was something that would have greater impact in the future and that there would be time to figure it out. By not giving their own online classified businesses free reign in the market in the meantime, however, newspaper companies made themselves even more vulnerable to outside competitors.

An industry commentator wrote that classified advertising had been the newspaper industry's most profitable source of revenue, referring to it as the industry's "secret weapon."<sup>164</sup> In the latter half of the 1990s, however, evidence mounted that erosion in the classified advertising segment was contributing to an overall slowing of total newspaper advertising growth. When the head of the industry's trade association attributed some of the decline to the effects of Internet competition, the commentator wrote in 1999 "this may be the beginning of the end."<sup>165</sup> In dollar terms, he was prescient. Total advertising revenue, including classifieds, peaked at U.S. newspapers in 2000 at \$48.7 billion.<sup>166</sup> Nevertheless,

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162. Wetmore, "Classified Market Heats Up with New AOL Player: NAA Seeks a Standard to Build on Web Strengths; More Buy into Classified Ventures," par. 15. [Statement attributed to Eric Wolferman, senior vice president for technology at the NAA.]

163. Wetmore, "Classified Ventures: What NCN Taught a Newcomer: On-Line Enterprise is Owned by Three Media Companies Whose Fingers are at Arm's Length," par. 8. [Statement attributed to Tim Landon of Classified Ventures.]

164. Cole, David M. "NAA's Ad Numbers May Be Signaling Beginning of the End," par. 4.

165. *Ibid.*, par. 3.

166. Newspaper Association of America (NAA), <http://www.naa.org>.

newspaper companies remained vigilant about their overall profitability, and maintaining profit margins was a key business driver at the end of the decade. The final section of this chapter examines the newspaper industry's financial concerns and the influence they had on the industry's Internet strategy.

## **Profitability versus Viability**

The newspaper industry was in transition during the 1990s even though many of its executives did not fully appreciate at the time that long-term patterns were beginning to take shape. The industry's overall advertising revenue grew 43 percent from 1990 to 1999, but the nominal expansion masked that total advertising in the U.S. grew faster and newspapers lost ground against other media.

Nevertheless, newspapers were businesses in demand. Lacy and Martin reported that 856 U.S. daily newspapers were sold during the 1990s, including 153 newspapers "that were sold more than once." This level of activity meant that "sales of daily newspapers in the 1990s were higher than sales for the previous two decades," the researchers wrote.<sup>167</sup> The merger and acquisition activity underscored the view that newspapers during this period remained favourable businesses to own because they were generating significant cash flows and operating profits.<sup>168</sup> At the end of the decade, newspaper companies averaged a 20 percent pre-tax operating profit, compared to 13 percent for all U.S. industries.<sup>169</sup> The Tribune Co.'s deal to buy Times Mirror Co. for a 100 percent above its stock price demonstrated the industry's conviction that newspaper companies held long-term value.<sup>170</sup>

However, the long-term erosion of advertising market share began to take a toll on the industry's collective psyche in the latter half of the decade when newspaper companies lost their coveted advertising leadership position. Consider the 1996 industry report from the trade association's chief economist:

Other media have been gnawing away at our dominance for a generation. Our declining performance was not a compelling issue before the last recession because all-media advertising growth continued to outpace general economic growth. This share erosion, though, became painfully apparent during the advertising recession.... Nothing in my forecast suggests a reversal of this trend. The best I can expect is a slower loss in our share. The long-term

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167. Lacy and Martin, "Competition, Circulation and Advertising," 30.

168. *Ibid.*, 34.

169. Flanigan, "Newspapers Aren't Dying, They're Just Turning a Page," C1.

170. *Ibid.*

implications are dramatic. Our claim as the No. 1 advertising medium may soon be history.<sup>171</sup>

By the following year, the forecast had come true. Television—bolstered by the expansion of cable networks—surpassed newspapers in 1997 as the largest advertising medium. Television edged ahead that year with a 23.8 percent share of the market compared to newspapers' 22.2 percent market share.<sup>172</sup> For the first time in decades, the newspaper industry was forced to respond to financial numbers that indicated tangible changes in the media landscape.

It confronting their new reality newspaper publishers understood the Internet needed to be part of a comprehensive strategy, but the uncertainty about what to do and how to do it was unnerving. The difficulty in deciding an Internet strategy was exacerbated by financial concerns. As Boczkowski wrote “profitability was a particularly sensitive issue for online newspapers.”<sup>173</sup> For example, several prominent newspaper companies in 1998 reported sizeable losses from their online newspapers. Knight-Ridder estimated online losses at \$23 million, while Tribune lost \$35 million. The New York Times Co.'s loss was estimated at between \$10 million and \$15 million and Times Mirror's loss was estimated at \$20 million.<sup>174</sup>

The losses associated with Internet newspapers reminded many executives of their experiences with videotext projects a decade earlier and led to introspection about the newspaper industry's ability to affect a different result. One commentator summarized the prevailing sentiment:

... it appears that many people with financial responsibility for online news operations ... are weary of hemorrhaging cash. After far too many years of talk about revenue and nary a peep about profit, they would very much like for someone, anyone, to show them the money ... the questions that one would assume are most critical to news organizations online ... “Where is the money?” and “How long will we have to wait to see it?”—should have been answered long before now.

The industry's frustration also resulted from years of experiments showing not where the money was, but where the money was not. For example, newspaper companies were generating a considerable amount of revenue for their printed papers from subscriptions. The industry averaged about 25 percent of total revenue from

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171. Groves, “1996 Forecast: A Look at What Was, Why and What May Be,” 26.

172. Maxwell and Wanta, “Advertising Agencies Reduce Reliance on Newspaper Ads,” par. 8.

173. Boczkowski, *Digitizing the News*, 67.

174. *Ibid.*

subscriptions during this period.<sup>175</sup> In the early years of the Internet, however, newspaper companies learned they could not depend on subscriptions to provide any meaningful online revenue.

One group of researchers observed that “as far as subscription is concerned, the situation is not optimistic for online papers. The Internet culture is characterized by free information and very few online papers have actually started charging readers.... Those that tried to charge readers typically experienced a sharp drop in readership.”<sup>176</sup> He acknowledged that publishers of large national newspapers such as *The Wall Street Journal* would find a portion of their audience willing to pay for an online subscription, but concluded that “for local dailies, charging readers is even less realistic as a source of revenue.”<sup>177</sup> Lee also wrote that newspapers found their readers were unwilling to pay for content, adding that at “worse, the charging scares away the readers.”<sup>178</sup>

Some newspaper companies attempted to offset the inability to sell subscriptions to their online newspaper by selling access to the Internet itself.<sup>179</sup> These newspaper companies established their own Internet Service Provider (ISP) operations and attempted to compete directly with telecommunications providers in their markets. In other cases, they partnered with telecommunications providers to offer either a co-branded or private-labelled service. One prominent example comes from Landmark Communications Inc. and Knight-Ridder Inc. The two newspaper companies created a partnership known as InfiNet, which provided ISP services to its owners’ newspapers and also sold services to other newspaper companies.<sup>180</sup>

The industry’s trade association did not endorse newspaper companies’ foray into the ISP business. Instead, it urged newspaper companies to proceed with caution:

... it’s only a matter of time before the profits from providing Internet access grow razor thin. Therefore, consider access as simply an entry strategy to leverage the cost of the on-line business and to forestall [competitors]. Remember: what customers really buy isn’t the pipe at all. It’s access to community, conversation and culture. Readers want to be where the pipe leads.<sup>181</sup>

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175. Fink, *Strategic Newspaper Management*, 228.

176. Peng et al., “Trends in Online Newspapers,” par. 56.

177. Ibid.

178. Lee, Ya-Ching “Newspaper Online Services,” 7.

179. Chyi and Sylvie, “Online Newspapers in the U.S.,” 78.

180. Gipson, “@ Your Name Here,” 11.

181. Ibid.

The industry group was prophetic in its forecasts about the ISP business and, in a historical context, the newspaper industry's brief flirtation with it can be summarized as inconsequential.

With paid subscriptions ruled out as short-term revenue source, early online newspapers experimented with all types of advertising. In addition to classified advertising, online newspapers deployed banner advertising and sold sponsorships for specific sections of a website or e-mail delivery of a website's content.<sup>182</sup> As the Internet expanded, however, researchers warned that online marketing would allow advertisers to bypass newspapers and other traditional media. McMillan wrote that "advertisers have new ways of communicating directly with target audiences."<sup>183</sup> To counteract this effect, an advertising executive with *The Los Angeles Times* said newspapers should use the Internet as "a logical product expansion ... to create a pipeline between consumers and advertisers."<sup>184</sup> To remain relevant in the online arena, therefore, traditional media—including newspapers—would have to deliver what they always had: audience.

By 1999, online advertising had reached approximately \$2.8 billion, which was about 1.3 percent of total advertising spending. The online newspaper share of the total was miniscule, however. And as the aforementioned losses attest, selling enough advertising to offset the cost of operations proved to be problematic. The industry's combined revenue from online newspapers was so inconsequential, the trade association did not report the number until it passed the \$1.2 billion mark in 2003.<sup>185</sup> By then, overall spending for online advertising was \$7.2 billion.<sup>186</sup> The newspaper industry had some online advertising success, but the verdict on a long-term value proposition was unsettled at the end of the decade.

Boczkowski suggested that the newspaper industry collectively had reacted to its circumstances as would be expected of a mature industry—treating the changes in the marketplace as evolutionary and making slow and methodical adjustments. He wrote: "Newspapers have neither stood still in the midst of major technological changes, nor incorporated them from a blank slate, but appropriated novel

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182. Chyi and Sylvie, "Online Newspapers in the U.S.," 73.

183. McMillan, "Who Pays for Content? Funding in Interactive Media," par. 65.

184. Washington, "Paper Battles Online Services," par. 3. [Statement attributed to Ron Mann, director of automotive advertising for *The Los Angeles Times*.]

185. Newspaper Association of America (NAA), <http://www.naa.org>.

186. Maddox, "Joint Report Reveals Online Ad Recovery; Traditional Advertisers Embrace Rich Media, but Not All Sectors Benefitting," par. 3.

capabilities ... from the starting point of print's culture."<sup>187</sup> The late 1990s for the newspaper industry was as much about confronting its own culture as it was about confronting new competition. As Boczkowski wrote, its "actors have attempted to create a 'new' entity preserving the 'old' one."<sup>188</sup> He explained:

That is, they have tried to transform a delivery vehicle that has remained unaltered for centuries, and whose permanence has anchored a complex ecology of information symbols, artifacts, and practices, while simultaneously aiming to leave the core of what they do, and are, untouched.<sup>189</sup>

Even though the ties to print culture were strong, newspaper companies understood they had lost ground to their old nemesis, television, and attempts to exploit the Internet as a media platform were falling behind new competition. Newspaper executives faced a muddled concept of what their market should look like, but knew that audience consumption of news and advertising was changing and would continue to change at a rapid pace. It was a difficult period for those operating in a tradition-bound culture to grasp the requirements of change.

Nevertheless, many in the industry set aside doubts about the financial viability of online operations and continued to invest in them. For example, The Washington Post Co. in 1998 announced plans for \$100 million in new Internet spending, while The New York Times Co. told its investors to expect losses from online operations to grow as the company continued to spend on development.<sup>190</sup> From an overall industry perspective, however, no coherent strategy emerged for exploiting online technologies. Readers defected in larger numbers, advertisers sought better solutions and the investment community wanted answers from newspaper companies about their plans for fixing their problems. The cumulative effect of these issues will be addressed in Chapter Seven.

## **Conclusion**

The newspaper industry during the 1990s had its critics; those who believed publishers were complicit in enabling the rise of new media companies by failing to mount an aggressive competitive response. These critics argued that newspaper companies erred in choosing not to invest in innovation at levels required to fend off

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187. Boczkowski, *Digitizing the News*, 178.

188. *Ibid.*, 71.

189. *Ibid.*

190. *Ibid.*, 67.

competition from the portal companies or the new purveyors of classified advertising services.

Clearly, the newspaper industry was surprised by the speed at which the Internet became a media platform for consumers. As this chapter recalled, newspaper companies were just getting comfortable in their partnerships with proprietary online services when the Internet emerged. Once the Internet phenomenon was understood, however, newspapers were collectively interested in exploiting it. Collectively is the operative word given that the newspaper industry's most aggressive action during this period led to the creation of NCN, a consortium intended to provide the newspaper industry with a competitive Internet platform.

The case study of NCN as presented in this thesis serves as an analogy for the broader perspective of the newspaper industry at the beginning of the Internet era. NCN represented the grandiose dreams of an industry that proved incapable of executing the details required for success in a rapidly changing market. Moreover, the demise of NCN revealed that the newspaper industry was less of an industry in the traditional sense and more of a disparate collection of companies with differing agendas and perspectives on the direction of the marketplace.

The developments recounted in this chapter – beginning with the debut of Mosaic through to the threats from new classified advertising competition - illustrate the fundamental shift away from the traditional media model. Operating within that traditional model, newspaper companies were central organizations that championed their role as agenda-setters and saw it as their mission to control when and how information would flow to readers. As was discussed in previous chapters, newspaper executives believed this industry's model, which established control from the point of content creation through to its distribution, could be translated to a successful online model. This premise underpinned the industry's partnerships with the proprietary online services.

However, newspaper companies found that operating on the Internet meant they could no longer control information flow; the distribution channel was no longer a one-to-many model. The Internet model was user-centric and embraced interactivity. Newspaper companies were forced to compete along with many other content providers as mere contributors to a vast, wide open network. While newspaper companies had no choice but to accept the new distribution realities—that was simply how the Internet worked—they struggled with relinquishing control over

their content. The discussion in this chapter surrounding the decisions to embargo content—preventing it from appearing online until after it had appeared in print—demonstrated the seriousness of this issue to newspaper companies at that time. The tension surrounding such content decisions defined the newspaper industry’s relationship with the Internet in its early years.

The newspaper industry required much of the late 1990s and a portion of the early 2000s to address the many cultural and business model issues that hampered its Internet efforts. Many critics contend that by the time the industry understood that its model had to change, readers, advertisers and investors no longer cared. In Chapter Seven, this thesis examines the newspaper industry and its relationship with the Internet during the first half of the 2000s. Chapter Seven gives particular attention to the newspaper industry’s investment constituency. It examines the reaction of newspaper companies to the Internet sector’s investment bubble and subsequent crash and looks critically at how the newspaper industry viewed its own business model during this tumultuous period. In the early 2000s, investors demanded that public newspaper companies take action to validate their long-term viability. Chapter Seven first discusses the merger between AOL and Time Warner as a deal that reverberated throughout all sectors of traditional media and caused the newspaper industry to consider alliances with television stations as a pragmatic convergence strategy. Within this context, Chapter Seven discusses the ramifications of the newspaper industry’s strained relationship with the investment community and concludes with Knight-Ridder’s decision to sell its newspaper holdings and close the company as the ultimate referendum on the newspaper industry’s future.



## **Chapter Seven:**

### **Mergers, Convergence, and an Industry Under Siege**

AOL announced on January 10, 2000, that it planned to acquire Time Warner Inc. in a deal valued at \$162 billion.<sup>1</sup> The monetary size of the deal attested to its scope and significance, but the transaction reverberated through all segments of the media industry as it became recognized as a seminal event: a new media company was about to buy a venerable old media company. The timing of the announcement – only days into the year 2000 – served to amplify its cultural significance. The mainstream media, which had been rife with futuristic commentary surrounding the arrival of a new millennium, seized on AOL’s announcement as evidence of fundamental change. One commentator within that atmosphere of rhetoric said AOL acquiring Time Warner signalled “a new era in both the culture industries and the economy more broadly,” adding that the deal was “a rhetorical as well as financial watershed, the coronation” of the “new economy.”<sup>2</sup>

Although the merger of AOL and Time Warner did not directly involve the newspaper industry, it represents an important milestone within the context of this thesis because it demonstrated on a large scale how much clout new media companies had achieved by 2000. The AOL and Time Warner merger raised the stakes for traditional media companies trying to compete in the new marketplace. Many commentators described the merger as another development leading to the impending “death of the old media.”<sup>3</sup> Newspaper industry executives were forced to react and to explain how their traditional media businesses could prosper in an era that was being defined by emerging new media brands.

The purpose of this chapter is to examine how the newspaper industry responded to the market challenges confronting it in the first few years of the twenty-first century. This chapter establishes historical context through a discussion of the economic climate of the period, which was defined by the inflation and collapse of the investment bubble in Internet-related companies. The chapter explores the intense media merger activity that took place during the period and presents the combination

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1. Gershon and Alhassan, “AOL Time Warner & WorldCom Inc.: Corporate Governance and Diffusion of Authority,” 8.
  2. Miller, “The Economy’s New Clothes?” 371.
  3. Jones and Marx, “Weaned on Crisis, Landing on Top: The Man behind AOL is an Online Visionary Who’s Had His Share of Crashes,” par. 9.

of Tribune Co. and Times Mirror Inc. as an example of the newspaper industry's foray into the merger frenzy. The chapter also looks at how the newspaper industry, which had been confounded by the rise of Internet company stock values, assumed the dot.com crash represented the end of competition from new media. During much of the early 2000s, newspaper companies sought strategic solutions through partnerships with old television rivals as both forms of traditional media attempted to navigate a way forward. These partnerships led to many "operational convergence" initiatives which can be understood in terms of the concepts presented in Chapter One. Media General's convergence project in Tampa, Florida, is presented as a detailed example of this trend. However, since these convergence projects usually failed to deliver tangible results, the chapter also explains how industry investors began to demand that newspaper companies articulate a long-term vision for their economic viability.

Throughout the 1980s and early 1990s, the newspaper industry believed that it would lead the media's digital transformation or greatly influence those who would. Yet the industry did not and, by the early 2000s, it was at risk of becoming marginalized as new companies transformed the Internet into a media platform. The example of Knight-Ridder Inc. illustrates how the fortunes of the newspaper industry had changed. Once at the forefront of the newspaper industry's online endeavours, Knight-Ridder faced intense pressure from investors who believed the company was underperforming. The investors urged the company to sell its newspaper holdings and shut down. When Knight-Ridder's management capitulated, the episode became symbolic of an entire industry's plight. Therefore, as part of the overall thesis, this chapter provides important insights into the critical period in media history when the U.S. newspaper industry first realized that its era of dominance had ended.

## **The Internet Bubble and Collapse**

In the early 2000s, newspaper company decisions regarding an Internet strategy were made against the backdrop of a capital market that underwent dramatic changes in a short time period. A vast escalation in the value of Internet-based businesses that began in the late 1990s came to an abrupt end in mid-2000. A period now recognized as the Internet bubble gave way to the dot.com investment collapse. This thesis will not recount the complex investment issues of this period, but a brief description provides historical context. Stocks in Internet-based companies soared in the late

1990s as investors speculated on the long-term potential of these businesses. As an investment class, Internet companies were not profitable and most had unproven business models and uncertain sources of revenue. Nevertheless, investors bid up the prices of shares in Internet companies in hopes that their business models would someday align with their potential. The index measuring the value of the market where most Internet stocks were listed peaked at over 5,100 points in March 2000,<sup>4</sup> which represented a remarkable increase from less than 800 points in early 1995.<sup>5</sup> This surge in stock value gave Internet companies currency to make acquisitions that their balance sheets otherwise would not have allowed.

Gershon and Alhassan observed that the fascination with the AOL and Time Warner deal—beyond the huge dollar value—was due to AOL’s role as the purchaser:

What was particularly unique about the deal was that AOL with one fifth of the revenue and 15% of the workforce of Time Warner was planning to purchase the largest [media] company in the world. Such was the nature of Internet economics that allowed Wall Street to assign a monetary value to AOL well in excess of its actual value.<sup>6</sup>

While Prodigy and CompuServe faded from prominence, AOL had exploited the Internet to its advantage in the late 1990s and built a subscriber base of more than 22 million by 2000.<sup>7</sup> The financial markets during this period of exuberance rewarded AOL by assigning an enormous value to the size of its audience. It was the market’s valuation of AOL—not the company’s underlying financial performance—that allowed it to acquire Time Warner.

### ***Mergers Alter the Media Market***

Although the AOL and Time Warner merger is recalled as symbolic of its time, it was part of a series of significant mergers that altered the media landscape. General Electric had acquired NBC, Disney had taken over ABC, and Viacom had purchased CBS. Even Time Warner was the result of a merger of two media giants, which had subsequently purchased Turner Broadcasting and its flagship property, CNN.<sup>8</sup> An industry analyst said the merger activity stemmed from the belief that consolidation

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4. Bontis and Mill, “Dot-Bomb Post-Mortem: Web-based Metrics and Internet Stock Prices,” 17.

5. *Yahoo! Finance*, “NASDAQ Composite Interactive Chart.”

6. Gershon and Alhassan, “AOL Time Warner & WorldCom Inc.,” 8.

7. Hickey, “Coping with Mega-Mergers,” 16.

8. Hickey, “Coping with Mega-Mergers,” 17.

“should create media platforms with the leverage and scale to introduce [new] services widely and economically.”<sup>9</sup> During this period, achieving economies of scale was viewed as a key business strategy within the media industry. Diversity of content was also seen as an important element that led media companies to acquire businesses involved in all types of media production.

Critics worried, however, that the level of consolidation would reduce the number of media owners to a point where the diversity of sources would limit consumer choice and threaten independent journalism by placing control of news organizations in the hands of only a few corporate owners. One analyst noted that some “now wonder how much more wheeling and dealing can go on before there are but one or two juggernauts controlling every image, syllable and sound of information and entertainment.”<sup>10</sup> He concluded, however, that merger activity in the media industry had not run its course:

Actually, the [media] industry has a long way to go yet before it reaches that point. There are more than 100 media companies worldwide, with more than \$1 billion in revenues; and entertainment and media are still fragmented compared with other industries such as pharmaceuticals or aerospace.<sup>11</sup>

The issue was sensitive in the newspaper industry where recent merger and acquisition activity had ended decades of family ownership and local market control. Newspapers were bought and sold at a record pace during the 1990s and by the mid-2000s consolidation had changed the fundamental nature of the industry. An industry report found “the 10 largest newspaper groups already control half of the nation’s daily circulation.”<sup>12</sup> Nevertheless, industry analysts believed the newspaper industry needed more consolidation to achieve the economies of scale required to compete in the new media landscape. The circumstances confronting the newspaper industry prompted one analyst to observe:

The rules have been changed by the globalization of business and, especially for media companies, the rise of the Internet. As uncomfortable as it might be for some, newspapers have no choice but to plunge in.<sup>13</sup>

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9. Wolf, “Media Mergers: The Wave Rolls On,” par. 5. [Michael Wolf was a media industry analyst for McKinsey & Co.]

10. Ibid., par. 2.

11. Ibid., par. 3.

12. Fancher, “Disturbing Findings from New Survey,” par. 10.

13. Morton, “The Emergence of Convergence,” 88.

The observation illustrates that, from the perspective of the investment community, the newspaper industry was not doing enough to remain viable. Newspaper executives were expected to take action.

The most significant response came in the form of a large internal industry merger. Tribune Co. announced that it would acquire Times Mirror,<sup>14</sup> linking such stalwart newspapers as *The Los Angeles Times* and *The Chicago Tribune* under common ownership. Times Mirror owned no television stations (Tribune owned 22 television stations at the time) and had relatively little investment in Internet businesses aside from websites affiliated with its newspapers.<sup>15</sup> This meant that Tribune believed investing in additional newspapers was its best way to expand its geographic footprint.<sup>16</sup> Tribune's management said its acquisition of Times Mirror would give the merged company a sizeable presence in the nation's top three media markets and would allow the company to expand Internet operations there. Tribune's CEO stated:

In the interactive market, we now have the spine of a national network. This should permit us to deal more effectively with whatever threats and opportunities arise. Tribune Interactive should now be a much more attractive candidate for partnership with any firm hoping to get a foothold on audience. And we should be far more attractive to the national advertisers that are the biggest players in the Internet.<sup>17</sup>

Critics had argued that the regional nature of most newspaper companies made it difficult for them to operate on a scale large enough to compete with media that offered advertisers national reach. Tribune's acquisition of Times Mirror was designed to address such market shortcomings.

However, the deal was criticized as a defensive move by old media businesses. For example, one critical assessment said that "the combined [newspaper] company looks more like an industrial age holdout than a 21<sup>st</sup> century media giant." The commentator called it "not too surprising that" Tribune's management "was spinning this deal as ... a Web thing," but called it a "ploy to appease certain investors."<sup>18</sup> Whether or not it was a "ploy" is open to interpretation,

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14. Fuller, "Merging Media to Create an Interactive Market: New Strategies are Used to Fund the Expensive Business of Newsgathering," 33.

15. Elder, "The Return of the Dead-Tree Media," par. 6.

16. Fuller, "Merging Media to Create an Interactive Market," 33.

17. Ibid.

18. Elder, "The Return of the Dead-Tree Media," pars. 1,5.

but the fact that that Tribune's management felt compelled to position the deal in terms of an Internet strategy reflected the underlying market changes. From an investment perspective, Internet companies had usurped power from traditional media businesses, which were forced to position their dealings in terms that this new market would accept.

Although newspaper industry executives were confounded by what they perceived as the market's irrational behaviour, there nevertheless, was strong interest by many to cash in on the Internet boom as it transpired. As was noted in the previous chapter, for example, several newspaper companies wanted NCN to issue public stock. The disagreement over that issue was a factor in NCN's demise. During this period, Cox Enterprises<sup>19</sup> and The New York Times Co. also formulated plans to spin out their online operations as separate public companies.<sup>20</sup> Newspaper companies continued to post sizeable profits with average operating margins of about 20 percent during this period, and industry executives believed that such numbers should be rewarded by the market instead of Internet companies with enormous losses.<sup>21</sup> However, the stock market collapsed before the newspaper industry reaped any direct benefit from the bubble.

### ***The Aftermath of the Bubble Collapse***

By the end of 2000, the index measuring the value of the market where most Internet stocks were listed had lost more than half of its value and stood at less than 2,500.<sup>22</sup> Bontis and Mill concluded in a "post-mortem" analysis of the market during this period that in the absence of business fundamentals investing in Internet stocks "was similar to gambling in a casino."<sup>23</sup> They found that investors acted more like speculators and assigned higher value to Internet metrics such as a website's number of unique visitors than to underlying business fundamentals such as the ability to generate revenue and control expenses.<sup>24</sup>

Despite their own missed opportunities to capitalize on the stock market's surge, newspaper executives collectively seemed relieved by the collapse of the Internet bubble. While no one embraced the recessionary economy that also affected

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19. Cox Enterprises, *CIMCities Unit Option Plan*, 4.

20. Gipson, "Playing the Online Game to Win," 27.

21. Gunther, "Publish or Perish?," par. 6.

22. *Yahoo! Finance*, "NASDAQ Composite Interactive Chart."

23. Bontis and Mill, "Dot-Bomb Post-Mortem," 19.

24. *Ibid.*

this period, the collapse of Internet investment speculation was viewed by many newspaper executives as vindication for businesses that were profitable. These executives understood the market collapse did not mean the Internet would go away entirely, but they felt the sudden end to market speculation had validated their industry's cautious response. By not fully chasing the Internet based on investment speculation, the newspaper industry believed it had once again prevailed in saving its long-term franchise.

The following excerpt from the *Columbia Journalism Review* illustrates newspaper industry sentiment in 2001: "the rush to the Web was breathtaking. It began with bold proclamations that old media's days were numbered, and ended with old media—and its established brands—still standing when the smoke cleared from the dot-com burnout."<sup>25</sup> Not only were these brands still standing, the industry was resolute in believing that it was poised to prosper in the next phase as illustrated by the comment from the head of Knight-Ridder's Internet operations:

We're seeing in the Internet industry what a lot of reasoned people have expected for a long time. After a phase one of innovation and experimentation, we're in a phase two of consolidation and seeing that some business models work and some don't. That is leading to a third phase, in which those who survive the second phase reap the considerable benefits of the Internet's growth.<sup>26</sup>

The AOL and Time Warner merger, hailed as a sign of the new economy in 2000, was by 2003 seen as evidence of the ruinous result of speculative investment. The combined company was in disarray. It reported a \$99 billion loss and a board of directors embarrassed by the outcome of the merger dropped AOL from the company's name. Gershon and Alhassan observed that "the AOL Time Warner merger may well be remembered as one of the worst mergers in US corporate history."<sup>27</sup> Newspaper industry executives were relieved to have avoided such a debacle and were intent on demonstrating to the investment community the wisdom of pursuing profits rather than betting on speculative ventures. The newspaper industry believed the end of the Internet investment bubble represented an opportunity to win back favour in the investment community. By embracing

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25. Cunningham, "Rush to the Web—and Away from It: New Media Were All So Exciting and Breathtaking. And Then Came the Crash," 120.

26. Fost, "Rumors of Web's Demise Greatly Exaggerated: Old Media's Retreat From Internet Spending Doesn't Signify Surrender," par. 13. [Statement attributed to Dan Finnigan, president of KnightRidder.com.]

27. Gershon and Alhassan, "AOL Time Warner & WorldCom Inc.," 2.

profitability, newspaper executives wanted to show they knew how to create value where so many pure Internet companies had failed.

### *Newspapers Emphasize Online Profits*

Against this backdrop, newspaper companies became headstrong in presenting their online editions to their shareholders as rational, profit-producing business units that enhanced the printed product. As the publisher of *The Denver Post* expressed: “The future is print. Electronic communications strengthen print.”<sup>28</sup> This reflected the prevailing attitude of newspaper executives during the period immediately following the collapse of the Internet investment bubble. Executives believed that newspaper companies had survived the arrival of the Internet and its associated irrational business practices. As such, they were positioned to use their companies’ financial strength to exploit the Internet on their terms.

The cover of a summer 2002 issue of the industry’s official trade journal, *Presstime*, underscored how important the issue of online profitability had become to U.S. newspapers. The illustration featured a man in a press hat carrying a bag of cash under the headline: “You Made Money!” The graphic depiction demonstrated an industry out to prove to its members and to others that newspapers could make money on the Internet. The article concluded that success was there for the taking: “No one can make the lame excuse that ‘Nobody’s making money online’ anymore.”<sup>29</sup> The amount of money being made, however, was a matter of interpretation. Some organizations claimed online profit margins of 40 percent or more. An industry analyst stated that “about a third of online newspapers broke even ... a third were in the red and a third were profitable.”<sup>30</sup> Nevertheless, the fact that two-thirds of the industry claimed to have figured out how not to lose money with their Internet operations was hailed as a significant accomplishment.

In looking back on this period, The New York Times Co. can be seen as having a significant influence on its industry’s perspective regarding Internet profitability. As noted earlier, the company had attempted to capitalize on the skyrocketing valuations with a plan to make its Internet operations into a new

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28. Svaldi, “Online Outlets Link Newspapers, Profits; Publisher Tells of Internet Boost,” par. 4. [Statement attributed to William Dean Singleton, publisher of *The Denver Post*.]

29. Gipson, “Playing the Online Game to Win,” 31.

30. Svaldi, “Online Outlets Link Newspapers, Profits,” par. 6. [The industry analysis was attributed to Rusty Coats, director of new media at MORI Research.]

company that would have gone public through an initial stock offering. When the market collapsed, those plans were shelved and a new strategy was adopted.

The New York Times Co. believed Internet operations had to become cash-flow positive in their own right to prove that the projects were worth pursuing. As the executive in charge of Internet operations stated: “we knew that just getting to break-even was not enough.”<sup>31</sup> Achieving profitability, however, was not possible through revenue growth alone. The New York Times Co. cut expenses, which included eliminating 116 positions. In about a year, the company’s digital operations went from posting a loss of \$7 million to reporting a small operating profit of \$200,000.<sup>32</sup> The performance was considered a newspaper industry milestone—Internet profitability had been achieved at one of its most stalwart companies. However, the industry’s focus on Internet profitability led to increased scrutiny from analysts and investors who were interested in how those profits were calculated.

One analysis, for example, speculated that it was “doubtful that *The New York Times* could survive separately as a web edition,” adding that “every profitable web news site of any significance depends on a non-web news organization, drawing on, but not paying for, its newsgathering resources.”<sup>33</sup> The concern among industry analysts was that newspaper companies were not accurately reflecting the true costs of doing business on the Internet. The analysts were not as concerned with online profitability as the newspaper companies were, but they wanted public newspaper companies to be transparent in how they accounted for their online operations.

An executive with The New York Times Co. conceded that some newspaper “companies have a history of burying losses in new-media units—not deliberately, but just saying, ‘We won’t count this or we won’t count that.’” But the executive said of his company: “we count everything,” pointing out that the online operation paid 10 percent of its revenue, or at least \$5 million annually, for the print content it used.<sup>34</sup> How newspapers addressed this issue varied from company to company. It was determined by an operating philosophy of whether or not Internet operations were seen as an extension of the printed product or as a separate business.

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31. Gipson, “Playing the Online Game to Win,” 28.

32. Ibid.

33. Nerone and Barnhurst, “Beyond Modernism: Digital Design, Americanization and the Future of Newspaper Form,” 477.

34. Gipson, “Playing the Online Game to Win,” 28. [Statements attributed to Martin Nisenholtz, chief executive officer of New York Times Digital.]

An executive of *The San Diego Union-Tribune* said “the fundamental idea is to carefully measure the incremental costs and revenues of the online operation,” not to determine how the Internet would perform as a standalone business, “but whether it is a profitable new edition of the newspaper.” *The San Diego Union-Tribune* attempted to assign most costs, but noted that some were not calculated as part of the online operations’ expenses such as employee medical benefits or the value of promotion the online version received from the printed paper.<sup>35</sup> During this period, newspaper companies were comfortable in describing their online newspaper as an edition of the printed newspaper. It was a convenient metaphor for explaining organizational structure and the assignment of costs.

However, in only a couple of years from the collapse of the Internet bubble, concerns over the minutiae of online profitability gave way to a much bigger issue. The newspaper industry continued to experience advertising erosion and investors wanted to know when—or if—the online editions would produce enough revenue to offset this trend. Despite the investment collapse in Internet stocks, the popular financial press continued to describe the Internet as a significant threat to the newspaper industry’s revenue. One article concluded that “over the horizon loom some of the toughest tests for the industry since the advent of television.”<sup>36</sup> Newspaper companies had prospered during the television era, but the financial community believed the Internet represented a new form of competition—one that would directly threaten sources of advertising revenue that television had not. Given the mounting pressure to find alternative ways to operate, newspaper companies once again turned to a partnership model. This time, however, they were joining forces with their old television rivals under the guise of an emerging buzzword—convergence.

## **Convergence as a Strategy**

Against the backdrop of media mergers in the early 2000s, Fallows stated that the activity “intensifies the impression that all media are part of one big octopus-like conglomerate.”<sup>37</sup> The observation was part of the growing discussion in both

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35. Ibid., 27. [Statements attributed to Chris Jennewein, Internet director for *The San Diego Union-Tribune*.]

36. Gunther, “Publish or Perish?,” par. 4.

37. Hickey, “Coping with Mega-Mergers,” 16. [Statement attributed to James Fallows, a journalist and media critic who had written *Breaking the News* in 1996.]

industry and academic journals during this period in which media mergers and the notion of convergence became entangled.

Dowling, Lechner, and Thielmann have defined convergence as “a process change in industry structures that combines markets through technological and economic dimensions to meet merging consumer needs,” adding that convergence “occurs either through competitive substitution or through the complementary merging of products or services or both at once.”<sup>38</sup> Dowling and Thielmann also observed that such activity could “affect industry structures as well as firm-specific managerial creativity.”<sup>39</sup> They wrote:

... if convergence is the significant trend, the basic form can differ on a spectrum between competition and complementarity—leading either to a conglomerate market or to the emergence of a new market or market segment.<sup>40</sup>

Within this framework of convergence, newspaper executives attempted to answer two important questions about their industry’s position in the market. First, could newspaper companies remain financially robust enough to be relevant in a market dominated by large conglomerates? Even executives of newspaper companies already part of large corporations believed their industry had to prove its relative worth. Second, could newspaper companies exploit partnerships so that such deals could achieve the scale required to be competitive in the emerging Internet market? Following the intense period of partnerships with proprietary services, most newspaper companies initially created an Internet presence on their own. But in the early 2000s, newspaper executives sought new partners they hoped would help them create richer online content and share the financial risk of broadening the product concept. The following section of the chapter explores how the newspaper industry attempted to answer those questions by partnering with television stations in local markets in a form of operational convergence, what Dominick had explained as occurring “when owners of several media properties in one market combine their separate operations into a single effort.”<sup>41</sup>

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38. Dowling, et al., “Convergence—Innovation and Change of Market Structures between Television and Online Services,” 31-35.

39. Thielmann and Dowling, “Convergence and Innovation Strategy for Service Provision in Emerging Web-TV Markets,” 4.

40. Ibid.

41. Dominick, *The Dynamics of Mass Communication*, 20.

### *Newspapers and Television: Old Rivals Cooperate*

By 2000, nearly all of the nation's 1,500 daily newspapers had a website.<sup>42</sup> The question of whether a newspaper would have a website was no longer pertinent; that question had been answered by an overwhelming view that an "online presence is essential to their competitive success."<sup>43</sup> The issue was now one of execution and newspaper companies were seeking approaches that would create scale in the markets they served, but at a reasonable cost. In this effort, newspaper companies fixated on the possibilities of partnering with their one-time rivals—local market television stations.

Scott noted that a prevailing sentiment during this period was that news sites on the Internet were "a supplement and a complement to the dominant print and broadcast news media," adding that a "considerable debate" existed "over whether the internet will prove to be a new medium at all or, rather, more simply serve as a better tool for distribution."<sup>44</sup> Traditional media companies understood, however, that the investment community valued the Internet products more than the core television or newspaper business in many cases. Therefore, until the market sorted itself out, traditional media rivals—newspaper and television companies—set aside their competitive differences and pooled resources as they looked for ways to make their online efforts viable. Dominick explained the advantages they were seeking:

It saves money because, rather than hiring a separate news staff for each medium, an operation can have the same reporters produce stories for the paper, Web site, and TV station. In addition, each medium can promote its partners. For instance, the TV newscast can encourage readers to visit the Web site or the print newspaper.<sup>45</sup>

Several researchers studied this convergence phenomenon and proffered explanations about why it was occurring. Scott concluded that during this period the term "convergence" described a "new strategy in the economic management of information production and distribution."<sup>46</sup> Singer was more explicit in defining this practical manifestation of convergence. She wrote that "it refers to what happens inside a newsroom, specifically to cooperation among print, television and online journalists to tell a story to as many audience members as possible through a variety

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42. Hickey, "Coping with Mega-Mergers," 20.

43. Ibid.

44. Scott, "A Contemporary History of Digital Journalism," 93.

45. Dominick, *The Dynamics of Mass Communication*, 21.

46. Scott, "A Contemporary History of Digital Journalism," 101.

of delivery systems.”<sup>47</sup> Singer also noted that this form of convergence relied on “some combination of technologies, products, staffs and geography among the previously distinct provinces of print, television and online media.”<sup>48</sup> Lawson-Borders wrote that it reflects “the realm of possibilities when cooperation occurs between print and broadcast for the delivery of multimedia content through the use of computers and the Internet.”<sup>49</sup> The common theme that emerged from these researchers is that the term “convergence” was no longer restricted by industry participants to a theoretical construct reserved for defining the technical consolidation of media platforms. Rather, the term as used by industry practitioners during this period, represented the practical notion of removing expense and overhead from news operations by combining the newsrooms of newspapers and television stations and the creation of content distribution alliances over the Internet.

In this application, convergence was applied to the cooperative partnerships that were formed among media companies that had been long-term competitors, specifically newspapers and local television stations in the newspapers’ markets. To some these partnerships were unexpected, and viewed as hasty and imprudent reactions to Internet-based media. Wirtz, however, observed that it was a natural market development for convergence to take place among existing market participants in this manner. He surmised that such convergence activity was to be expected “since the multimedia market does not have to be built up from scratch, but is much more a combination of extant elements and applications.”<sup>50</sup> He believed that a variety of players serving different aspects of a media market would join together because it made economic sense to do so. Wirtz concluded:

... it remains evident that hardly any single market participant can capture the multimedia market alone. An integration strategy minimizes risk within the process of capturing the market through an efficient bundling of resources and a dispersion of the capital raising responsibility among several market participants.<sup>51</sup>

From this perspective, the participation of newspaper companies in convergence activity can be viewed not as a new strategy, but as a continuation of the risk

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47. Singer, “Strange Bedfellows? The Diffusion of Convergence in Four News Organizations,” 4.

48. *Ibid.*, 3.

49. Lawson-Borders, “Integrating New Media and Old Media: Seven Observations of Convergence as a Strategy for Best Practices in Media Organizations,” 92.

50. Wirtz, “Convergence Processes, Value Constellations and Integration Strategies in the Multimedia Business,” 15.

51. *Ibid.*, 22.

management approach that had led to earlier partnerships with cable television companies and proprietary online services. Newspaper companies had always wanted to exploit online media, but had long shown reluctance to pursue projects independently. Television affiliations appeared to give it the security to move in new directions.

In 2001 there were about 50 convergence projects fitting this new definition underway in this U.S., but the number was expected to increase.<sup>52</sup> According to Gentry:

This is all in its infancy and it's happening because newspapers are seeing subscriptions declining and TV stations are watching viewers decline and they figure that if they can cross promote each other and share resources, they can attract new audiences and save money.... This is much more than a trend. It's a movement.<sup>53</sup>

Indeed, in April 2003, duPlessis and Li reviewed the content of the online newspapers associated with the largest 100 circulated U.S. newspapers. The researchers wanted to gain a greater understanding of the effects of what they referred to as cross-media partnerships, which they defined as providing content to newspaper websites through alliances with media such as television stations. This study found that 86 of the 100 newspapers studied had some form of cross-media partnership<sup>54</sup>, underscoring how widespread the practice had become.

With so many projects underway or planned, it is not possible to describe them all except to say that they broadly fit within the understanding of operational convergence. Singer, for example, wrote that convergent “processes and outcomes vary widely” from market to market.<sup>55</sup> She observed:

For some, convergence emphasizes information sharing. For others, it involves newspaper reporters taping a voiceover for a newscast, or television reporters phoning in breaking news details to update a website. In a few markets, journalists gather information that they turn into an immediate online story, a package for the evening news and an article for the next day's paper. Convergence can mean working in separate buildings—or at adjacent desks.<sup>56</sup>

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52. Wendland, “Convergence: Repurposing Journalism,” par. 9 [Estimate attributed to James Gentry, dean of the School of Journalism at the University of Kansas.]

53. *Ibid.*, pars. 11, 23.

54. duPlessis and Li, “Cross-Media Partnership and Its Effect on Technological Convergence of Online News Content: A Content Analysis of 100 Internet Newspapers,” 166.

55. Singer, “Strange Bedfellows?” 4.

56. *Ibid.*, 3.

Singer believed that because of the diversity of such activity, the process would be fluid for a long period. She wrote that her “study indicates there are many different ways to converge, and models will evolve to suit unique organizations, markets and cultures.”<sup>57</sup> Lawson-Borders shared this notion and wrote that “convergence is not static, but rather a continuum in which organizations must select the appropriate medium or combination thereof to reach their goals.”<sup>58</sup>

To gain further insight into what this type of convergence represented, it is useful to consider several examples of such activity underway during this period. Convergence projects during this period often included properties that were under common ownership. Belo Corp. in Dallas, TX, sought to foster partnerships among the properties it owned there including *The Dallas Morning News*, WFAA-TV, and TXCN, a statewide cable news operation.<sup>59</sup> Tribune in Chicago teamed the news operations of *The Chicago Tribune* and its WGN-TV along with CLTV, a local cable news service.<sup>60</sup> Media General’s project in Tampa, Florida, was the most often cited example convergence occurring under common ownership and will be explored in more detail later in the chapter.

Such activity, however, was not limited to large metropolitan markets. The World Company in Lawrence, Kansas, for example, used its common ownership of the local newspaper, a television station, and the cable system to launch numerous cross-platform projects. The initiatives were so widespread that one critic described the small market as “the land that antitrust [law] forgot.”<sup>61</sup> Projects also occurred outside of common ownership. For example, Gaylord’s *Daily Oklahoman* joined forces with Griffin Communications’ KWTW to produce news stories for use in print and on television. Three months after beginning their traditional media cooperation, the two Oklahoma City media entities joined their Internet sites to create a new entity called NewsOK.com.<sup>62</sup>

Most analysis of the convergence projects from the early 2000s focused on content creation and dissemination. There was little mention of the business issues aside from cross promotion. In Topeka, Kansas, the *Capital-Journal* and WIBW

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57. Ibid., 17.

58. Lawson-Borders, “Integrating New Media and Old Media,” 94.

59. Ibid., 92.

60. Ibid.

61. Montagne, “Part Two of the Series on Media Convergence Looks at a Media Empire in Lawrence, Kansas,” par. 10.

62. Ketterer, et al., “Case Study Shows Limited Benefits of Convergence,” 52, 55.

radio, both owned by Morris Communications, partnered with KSNT-TV owned by Emmis Broadcasting, to not only share news resources, but to also sell “bundled advertising packages among the various media.”<sup>63</sup> This partnership was one of the rare examples where advertising synergies were mentioned as part of the core strategy. As the general manager of NewsOK.com observed: “The editorial part was the easiest. In advertising and sales, no one really wants to share money.”<sup>64</sup> Therefore, most of these deals were designed around sharing expenses not revenue. The critical element driving this type of convergence was a fundamental assumption that leveraging resources among the various media entities involved would result in a competitive advantage.<sup>65</sup> It was implicitly understood that revenue would follow if such advantages were achieved.

In keeping with this line of thinking, some media companies believed their convergence projects represented another step in an inevitable evolution of media that would one day eliminate the distinctions separating print from broadcast. They pursued these projects out of conviction that “breaking down barriers between media platforms, services and industries” was a transformative process that that would allow for once disparate industries to be “conceptualized under the umbrella of a new business sector, the information industries.”<sup>66</sup> The following subsection of this chapter presents a more thorough examination of the most prominent operational convergence project of this period.

### ***Media General and its Tampa Model***

To understand this thinking more clearly, the thesis will now look in detail at one of the clearest examples of operational convergence in this period: the way Media General went about the business of convergence in Tampa, Florida. Although there were numerous convergence projects underway as noted previously, the initiative undertaken in Tampa by Media General attracted the most attention from industry press as well as academic researchers. This was due to the size and scope of the effort relative to other projects and was reflected in the significant amount of resources Media General dedicated to the initiative. This example is explored in

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63. Ibid., 53.

64. Dotinga, “An Urge to Converge,” 9. [Statement attributed to Kelly Dyer, general manager of NewsOK.com.]

65. Wirtz, “Convergence Processes, Value Constellations and Integration Strategies,” 15.

66. Chon, et al., “A Structural Analysis of Media Convergence: Cross-Industry Mergers and Acquisitions in the Information Industries,” 142.

greater detail because it provides rich insights into how a traditional media company viewed its market during this period. Kolodzy had observed that if “convergence means cooperative relationships between television, online, and print media,” then success would depend on management’s ability “to play to the strengths of each medium, and to respect those strengths.”<sup>67</sup> From the outset, executives at Media General expressed similar views, maintaining that convergence would work when traditional media took the best of their operations and combined those strengths with the efficiencies of Internet distribution.

Media General owned the *Tampa Tribune*, a 238,000-circulation newspaper; one of the market’s leading television stations, WFLA-TV; and Tampa Bay Online, which was on the Internet at [www.tbo.com](http://www.tbo.com). In 2000, Media General moved all three of its Tampa media properties into a new facility—a 120,000 square foot building it called “The News Center.” But as word spread in the industry about how Media General planned to integrate its media holdings, some began calling the new facility a “temple of convergence.”<sup>68</sup> The following excerpt from an article published by the Poynter Institute describes the operations:

It sits on the banks of the Hillsborough River in Tampa, a gleaming new \$34 million building that has become the poster child for one of the most powerful but controversial trends sweeping the news industry: Convergence.... From the Internet to new breakthroughs in digital imaging to a public that demands better, fresher and more diverse news, the converging of different journalistic disciplines is dramatically changing the landscape of American journalism. Nowhere is this more ingrained than what’s happening in Tampa.... TV reporters do their stand-ups and then write bylined newspaper stories. Newspaper reporters write their stories and then appear before TV cameras to do “talk-back” debriefings or their own stand-ups. And everybody — reporters, editors, photographers — “repurpose” their work for the website.<sup>69</sup>

Initially, management emphasized that although the news operations of the TV station, newspaper, and website shared a common physical location, they were continuing to operate as separate and distinct entities that “make news decisions independent of one another.”<sup>70</sup> As the newspaper’s editor stated: “we are careful to

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67. Kolodzy, “Everything that Rises,” 61. [Janet Kolodzy was a journalism professor at Emerson College.]

68. Colon, “The Multimedia Newsroom,” par. 11.

69. Wendland, “Convergence: Repurposing Journalism,” pars. 1-5. [Mike Wendland was a fellow at the Poynter Institute, a newspaper industry research and training centre.]

70. Thelen, “Tampa’s Convergence Lessons,” 7. [Gil Thelen was executive editor of *The Tampa Tribune* and a vice president with Media General.]

stress that there is no merger of the newsrooms, although the cooperation is unprecedented.”<sup>71</sup> To many observers, however, the distinction between a “merger” of newsrooms and “unprecedented cooperation” was semantics. In practice, the centerpiece of the facility’s new newsroom was an area known as the “superdesk” where newspaper editors, television producers, and website managers came together to coordinate the activities of all news gathering personnel.

The superdesk was a tangible symbol of convergence. One trade journal stated that it “signals a change in the way journalists at all three media organizations will work.”<sup>72</sup> Once the newsroom and its superdesk were operational, management conceded that there were many cultural issues that had to be adjudicated. This prompted the newspaper’s executive editor to state: “Convergence is a contact sport. It happens one staff collision at a time.”<sup>73</sup> Singer’s research of convergence, which included the Tampa market, concluded that the cultural issues of combining operations would be difficult to overcome.

The independent and competitive culture of newspaper newsrooms made it difficult for those journalists to accept convergence. Singer’s study stated that print journalists especially expressed “being appalled when they learned they would be converging with their television counterparts.”<sup>74</sup> Despite the concerns of many of his newsroom colleagues, the *Tribune’s* editor believed the goal of convergence was worth the pain associated with forcing cultural changes into the organizations. In an article he wrote for *The American Editor*, an ANSE journal, the editor described for journalists why he supported the practical manifestation of convergence:

Our purpose is to serve the changing needs of readers and viewers. They are ahead of us in using a combination of print, broadcast and the Internet during the day. Our rationale: Be there with news and information whenever and however our customers need and want us to be. For breaking news, we aim to “publish” on the first available platform, usually television but sometimes online. On enterprise, we want to extend the work of our journalists across platforms in a natural way.<sup>75</sup>

This comment was intended to help explain why a journalist would support convergence, but the editor also was aware that critics believed convergence was not

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71. Ibid.

72. Tompkins and Colon, “Tampa’s Media Trio,” 46.

73. Colon, “The Multimedia Newsroom,” par. 25.

74. Singer, “Strange Bedfellows?,” 10.

75. Thelen, “Tampa’s Convergence Lessons,” 8.

an altruistic strategy but one designed only for cutting costs in the face of increasing competition. Kolodzy summarized this perspective: "... critics equate convergence with a loss of jobs, heavier workloads for journalists, and monolithic news and opinion. They see it as the manifestation of the dark side of media consolidation."<sup>76</sup> The Tribune's editor argued, however, that efficiencies associated with convergence would produce cost-savings that would be invested in expanding, not shrinking, news resources. He stated: "If convergence leads to fewer journalists reporting, producing and editing weaker journalism, we deserve to lose customers and public trust."<sup>77</sup> Many media companies approached convergence as an organizational approach to confronting new market realities, but the journalistic ramifications of such organizational structures received much of the attention.

The changes were most troublesome for the newspaper reporters who found themselves in front of a camera for the first time. The comments of a senior reporter at *The Tampa Tribune* reflect these concerns: "The very nature of going on TV is intimidating for those of us hiding behind the anonymity of the byline.... I like to put a lot of thought into what I write. So thinking quickly [on the air] concerns me.... If I screw up, I can't backspace."<sup>78</sup> The experience of print reporters doing television reporting received significant attention in Tampa and led Media General to provide extensive cross-training through the University of South Florida.<sup>79</sup>

Lawson-Borders found that as editors and producers engaged in the converged process they became more comfortable in how to use content across multiple platforms. A news director from WFLA in Tampa stated: "one of the basic truths about convergence is that not every story ... that excites one platform is suitable for another. Sometimes a good newspaper story is just that [and] not suitable for TV."<sup>80</sup> Lawson-Borders concluded that "convergence for the sake of convergence is not advisable," adding that "the blending of media forms should be the strategy when the content and the delivery programs necessitate the arrangement."<sup>81</sup> The experience in Tampa, however, demonstrated that executive mandates were needed to force content sharing. Otherwise, the material was largely deployed exclusively in the medium that created it.

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76. Kolodzy, "Everything that Rises," 61.

77. Tompkins and Colon, "Tampa's Media Trio," 52.

78. *Ibid.*, 53.

79. Thelen, "Tampa's Convergence Lessons," 8.

80. Lawson-Borders, "Integrating New Media and Old Media," 94.

81. *Ibid.*

Even though it was the emergence of the Internet that gave rise to this form of convergence in the first place, Media General's Tampa initiative underscored how difficult it was for traditional media to integrate the Internet into their operations. The News Center in Tampa was supposed to have been organized around what was described as the triumvirate of newspapers, television, and Internet. However, an early report on the converged structure indicated the Internet operations were not on equal footing. The report stated that "the television and newspaper voices dominate the convergence conversation, with the online operation looking for a place to fit in."<sup>82</sup> The online operation believed that the converged structure eventually would provide more resources with an observer stating: "the TBO.com operation welcomes the opportunity to go beyond 'shovelware,'" and develop "more creative news presentations."<sup>83</sup> An architect of the project said, "We want to place high value on experimental risk-taking, rather than on the tried and true journalism story."<sup>84</sup> However, the cultural challenges of moving beyond content repurposing were daunting and resulted in little innovative activity during the first year of the converged structure. A key executive conceded:

We have only scratched the surface of multimedia possibilities. Effective translation from one platform to another is an achievement. But we have to learn how to create unique content that stands apart from any existing medium. That's the tantalizing prospect of multimedia work.<sup>85</sup>

This executive said the purpose of the Internet in a converged structure is to provide a central platform from which newspapers and television can both operate. He asserted that "online is the common carrier between print and broadcast," but said the purpose of the integration is to create something apart from what traditional newspapers and television already produce.<sup>86</sup> For Media General, developing this new content form was seen as the quintessential factor in determining if its convergence effort would succeed or fail, but the breakthrough it hoped never came to fruition. Media General did not abandon its convergence approach, but the results

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82. Colon, "The Multimedia Newsroom," par. 23.

83. Ibid., par. 17.

84. Colon, "The Multimedia Newsroom," par. 20. [Statement attributed to Gil Thelen, then *The Tampa Tribune's* vice president and executive editor.]

85. Thelen, "Tampa's Convergence Lessons," 9.

86. Ibid., 7.

were far less than what it envisioned when the strategy was embraced in 2000.<sup>87</sup> Media General backed away from aggressive attempts to merge content and focused more attention on selling advertising across its three platforms. The company reported in 2005 that \$8 million in annual revenue could be attributed to cross-selling opportunities among the newspaper, television, and online properties. For a market the size of Tampa, however, the number was small relative to overall advertising spending, representing “one-half of a percent of market share.”<sup>88</sup>

### ***Operational Convergence Fails to Deliver***

This detailed examination of Media General’s experience in Tampa is important because the experience soon turned out to be common across the industry. Operational convergence partnerships did not produce any significant results that industry executives could point to as evidence that traditional media had figured out a strategy for the emerging online market. Newspapers and television stations struggled to find ways to share traditional content, while at the same time, the online component of these arrangements were relegated to repurposing material intended for the traditional outlet. The notion that combining newspapers and television stations would result in new and interesting multimedia content packages was never fully realized.

In most cases, newspapers and television stations did not adequately address the cultural differences between organizations and among the various roles that would be required to cooperate. As Scott noted: “Journalists have been resistant, and coordination has proven labor intensive.”<sup>89</sup> Singer observed that within the operations of traditional media companies, innovators—“individuals interested in doing something new largely because it is new”—were found mostly in the online operations.<sup>90</sup> But in the power struggles of converged television stations and newspaper companies, such individuals had little clout. Within the context of the Tampa model explored above, these individuals were referred to as internal “entrepreneurs,” but there was “an ongoing concern [about] ... how to integrate the

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87. Carr, “Searching for TV-Newspaper Convergence: Studies Show Little Cooperation in Station-Newspaper Partnerships,” par. 1. [This article indicated that as late as 2008, Media General still considered its Tampa properties to follow a convergence model.]

88. Glaser, “Annals of Integration: New York Times and Times Digital,” par. 19.

89. Scott, “A Contemporary History of Digital Journalism,” 113-114.

90. Singer, “Strange Bedfellows?” 13.

entrepreneur into a traditional culture.”<sup>91</sup> Management’s inability to address the concerns of journalists, while also fostering an entrepreneurial environment undermined the convergence strategy.

In the absence of major success most of the newspaper and television partnerships forged in 2000 and 2001 were allowed to simply “fizzle” a few years later.<sup>92</sup> For example, researchers studying a convergence project in Oklahoma City in July 2002 found little cooperation between the partners and “the scant amount that was observed ... seemed to be poorly coordinated.”<sup>93</sup> In some cases, the convergence partnerships were reduced to promotional deals where, for example, a television station would provide its newspaper partner a weather forecast in exchange for logo placement.<sup>94</sup>

Some media companies such as Cox Enterprises formally announced plans to abandon operational convergence initiatives. Cox Enterprises had been a pioneer of the concept, launching Cox Interactive Media in 1996 to manage centrally websites that represented the combined efforts of the company’s newspapers, radio stations, television stations, and cable systems. In markets where the company did not own multiple media properties, it formed alliances with outside companies. In early 2002, the company began to dismantle the central structure and return oversight of online operations to the traditional arms of business. Cox Interactive Media attempted to operate on the Internet as a separate business, but was dependent on content and advertising relationships provided by the traditional media businesses. A senior manager of the project said “it wasn’t a financial model that worked.”<sup>95</sup> He elaborated: “We still think there’s a tremendous opportunity for advertising,” but added that “we need to have more participation from the local media companies to succeed.”<sup>96</sup> Cox management believed that in separating its Internet operations into a separate unit, the company had failed to provide its traditional media businesses with the proper incentives to cooperate and build a base of online advertising revenue. In

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91. Colon, “The Multimedia Newsroom,” par. 20.

92. Carr, “Searching for TV-Newspaper Convergence,” par. 14. [Observation attributed to Debora Halpern Wenger, a Virginia Commonwealth University journalism professor who had been an assistant news director at Tampa’s WFLA.]

93. Ketterer, et al, “Case Study Shows Limited Benefits of Convergence.” 61.

94. Carr, “Searching for TV-Newspaper Convergence,” par. 5.

95. Finkle, “Cox Interactive’s Orange County, Calif., Web Portal to Shut Down,” par. 6. [Statement attributed to Scott Whiteside, then chief operating officer of Cox Interactive Media.]

96. Sullivan, “Cox Shifts Web Strategy to Local Control,” par. 11. [Statement attributed to Scott Whiteside, then chief operating officer of Cox Interactive Media.]

allowing each traditional media to control its own Internet presence, the hope was that ownership would provide the business incentives needed for success.

With operational convergence projects largely discredited as a way forward—and no clear replacement strategy on the horizon—media holding companies, including those that owned newspapers, began using a several new ways to describe their approaches. Some promoted a “portfolio” concept that referred to the core newspaper, its online edition and other niche products such as Spanish-language edition or commuter tabloid.<sup>97</sup> Other newspaper companies used “integration” to describe how their online editions and print editions were closely aligned under common management.<sup>98</sup>

For example, *The New York Times* in August 2005 announced a merger of its print and online newsrooms and also said that advertising sales for the print and online editions would be managed jointly under a new “chief advertising officer.” The executive appointed to that role said the structure made it clear that “there’s no us and them. There’s no print and digital. We’re all *The New York Times* Company.”<sup>99</sup> The close integration of digital and print operations was intended to show advertisers and investors that newspaper organizations recognized the importance of the Internet, but in a way that inextricably linked online to the core printed newspaper. However, they largely were seen as semantic exercises rather expressions of new strategic approaches. Operational convergence had at least represented the notion of reaching beyond a newspaper’s own resources to create something new for the Internet. These new approaches, however, represented a return to the newspaper industry’s reliance on its core printed product, with little sense of the novel opportunities that interactive media online might provide.

Lind has argued that the failure of convergence projects to produce business results was largely because they were born out of the rhetoric surrounding the Internet rather than from any conviction that they were needed or wanted. By searching newspaper databases for this period, Lind found that usage of the term convergence spiked in 1994, waned for a period, and then rebounded for “a second broader peak during the Internet bubble 1999–2001.” Lind said the usage patterns for convergence followed a model called the “Hype Cycle” developed by Gartner Inc. to

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97. Smolkin, “Adapt or Die,” 17.

98. Glaser, “Annals of Integration: New York Times and Times Digital,” par. 1.

99. *Ibid.*, par. 16. [Statement attributed to Denise Warren, chief advertising officer for The New York Times Co.]

explain in part what happened during the Internet boom.<sup>100</sup> Lind surmised that the use of convergence “gives few guidelines for concrete strategic action.”<sup>101</sup> He concluded that convergence was “a general and rather vague term imbued with a lot of hype” and “seems to have been used as rhetoric and a residual argument, in lack of more concrete strategic arguments.”<sup>102</sup> With this perspective, it is possible to understand how some newspaper executives and their television counterparts thought of convergence in nebulous terms that resulted in partnerships where goals and success measurements were ill-defined.

Other research found little business justification for cross-media partnerships. Jung studied product diversification at 26 large media companies during 1996 through 2002 and determined that benefits assigned to media mergers, diversification, or integration were a myth. “The mantra of synergy does not work in the media industry at this point,” he wrote, adding that data showed the opposite in that “financial efficiency decreased as the firms expanded their businesses into unrelated media sectors.”<sup>103</sup> Jung asserted that the operations of newspaper and broadcast companies were too different for any pooling of resources to be effective. He concluded:

... relatively few opportunities to make better use of collective resources will arise directly from related diversification of these particular sectors of media. If economies of scope are non-existent and financial profits are generally difficult to achieve, few economic benefits can directly attributable to cross-ownership of television and newspapers....<sup>104</sup>

Jung’s work shows there was little business rationale for the newspaper industry’s convergence projects with television stations. Therefore, when these convergence projects are considered within the historical timeline they are recognized as a part of the hyperbole associated with the Internet bubble. *Advertising Age* observed: “when the dot-com bust put the kibosh on so many media dreams—convergence became discredited.”<sup>105</sup> Newspaper companies and other traditional media used convergence as a response to an investment community inflamed by the Internet investment mania. However, it was a response driven by wishful thinking that such partnerships

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100. Lind, “Convergence: History of Term Usage and Lessons for Firm Strategists,” 1.

101. Ibid.

102. Ibid, 11.

103. Jung, “The Bigger, the Better? Measuring the Financial Health of Media Firms,” 246.

104. Ibid.

105. Rothenberg, “Convergence Likely to Render Restriction of Liquor Ads Futile,” 14.

could produce a breakthrough. There was little, if any, strategic business planning undertaken to support that goal.

In the wake of the Internet investment bubble and collapse, newspaper executives believed they had the opportunity to use their profitable businesses to regain standing with the investment community. Strong profits from print operations were supposed to bolster the industry's value while operational convergence initiatives demonstrated a path to a sustainable future. However, an economic recession in the early 2000s exposed weaknesses in the industry's core product and the convergence shortcomings revealed a lack of long-term strategic planning. In the following section, the thesis explores how the newspaper industry's emphasis on profitability affected its strategic decisions during this period. The thesis then examines the closing of Knight-Ridder Inc. as a milestone event that is recalled as signalling the beginning of the end of the newspaper industry's long-established business model.

## **Business Model Questioned**

Newspaper executives considered robust profits a key factor for evaluating performance in the tumultuous media market of the early 2000s. However, the emphasis on profitability created a conundrum for the newspaper industry. In delivering large profits, newspaper companies conditioned investors to expect them. But at the same time, the investment community expressed concerns that newspaper executives were focused on short-term thinking that kept the industry from doing more to compete against new and successful online companies that were siphoning away revenue. Some of the profitability attributed to online editions, for example, had been achieved through cutting staff and pooling resources with competitors rather than investing in new technologies and business models to increase revenue.

Some blamed the industry's decisions to cut resources on its reaction to the end of the Internet investment surge. As an industry commentator wrote: "the burst of the dot-com bubble ... made many think they had overestimated the impact of the Internet. But in retrospect, the news media might have completely underestimated the influence of this new medium."<sup>106</sup> This line of thinking gained currency in 2004 and 2005 as the newspaper industry continued to post revenue declines in its print

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106. Bowman and Willis, "The Future is Here, but do News Media Companies See It?" par. 2.

business, while revenue from Internet editions fell far short of making up the difference. Newspaper companies were attracting a sizeable number of users to their websites, but they demonstrated no coherent strategy for generating revenue based on this audience.

Critics of the newspaper industry's Internet efforts have often asserted that websites associated with newspapers were unappealing to consumers because they lacked the features and functions associated with pure online companies. By the mid-2000s, however, newspaper companies had mitigated many of those shortcomings. An analyst with a leading audience measurement firm noted that "most, if not all, of the top newspaper websites offer interactivity such as blogs, podcasts and streaming video/audio." The analyst said that such features, when added to the news content, "make newspaper websites an increasingly appealing choice."<sup>107</sup>

Consumers responded to the improvements newspapers made to their websites. Nielsen/NetRatings reported in October 2005 that newspaper websites experienced double-digit audience growth from the previous year and reached 39.3 million readers, which represented "26 percent of the total active American Internet population." Websites associated with two national newspapers were attracting large audiences. For example, nytimes.com had more than 11 million monthly users, while usatoday.com tallied more than 10 million users.<sup>108</sup> A media industry investment specialist also observed that newspaper companies were attracting enough online audience to be "the No. 1 or No. 2 local Web site" in a newspaper's market.<sup>109</sup>

At this point in the newspaper industry's relationship with online media, attracting audience on the web was much less of a problem than finding advertisers willing to buy that audience. As the newspaper industry's overall business model came under increasingly intense investor scrutiny during this period, newspaper publishers were expected to reduce their dependency on the core printed newspaper and find ways to sell the online audience to advertisers. As the investment specialist summarised: "that's part of the challenge, how do you capitalize on the assets you have?"<sup>110</sup>

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107. Zhang, "Online Newspapers Readership Increases," par. 3. [Statement attributed to Gerry Davison, senior media analyst with Nielsen/NetRatings.]

108. Ibid., pars. 1-2.

109. Mann, "Deal Fuels Debate on Future of Print," par. 24. [Statement attributed to James P. Rutherford, executive vice president of Veronis, Suhler Stevenson, a private equity firm that specialized in the media industry.]

110. Ibid. [Statement also attributed to Rutherford; see previous note.]

A researcher who studied the newspaper industry's reaction to the Internet as a disruptive technology stated that newspaper companies had not done enough to differentiate their products for advertisers. Gilbert said that "most companies aggressively 'crammed' the new business into the old business model and sales processes." In terms of revenue generation, he found that "most newspapers tried to force their online sites to make money by selling the same types of advertising to their traditional print advertisers" without recognizing that "online advertisers were different and the type of advertising they sought was much more focused around the interactive and direct targeting attributes of the new media."<sup>111</sup> The result, as Gilbert concluded, was that "newspapers had spent a ton of money, with little to show for it."<sup>112</sup> This perspective illustrates another instance when newspaper companies did not understand interactivity in the way the market demanded interactivity. Although newspaper websites had improved their offering of interactive content after years of neglect, most newspaper websites did not extend that functionality to advertising where the market had moved.

Nevertheless, investors wanted newspaper companies to respond to their demands to fix the situation. They wanted to see tangible evidence that newspaper companies could attract online revenue in amounts large enough to offset the negative advertising trend in the printed newspaper. Newspaper publishers, therefore, were forced to accept online advertising revenue rather than overall profitability as the benchmark that mattered most. By this point, investors in the newspaper industry had moved beyond evaluating companies on short-term profits. They were far more interested in the newspaper industry's long-term prospects.

In 2005, the newspaper industry reported that Internet advertising generated by newspapers' online editions collectively "topped \$2 billion for the first time."<sup>113</sup> Although this represented 31.5 percent growth from the previous year, it still meant that online advertising accounted for less than 4.5 percent of the industry's overall advertising revenue.<sup>114</sup> When Google, as a single entity reported \$3.2 billion in online revenue<sup>115</sup>—\$1 billion more than the entire newspaper industry produced

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111. Silverthorne, "Read all About It! Newspapers Lose Web War: Q&A with Clark Gilbert," par. 10.

112. *Ibid.*, par. 11.

113. Smolkin, "Adapt or Die," 18.

114. Newspaper Association of America (NAA), <http://www.naa.org>.

115. Google, "Google Announces Record Revenues for Fourth Quarter and Fiscal Year 2004," par. 18.

online—publishers began to realize how dramatic the shifts in the media market actually were. That realization—when combined with the long-term erosion of advertising and circulation in printed newspapers—created an atmosphere of failure.

The newspaper industry's standing with investors suffered further as the veracity of its reported online revenue met with scepticism. Given that as much as 70 percent of newspaper industry online revenue was attributed to classified advertising,<sup>116</sup> analysts believed that most of the reported online revenue represented upsells from the printed product. The revenue was viewed as so closely tied to the printed newspaper, the industry was given little credit for creating any traction in the online advertising market. Instead, the newspaper industry was seen as losing ground to several Internet companies. Google's introduction of simple text advertisements appearing alongside its search results was seen as an innovation that outflanked newspaper companies. Google had emerged as the best of the search engine category by deploying complex algorithms to answer specific user inquiries. Using targeted advertising to create value out of the seemingly endless number of search results represented a new form of advertising that was not in keeping with a media model.

A Google executive explained that traditional media companies approached online advertising with their offline model by “packaging content or advertising inventory.”<sup>117</sup> This model, however, implies scarcity such as the limited number of pages in a newspaper or the finite amount of time in a television program. On the Internet, advertising opportunities are endless as they expand as audience increases. Therefore, Google did not approach solving the online advertising riddle by thinking in traditional terms. The executive stated: “We look at ads as commercial information,” and present them as part of “our core mission of organizing the world's information. When people in the media world hear this, they say, ‘What are these guys talking about?’”<sup>118</sup> The newspaper industry's inability to understand Google approach as well the strategy of other newcomers made it difficult to mount a competitive response. The statements of one leading industry executive suggested that the industry's predicament was rooted in complacency.

Speaking in 2000 about the emerging online competition in classified advertising, the chief executive officer of Times Mirror was very candid: “You'd

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116. Gillette, “Newspapers, Television Finding Ways to Make Websites Pay,” par. 14.

117. Battelle, “The Wizard of Ads,” 120. [Statement attributed to Omid Kordestani, senior vice president for global sales and business development for Google.]

118. Ibid.

think we'd know everything about [classified advertising] because it's so important, but we actually know remarkably little, because, I think, we as an industry have taken it for granted."<sup>119</sup> As this perspective became more understood in the financial community, investors became increasingly alarmed that the newspaper industry was unprepared to stave off the competitive threat posed, not only by Google and Yahoo!, but by Monster.com and other start-up companies that had taken direct aim at the newspaper industry's vital revenue stream from classified advertising.

A 2001 academic study of online classifieds associated with 75 newspapers found that publishers "have not developed their online advertising classified sites to take advantage of existing technologies for delivering effective, interactive classified ads."<sup>120</sup> This lack of a technically competitive platform contributed to the newspaper industry's failure to keep pace with new market entrants. An industry consulting study found that newspaper companies lost 5 percent of their classified market share to pure Internet companies such as Monster.com, Realtor.com, and Craigslist from 2001 to 2004. The erosion represented nearly \$2 billion in revenue.<sup>121</sup>

Gilbert compared the income statements of new start-up online businesses with the income statements of online newspaper businesses, revealing "that anywhere from 35 percent to 45 percent of the categories of revenue are missing from the online newspaper." He cited Monster.com as an example of a start-up company finding new streams of revenue from employers placing recruitment advertising. He asserted that Monster.com was a direct threat to the newspaper industry's core classified advertising market, noting that it had posted more than \$100 million in net income during the period of his research. "There is real money being earned all around these [newspaper] guys, but they continue to insist that the market doesn't exist."<sup>122</sup> Gilbert concluded that newspaper companies were missing the larger perspective by operating their online businesses as such close extensions of the printed newspaper. Newspaper companies, he argued, need to "to recognize that this is a new business. If you start and stay integrated, the online income statement will always look like the newspaper's."<sup>123</sup> Internet-based competition soon

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119. Gunther, "Publish or Perish?," par. 32. [Statement attributed to Mark Willes, chief executive officer of Times Mirror.]

120. Thompson and Wassmuth, "Few Newspapers Use Online Classified Interactive Features," 26.

121. Ubinas and Yang, "Classified Ads: How Newspapers Can Fight Back," par. 2.

122. Silverthorne, "Read all About It! Newspapers Lose Web War," par. 24.

123. Gipson, "Playing the Online Game To Win!," 27.

understood there was little to fear from a newspaper industry that showed no signs of mounting a serious strategic response.

The chief executive officer of Monster.com, for example, observed of the newspaper business: “You have a lot of jobs, a lot of ink, rolls of paper, unions, printing presses, trucks, offices, all of them being supported by the way the newspaper has run for 100 years.”<sup>124</sup> The implication was that newspaper companies were too entrenched in established processes to separate their online and print products. Other observers echoed similar sentiments with one stating: “The newspaper and online in their minds are Siamese twins.”<sup>125</sup> Once again, the lack of tangible financial results with online media opened up the newspaper industry for criticism about its approach to the market. Unlike earlier periods, however, the industry’s long-standing record of profitability in its core printed business failed to serve as a counter argument as investors began to abandon newspaper stocks as the questioned the industry’s viability.

A Wharton Business School professor put it bluntly, stating the newspaper “industry has matured to the point to where it has been a little lazy.”<sup>126</sup> *The Wall Street Journal* stated during this period that newspaper companies “face an image problem,” in that “they seem slow and stodgy when compared with some of their media rivals—namely, cable [television] and the Web.”<sup>127</sup> Newspaper companies were described as lacking the necessary economies of scale amid “a renewed push toward consolidation” and the industry was chided for becoming less relevant to advertisers.<sup>128</sup> An advertising consultant summarized the circumstances facing newspapers: “The challenge for newspapers is ... to figure out what they can provide that isn’t being provided by the Internet and CNN.”<sup>129</sup> Some newspaper executives attempted to find strategic answers by acquiring Internet businesses, a process seen as a logical move for companies operating in the mature newspaper industry with the financial wherewithal to close such deals.

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124. Gunther, “Publish or Perish?” par. 29. [Statement attributed to Jeff Taylor, chief executive officer of Monster.com.]

125. Smolkin, “Adapt or Die,” 21. [Statement attributed to media analyst Gordon Borrell.]

126. *Knowledge@Wharton*, “All the News That’s Fit to ... Aggregate, Download, Blog: Are Newspapers Yesterday’s News?” par. 7. [Statement attributed to Lawrence Hrebiniak, a professor of management at the Wharton School of the University of Pennsylvania.]

127. Steinberg, “Newspaper Woes Are Black and White,” B3.

128. *Ibid.*

129. *Ibid.* [Statement was attributed to advertising consultant David Cross.]

Examples included: The New York Times Co. acquired About.com for \$410 million; Dow Jones & Co., publisher of *The Wall Street Journal*, bought MarketWatch for about \$500 million; The Washington Post Co. purchased Slate, an online magazine, from Microsoft while Gannett Inc., The Tribune Co., and Knight-Ridder Inc. each acquired a 25 percent interest in Topix.net, an online news aggregation service.<sup>130</sup>

Such acquisitions are representative of the “inter-media struggle for survival in the Internet age” as presented in a framework developed by Lehman-Wilzig and Cohn-Avigdor. The researchers found that acquisitions are part of “the natural life cycle of new media evolution” and are adaptive tactics for traditional media seeking to prolong their demise.<sup>131</sup> They wrote that acquisitions can provide traditional media with new sources of revenue to “subsidize” their transition into new media, but they noted: “Of course, this does not guarantee older medium survival.”<sup>132</sup> The examples cited are noteworthy given the strategic importance they represented for the acquiring newspaper companies. However, most newspaper companies did not embrace an acquisition strategy as part of a long-term Internet plan for a variety of reasons.

By this time, the problems with the AOL and Time Warner merger cast doubts on the viability of any merger between traditional media and new media companies. Also, the market value of newspaper companies were declining as investors turned away from newspaper industry stocks, which made it more expensive for newspaper companies to use stock to fund acquisitions. Furthermore, most Internet companies saw no reason to be acquired. Aided by Google’s successful initial public stock offering in 2004, Internet stocks were rebounding in value after the meltdown earlier in the decade. The market perception had shifted again: newspaper companies needed the Internet, but the Internet did not need them.

### ***The Perspective Changes***

Newspaper executives had assumed that the industry’s financial strength and market position would provide them with the means to compete against anyone. However, as long-term trends in the core printed product turned increasingly

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130. Liedtke, “Web Growth, Innovation Threatens Papers,” pars. 20-21.

131. Lehman-Wilzig and Cohn-Avigdor, “The Natural Life Cycle of New Media Evolution,” 707.

132. Ibid., 718-719.

negative and competitive threats from Internet competition intensified, investors became more demanding for change and more doubtful of the newspaper industry's ability to deliver it.

Newspaper companies remained profitable in 2005, but margins were "still well off the peak of 1999 and 2000."<sup>133</sup> An industry participant, in discussing the changing economic structure, observed that newspaper executives "get it intellectually. But they struggle with the emotional issues and the financial dynamics. It's really hard to cannibalize yourself and trade high-margin revenues for low-margin revenues one second before you have to."<sup>134</sup> But the profit margin erosion of the early 2000s was enough to convince industry leaders that the market had shifted in dramatic ways. The president of Cox Newspapers, which published the *Atlanta Journal-Constitution* and 16 other daily newspapers, stated:

I think we were slow to catch on. I think it's perfectly natural to protect what you have; to think what you have is the only thing that people want. You look back to the year 2000, and I don't know that newspapers ever had a better year financially. Those are the times that can lull you into a sense of complacency. What we've discovered ... is that that world doesn't exist anymore.<sup>135</sup>

Understanding this new business reality, the newspaper industry's trade group joined the chorus for reform. It issued a report titled "*Why the Current Business Model Needs to Change*," in which the industry was challenged to find new ways of operating in order to absorb a projected 20 percent decline in advertising revenue over the next 5 to 10 years.<sup>136</sup> The industry's own projection for such advertising erosion was another reminder of the challenges confronting newspaper executives.

This thesis next uses the story of Knight-Ridder Inc. as an example that more fully explains the severity of the financial circumstances surrounding newspaper companies during this period. In November 2005, Knight-Ridder executives surprised their industry colleagues with an announcement that they were putting the company up for sale. As the *American Journalism Review* described it, "Wall Street's dissatisfaction with newspapers boiled over" as frustrated money managers

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133. Edmonds, "Newspapers: Economics," par. 2.

134. Gunther, "Publish or Perish?," par. 29. [Statement attributed to David Israel, CEO of Classified Ventures, a company backed by newspaper industry investors that focused on online automotive and apartment advertising.]

135. Smolkin, "Adapt or Die," 18. [Statement attributed to Jay Smith, president of Cox Newspapers.]

136. Edmonds, "Newspapers: Economics," par. 10.

and investors “forced” Knight-Ridder’s management to sell the business.<sup>137</sup> The following material explores the circumstances surrounding this significant episode and explains the company’s willingness to give in to the dissident shareholders as symptomatic of the overall industry’s predicament.

### ***Knight-Ridder’s Demise***

Tension between Knight-Ridder’s management and several investor groups had been building since April 2005. The investors were unhappy that Knight-Ridder’s stock price did not, in their view, reflect the true value of the business, and they openly questioned the company’s ability to execute a strategy that would change its value proposition.<sup>138</sup> A newspaper analyst reported that Knight-Ridder’s profits had failed to keep pace with an overall industry going through deep cuts. In 2004, Knight-Ridder’s operating margin was 19.4 percent, which was close to the industry average of 20.5 percent. In 2005, the industry average declined slightly to 19.2 percent, but Knight-Ridder’s operating profit fell to 16.4 percent.<sup>139</sup>

With such performance as a backdrop, dissident shareholders believed the company’s parts were worth more than the entire company. In early November, the chief executive officer of an investment group that owned about 19 percent of Knight-Ridder’s stock issued a letter that called for the company’s sale because of the “significant and persistent disparity” in the price of the company’s stock and the investors’ perceived value of the company.<sup>140</sup>

Knight-Ridder’s managers had taken several actions to appease their unhappy investors. The company had “boosted its dividend, repurchased stock, cut jobs and sold the *Detroit Free Press*,” but those efforts fell short of making any impact on the stock price. The company’s shares fell about 14 percent between a July board meeting and the time the dissident shareholders issued their letter in November.<sup>141</sup> Less than two weeks after receiving the letter, Knight-Ridder’s management conceded. The company announced it would “explore strategic alternatives ... including a possible sale.”<sup>142</sup> Early the following year, Knight-Ridder was sold to

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137. Smolkin, “Adapt or Die,” par. 17.

138. Margolies, “Chain’s Sale is Milestone for Industry, Star,” pars. 28-29.

139. Liedtke, “Knight Ridder’s Demise Reflects Sobering Times for U.S. Newspapers,” pars. 10-11. [Statistics attributed to John Morton, an industry analyst.]

140. Landy, “Knight Ridder Investor Urges Company to Seek Buyout Bids,” pars. 2,4.

141. *Ibid.*, par. 6.

142. Knight-Ridder, “Knight-Ridder Announces Exploration of Strategic Alternatives,” par. 2.

McClatchy Co. for about \$4.5 billion, and McClatchy in turn sold a dozen of the newspapers it acquired to make the deal financially viable.<sup>143</sup>

Newspaper industry executives understood the investment climate confronting their industry and they were aware of the pressure being exerted on Knight-Ridder management by the dissident shareholders. Nevertheless, the demise of the venerable company stunned many of them and left an indelible mark on the industry. A former Knight-Ridder publisher summarized the questions everyone in the industry was asking in the aftermath of Knight-Ridder's closure:

Could anyone imagine 10 years ago saying that in 10 years, Knight-Ridder would not exist? It was one of the strongest newspaper companies in America. How could you have a hand like that and play it in such a way that you would end up losing everything?<sup>144</sup>

The irony of Knight-Ridder's demise is that it was profitable and at the time of its closure was posting margins "higher than that of many Fortune 500 companies, including ExxonMobil."<sup>145</sup> As such, Knight-Ridder's management received much criticism for not fighting to keep the company intact.

In a letter to shareholders chief executive officer Anthony Ridder explained: "I wish the solutions, as some have suggested, were only as simple as strong operating results or even just producing more great journalism."<sup>146</sup> He later added that Knight-Ridder's problems were linked to broader concerns about "what's happened to the newspaper industry over the last couple of years" especially its lack of revenue growth.<sup>147</sup> By the time Knight-Ridder was facing its group of activist shareholders, newspaper stocks were no longer priced based on short-term business fundamentals such as quarterly profits. The financial markets were ignoring the newspaper industry's current profits and bidding down shares based on the prevailing sentiment that newspaper companies could not sustain those profits for the long-term.

When McClatchy emerged as the buyer for most of the Knight-Ridder newspapers, its chief executive officer maintained that investors were wrong about

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143. Rosenthal, "Media Column," par. 7.

144. Seelye, "What-ifs of a Media Eclipse," par. 6. [Statement attributed to Jay T. Harris, a former publisher for Knight-Ridder at *The San Jose Mercury News*.]

145. *Ibid.*, par. 19.

146. Hill, "Sale Would End Family's Empire After 114 Years: P. Anthony Ridder, Pushed by Investors to Take Bids, Would be Out as CEO. The Ridders Bought Their First Newspaper in 1892," par. 6.

147. Seelye, "What-ifs of a Media Eclipse," par. 18.

the newspaper business. He stated: “Pessimism about our industry is indeed widespread ..., but we think it’s misinformed. Newspapers remain profitable businesses with strong audiences.”<sup>148</sup> Industry analysts observed, however, that McClatchy “was the only newspaper company to submit a formal bid” to purchase any of the Knight-Ridder newspapers.<sup>149</sup> One expert in media deals commented that “15 years ago, we would have seen 12 or 14 players bidding on these assets; the auction process would have been a frenzy.”<sup>150</sup> The industry’s critics asserted that the lack of interest in Knight-Ridder’s newspapers shown by other newspaper companies was the greatest indictment against the future of the newspaper industry.

In retrospect, the other newspaper companies were correct in avoiding further investments in the industry. Subsequent to the deal, McClatchy’s management received more criticism for the purchase than Knight-Ridder management had received when the sale was announced. For example, one commentator called McClatchy’s purchase a “major error” and described it as “doubling down on the decaying industry.”<sup>151</sup> Investors bid down McClatchy’s stock after the deal and its shares continued to decline as the overall newspaper industry sank as an investment sector.

### ***Industry Ramifications***

The effects of the Knight-Ridder closure on the attitudes of newspaper executives were significant. One official described it as a “tragedy” and said it was the industry’s “real wake-up call” that prompted many executives to understand that “the wolf is closer to our heels than we thought.”<sup>152</sup> A commentator wrote that “soul-searching in the industry has intensified,”<sup>153</sup> and another observed “the message is that newspaper organizations are going to have to change pretty drastically to hold

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148. Kasler, “McClatchy Purchase Heralds New Era: CEO Pruitt Says Buying Knight Ridder is The Right Move Despite High Stakes,” par. 10. [Statement attributed to Gary Pruitt, chairman and chief executive officer of McClatchy Co.]

149. Mann, “Deal Fuels Debate on Future of Print,” par. 15.

150. Van Riper, “Ink-Stained Wretches,” par. 9. [Statement attributed to Murray D. Schwartz, a mergers and acquisitions partner with Katten Muchin Rosenman, which specialized in newspaper industry transactions.]

151. Weisenthal, “After Layoffs at McClatchy, A Focus on Pruitt’s Pay; What are McClatchy’s Digital Goals?” par. 3.

152. Smolkin, “Adapt or Die,” 18. [Statement attributed to Stephen Gray, managing director of Newspaper Next, a program of the American Press Institute.]

153. Conhaim, “Newspapers in Transition, Part 2: Envisioning the Future of Newspapers,” par. 1.

onto their franchise.”<sup>154</sup> Much of the commentary associated with assessing Knight-Ridder’s closure reflected this internally-focused rhetoric. But there were assertions that newspaper companies were not entirely at fault for their predicament.

This perspective emphasized Knight-Ridder’s profitability and blamed its demise on greedy investors. As one commentator stated: “Wall Street only knows one mantra: ‘More please, more.’” This observer said the case of Knight-Ridder illustrated that “we damn well have got severe problems with investors who in my opinion are completely unreasonable,” adding that “I do not see that pressure lessening.”<sup>155</sup> The rhetoric supporting this perspective was prevalent among editors and journalists. They often blamed investors for ignoring the public trust role of newspapers and were angry at newspaper management for attempting to appease those investors through budget cuts and layoffs.

A former Knight-Ridder editor described this philosophy of newspaper management as “the notion that you can continue whittling and paring and reducing and degrading the quality of your product and not pay any price.”<sup>156</sup> This line of thinking continued to place the printed newspaper at the centre of the industry’s economic issues. Those espousing this view had not grasped that the financial markets were no longer valuing newspaper companies in the present; they were devaluing them based on expectations of unfulfilled potential in the Internet era.

That investors even noticed the short-term financial results was the fault of an industry that provided nothing else upon which it could be valued. Picard asserted that the newspaper industry’s operating methods created a climate where “investors pressure them for short-term returns more than they do other types of companies” because those other businesses “are able to articulate a vision of a sustainable future.”<sup>157</sup> Picard explained that, in the absence of a believable longer-term strategy, investors respond as investment rationale dictates:

What these investors are looking for is a good return on their money; to get that they are willing to trade short-term profit for long-term growth and stability. But most publicly traded newspaper companies offer no credible plans (or vision) for anything beyond the delivery

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154. Mann, “Deal Fuels Debate on Future of Print,” par. 28. [Statement attributed to Dean Mills, dean of the school of journalism at the University of Missouri.]

155. Smolkin, “Adapt or Die,” 20. [Statements attributed to Conrad Fink, a journalism professor at the University of Georgia and author of a textbook, *Strategic Newspaper Management*.]

156. Seelye, “What-ifs of a Media Eclipse,” par. 17. [Statement attributed to James M. Naughton, former executive editor of *The Philadelphia Inquirer*, which had been a Knight-Ridder newspaper. Naughton was also a former president of the Poynter Institute for Media Studies.]

157. Picard, “Capital Crisis in the Profitable Newspaper Industry,” 11.

of higher-than-average quarterly profits. With this mentality in place, investors pressure boards and management for high returns so that they can recoup their investment in a shorter period of time.<sup>158</sup>

Once established between an industry and its capital markets, an investment pattern based on short-term results is difficult to bring to an end. Management becomes fixated on expense controls and ends up eliminating resources that could have been productive over a longer-term scenario.<sup>159</sup>

As this investment pattern played out in the newspaper industry, Rosen observed: “They won’t stop the gravy train even though the engine is broken. How does such a thing eventually stop? It crashes.”<sup>160</sup> Rosen’s view of this “profitable demise”<sup>161</sup> was corroborated in Picard’s economic analysis, which presented the construct as a downward spiral. Picard wrote that the newspaper industry’s history of chasing short-term profits:

... abets uninterested investors by draining resources from newspapers they believe have a limited (or no) future and leaves newspaper enterprises without sufficient resources to renew themselves. The prospect of demise, coupled with the lack of strategic vision, becomes a self-fulfilling prophecy.<sup>162</sup>

To some observers Knight-Ridder’s closure represented a tangible example of this investment pattern reaching its ultimate conclusion. However, that is not an accurate representation given the company’s financial position at the time it was sold.

Despite several years of cost-cutting, Knight-Ridder was profitable and was positioned to remain so for many quarters. Therefore, this newspaper company did not “crash” as in Rosen’s vernacular. Rather, the case of Knight-Ridder is an example of capitulation. Knight-Ridder’s management could have continued its course until the company was indeed bankrupt. Management also could have attempted to break free of the investment cycle fuelled by cost-cutting demands through crafting and enacting a strategy for long-term viability.

An analyst with the investment banking firm Merrill Lynch said she had advised Knight-Ridder management to follow that course instead of selling the business: “I said, if you have the conviction that the news business and ... online are a win, put up a ‘work in progress’ sign and say that margins are going to go down”

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158. Ibid., 12.

159. Ibid.

160. Liedtke, “Web Growth, Innovation Threatens Papers,” par. 16.

161. Rosen, “Laying the Newspaper Gently Down to Die,” par. 14.

162. Picard, “Capital Crisis in the Profitable Newspaper Industry,” 12.

until a new strategy is in place.<sup>163</sup> The company's dissident investors would have fought such an attempt to wrestle back strategic control of the business, but the decision not to engage in such a fight positioned Knight-Ridder as weak. That perception was transferred to the entire newspaper industry.

Knight-Ridder's chief executive officer responded to characterizations of his decision to sell the business as surrender by stating that "part of me would have loved to have had this fight," but said he concluded that the ensuing "turmoil" would not have saved the company.<sup>164</sup> Nevertheless, critics contended that Knight-Ridder gave up too easily and in the process harmed the newspaper industry by contributing to what Picard described as "a widespread sense that investors, as well as some newspaper owners, are giving up on the industry."<sup>165</sup> Therefore, Knight-Ridder's demise came to symbolize the state of the newspaper industry in the mid-2000s. Despite the positive outlook espoused by its acquirer, Knight-Ridder's inability—or unwillingness—to develop a strategy for long-term viability cemented the perception that the newspaper industry had squandered its opportunity to exploit the Internet and had passed into an era of long-term decline.

## Conclusion

The AOL acquisition of Time Warner at the outset of the 2000s appeared to herald a new era in media economics. It both reflected and also exacerbated corporate rhetoric around the rise of new media and the demise of old media. In the wake of the deal, the concept of convergence gained renewed currency and traditional media companies began to see convergence as a strategy that might provide some means by which they could retain or improve profitability. Unsure of their position in the emerging new media market, newspaper companies sought alliances with their one-time nemesis—local market television stations. In some cases, these were partnerships forged among companies with common ownership. In other cases, they were deals between media outlets that had been intense rivals. The hope was that in combining the resources of print with the immediacy of video these alliances would be able to craft a new media form for the Internet era.

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163. Seelye, "What-ifs of a Media Eclipse," par. 40. [Statement attributed to Lauren Rich Fine, a media industry analyst with Merrill Lynch.]

164. Ibid., par. 47. [Statement attributed to Anthony Ridder, the former chief executive officer of Knight-Ridder.]

165. Picard, "Capital Crisis in the Profitable Newspaper Industry," 11.

When the Internet investment bubble collapsed, many executives in the newspaper industry felt vindicated when their companies were still standing, but many of the Internet companies they thought represented competition were no longer in business. Emboldened by the return of rational markets, newspaper companies sought to make their online operations profitable as quickly as possible rather than invest in long-term research and development. However, newspaper executives had misread the turn of events. The end of Internet investment speculation did not represent the end of Internet innovation.

As a practical construct, however, operational convergence as represented by newspaper companies and television stations alliances did not meet the strategic demands of the Internet. In fact, most of those initiatives failed to produce any tangible benefits. Newspaper companies scaled back their convergence aspirations and most of the alliances were relegated to the same history that included the failed videotext projects of the 1980s and the unfulfilled partnerships with proprietary online services in the 1990s.

Newspaper companies were alone again to face resurgent portals and an upstart named Google. By 2005, most newspaper websites were recognized for attracting a sizeable audience, but newspaper companies were criticized for their inability to generate revenue based on this audience. Investors wanted newspaper companies to explain how they planned to compete; they wanted executives accustomed to producing a new product every day to step back long enough to see past immediate shortcomings and articulate a coherent plan that would demonstrate the industry held long-term viability. No one did.

With the ability to earn a respectable long-term return on an investment in the industry in doubt, the financial community hammered newspaper companies for short-term profits. The result was a downward spiral fed by budget cuts and layoffs that drained resources and made the prospect of long-term viability even more unattainable. Within this framework, this chapter presented Knight-Ridder as a microcosm exhibiting all of the turmoil of the larger industry.

As dissident investors argued over the value of the company and its strategic direction, senior management capitulated. Rather than wage a contentious fight, senior management sold the company's newspapers and closed the business. The events surrounding Knight-Ridder epitomized an industry in decline, one weakened to the point that one of its most stalwart companies chose going out of business as its

best strategic option. Gilbert's observation presented in the chapter underscored how newspaper companies ignored calls to treat online as a new medium. Industry executives were stubborn and arrogant in failing to adapt although—as this thesis has illustrated—they had ample time to do so.

Newspaper companies had assumed, correctly, for some time that a large portion of the advertising revenue from printed newspapers would one day need to be replaced with online revenue. The strategic error was in misjudging how soon that would occur. Throughout its history with digital distribution, newspaper companies never elevated their online endeavours to the level of strategic importance that would prepare them to take over the role of leading revenue generator when the tipping point arrived. The newspapers industry's ability to produce strong profits for so long established a sense of complacency that was impossible to dislodge.

## Chapter 8:

### Connecting the Lessons of History

In August 2010, Gannett Co., a major publisher of U.S. daily newspapers, reorganized the operations of its flagship product, *USA Today*, as part of a plan to deemphasize the newspaper's print edition and increase resources allocated to electronic distribution such as Apple's iPad, other tablet devices, smartphones, and the web.<sup>1</sup> To some observers, the plan was a long-awaited admission from a prominent newspaper company that print could no longer be the primary product focus if the industry was to survive. To others, the reorganization was merely another round of expenses cuts—130 jobs were eliminated<sup>2</sup>—by a company in a dying industry couched in rhetoric to appease sceptical investors. Newspaper executives said many times before they knew what needed to be done to succeed in the digital era, but then changed little about how their companies operated.

However, the newspaper industry is confronting another technology shift similar to the mid-1990s when the Internet emerged as a media platform. The current array of tablet computers and smartphones provides newspaper companies the opportunity to re-establish their brands in an application marketplace that could distribute content to paying consumers in ways that eluded newspapers on the web. This thesis illustrated the seminal shift away from proprietary online services to the World Wide Web in Chapter Six by citing an October 1994 article from *Wired* that asserted the advent of the browser made services such as Prodigy and AOL obsolete. Nearly 16 years later, the same magazine proclaimed another major technology shift is underway. In its September 2010 cover story, *Wired* declared “The Web is dead”<sup>3</sup> in a marketplace increasingly reliant on “platforms that use the Internet for transport but not the browser for display.”<sup>4</sup> This thesis has documented the failure of the newspaper industry to exploit the digital era to this point. Essentially, the potential for Internet applications has presented the newspaper companies with a chance at redemption.

The newspaper industry's financial condition deteriorated severely in the latter half of the 2000s. Newspaper companies collected just \$28.4 billion in

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1. Adams, “Gannett Revamps USA Today for Web, Pares Work Force,” B5.
  2. Ibid.
  3. *Wired*, “The Web is Dead,” 118.
  4. Anderson, “Who's to Blame: Us,” 123-124.

advertising revenue in 2009, which was nearly a 50 percent decline from the industry's peak in 2000.<sup>5</sup> This steep drop in advertising revenue and continuing circulation erosion resulted in closed newspapers, bankruptcy filings and continued layoffs throughout the industry. The example of Knight-Ridder's demise presented in the previous chapter was indeed a harbinger of the turmoil to come. More recently, Gannett's reorganization of *USA Today* combined with other activity throughout the industry—such as *The New York Times*' links with social networking sites such as Facebook and Twitter and a preponderance of deals to distribute content through wireless applications—give credence to analysts who maintain that “major changes” in the industry were underway in 2010.<sup>6</sup> But, as this thesis has demonstrated, newspaper companies have been engaged in the rhetoric and reality of such technology shifts as they attempted to accommodate interactive media for more than thirty years. How can we understand this most recent shift—undoubtedly the subject of analysis for media historians in years to come—in light of what we have already learned?

This chapter will present, therefore, a clear summation of the key themes which have emerged from 1980-2005, so as to demonstrate the persistence during that period in the way newspaper companies responded to the constantly changing, threatening, but also enticing, emergence of electronic information and communications networks. This review of key themes serves to explain the newspaper industry's relationship with online media during this period and provides insights into why newspaper companies failed to exploit online media to their advantage. The section on key themes is followed by material that revisits several terms presented in Chapter One: new media, interactivity and convergence and reflects on how the newspaper industry interpreted these terms in practical usage and discusses the ramifications such interpretations had on the industry's actions. Together, these sections address issues that relate to the newspaper industry's internal culture and how that culture influenced its business model. These issues should be considered anew as newspaper companies confront another technological shift and contemplate actions that will determine whether they have a future.

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5. Newspaper Association of America (NAA), <http://www.naa.org>.

6. Wall Street Equity Research, “The End of an Era and the Start of a New Generation of E-Newspapers,” par. 6.

## Review of Key Themes

At the outset of the online era in 1980, newspaper companies were pioneers. The newspaper industry approached the potential of an online market with the confidence that accompanied its standing as the country's leading industrial employer and top advertising distributor. The industry's economic clout allowed for it to relish its social responsibilities as the premier defender of the rights to free speech and a free press. Newspaper executives had no fear of the online market in early 1980s. They assumed their companies would adapt to new technology, continue their local market dominance and honour their implied contract with the American people under the First Amendment.

Over time, however, the newspaper industry lost its leadership position as this thesis has shown. The information marketplace changed dramatically in a relatively short period, and the newspaper industry struggled to adapt. The history of this period reveals seven key themes that can be seen, retrospectively, as having significant influence on newspaper companies and their collective decision making as their industry confronted the online market from its inception. These themes, as much as the historical story itself, are of critical importance in understanding what might be happening now in online media, and in foreseeing or even shaping future events. These key themes fall largely into two broad categories: the organisational and professional culture of the newspaper companies and the business models which sustained the newspaper industry. The two categories are inextricably linked as the culture of the newspaper industry profoundly influenced its approach to business.

### *Freedom of the Press and its Influence*

The first of the key themes to be addressed is instrumental in understanding how the newspaper industry collectively saw itself as being different and apart from other businesses. The newspaper industry historically viewed the First Amendment's constitutional guarantee of a free press as a social contract with the American public. Udell argued that newspaper companies indeed occupy a unique position in American industry because they are dependent on the free enterprise system for their livelihood, but are protected by the free press provisions of the U.S. Constitution.<sup>7</sup> This status separated newspaper companies—in the view of their owners and employees—from other business and contributed to a cultural sense that newspapers

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7. Udell, *The Economics of the American Newspaper*, 14.

were a form of national institution sustained by private enterprise, but in business to serve a public need. For decades, newspaper publishers used their free speech responsibilities as justification for their large profit margins. Newspaper companies had to be exceptionally profitable, according to this position, so that they would not be beholden to any single advertiser or other outside party. Exceptional profits were believed to give newspaper companies the independence required to uphold their end of the social contract free of influence.

From the very outset of the electronic era, newspaper professionals were concerned that electronic distribution would alter their relationship with government authority. Newspaper publishers saw how their electronic rivals in television and radio had succumbed to intense regulatory control by the FCC because they relied on the public airwaves to distribute their content. Many newspaper people believed that distributing their content over regulated telephone wires would make them susceptible to government oversight and weaken the protection afforded by the First Amendment. This perspective weakened as electronic distribution grew more prevalent.

The newspaper industry turned the regulatory argument in a different direction when it lobbied legislators and regulators to limit the role the telecommunications industry could play in the distribution of electronic information (see Chapter Four). Newspaper leaders argued that the telephone industry—originally a giant monopoly and later a collection of regional operating companies—was so powerful that their unfettered entry into the market would force others out, thereby reducing the diversity of information sources. Although the diversity argument swayed politicians and judges, mainstream consumers perceived newspapers as obstructing technological progress. Even some critics from within believed the newspaper industry’s argument ran counter to its values. These critics believed that newspapers should have championed the telecommunication industry’s right to free speech rather than using it against them.

More recently, the financial plight of newspapers have caused some to question the viability of the larger concept of journalism. This notion underscores how closely journalism has been associated with printed newspapers; if newspapers are failing then journalism must also be in peril. Many commentators and industry executives, Murdoch among them, now argue that journalism as content must be

compelling enough to transcend its product form.<sup>8</sup> However, the newspaper industry has been defined by its journalism-centred culture, which historically has been reluctant to embrace change that threatened its print heritage.

### *The Pre-eminence of Print*

The newspaper industry's insistence on keeping the printed newspaper form at the forefront of its product offerings is a key theme that explains the industry's relationship with online media throughout the period reviewed: printed newspapers were always the primary product focus while online endeavours were relegated to ancillary status. In Chapter Six, this thesis noted how the advent of online distribution, especially the emergence of the web, should have forced the industry to assess the underlying fundamental nature of its enterprise: were newspaper companies in the business of printing and distributing newspapers or were they in the business of supplying news and information? Throughout the digital era, the newspaper industry had many opportunities to adjust; to shift its focus and its economic dependence away from print, but the industry never fully committed to an electronic future.

Throughout the online era newspaper companies were told that they should lessen their dependence on print and reduce the expensive distribution overhead associated with it. At the outset newspaper companies were enamoured with the potential cost savings of videotext delivery, but, as recounted in Chapter Two, the enthusiasm for those projects waned when consumers gravitated to interactive functionality rather than newspaper content. Also in the early years of the digital era, the newspaper industry invested heavily in news delivery over cable television systems. Newspaper companies abandoned those projects, however, when they recognized that consumers had little interest in watching passive displays of text on television (see Chapter Three). The point behind both of those examples is that newspaper companies were looking to replicate their printed newspaper in digital form. When that did not materialize, newspaper companies withdrew.

The pre-eminence afforded the printed newspaper was especially acute in the early Internet period. Newspaper companies developed automated programs to transfer content from the printed product directly to the web, but investing little in original online content. Furthermore, newspaper companies in those early years

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8. Murdoch, "Journalism and Freedom," A21.

refused to allow news to appear online before it was published in print fearing their own internal competition (see Chapter 5). The result was a lukewarm entry into a red hot market that relegated the newspaper industry to a laggard position from which it never recovered. As one exasperated commentator observed: the newspaper industry must “stop worrying about how the news is delivered.”<sup>9</sup> When challenged to decide if they were in the business of selling newspapers or, more holistically, information, newspaper companies should have treated the question as more than a rhetorical exercise.

### ***A Culture of Information Control***

The newspaper industry’s desire to maintain its print-centric focus has roots in another key theme discerned from the history. This theme—control of news and information—was so engrained in newspaper culture that it transcended the business model; it was a tenet of journalism doctrine manifested in the newspaper’s agenda-setting role (see Chapter Six). Most newspaper editors and executives took their journalistic responsibility seriously as part of the “democratic political and economic system.” As noted above newspaper companies saw their industry as “a unique social institution” within this system and believed they were fulfilling a social contract necessary for democracy to operate.<sup>10</sup> However, newspaper companies operated from the premise that it was their job to define the news, the degree of its importance and when that information would be disseminated.

The entire newspaper process was rooted in control. Reporters had access to information, sources, and events the general public did not; editors determined what events would be featured and how the stories would be written and presented; the paper was printed and distributed in its entirety without regard for individual preferences. A consumer received the sports section, for example, even if that reader did not follow sports or wanted such content. A consumer held the choice whether to subscribe, but other feedback was limited to a letter to the editor, and the newspaper controlled which of those it would print. As Schonfeld observed, “historically, the most successful media companies have controlled both content and distribution.”<sup>11</sup>

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9. *Knowledge@Wharton*, “All the News That’s Fit to ... Aggregate, Download, Blog: Are Newspapers Yesterday’s News?” par. 39. [Statement attributed to Michele Weldon, an assistant professor at Northwestern University’s Medill School of Journalism.]

10. Udell, *The Economics of the American Newspaper*, 24.

11. Schonfeld, “Tuning Up Big Media: A Modest Proposal for Saving Time Warner and the Entire Industry from Themselves,” 62.

Until the online era began, this model operated mostly unchecked for more than two centuries.

To an extent, radio and television already had disrupted the dissemination process. Online media, however, was entirely different because it provided newspaper readers their own voice, a platform outside of the agenda-setting reach of organized newsrooms. Newspaper people reacted poorly to this developing trend. Rather than recognize an opportunity to organize community and foster discussion, newspapers acted as if their social contract had been violated. Journalists especially detested the notion of giving up control demanded by the Internet and they were not particularly enamored with having to interact with readers either.

Perhaps the newspaper industry's most blatant attempt to exert control over the emerging Internet occurred with the inception of NCN (see Chapter Five). As a case study, NCN is remembered as a significant failure because of infighting among the newspaper companies that owned it and their inability to find an effective business model for it. NCN was, in effect, an online portal for the newspaper industry's entire collection of content before the portal construct actually emerged. From the moment it was created, however, most of NCN's owners saw it as an enforcement device; an entity that could marshal the collective weight of the newspaper industry to bring order to the Internet's perceived chaos. The newspaper companies believed that through NCN, they could influence everything from advertising sizes to browser compatibility issues. It was an impossible mission to fulfil, but the failure of NCN did not dissuade others in the industry from believing that the Internet could be controlled.

As noted above, newspaper companies were reluctant to distribute their content online before it had first appeared in print out of fear the overall franchise would be weakened through self-competition. But the culture of control manifested itself in other ways as well. When newspapers offered interactive functions such as message boards, for example, they were mostly moderated and censored. Even when printed newspapers included e-mail addresses for readers to contact reporters and editors, the public inquiries that ensued went largely unanswered.

The prospect of a newspaper facilitating discussion rather than controlling it was the antithesis of newspaper doctrine. Moreover, the repeated attempts to exert control over what was essentially an open platform kept newspaper companies from fully accepting the Internet as an inherently different medium. As such, newspaper

companies kept their online editions subservient to their print editions. The irony of this approach is that the more newspaper companies gave in to their culture of control, the more control they seemed to lose.

### ***Culture Trumps Innovation***

As discussed in the opening of this section, newspaper companies began the online era as pioneers. The development of the early videotext projects and the investments in cable television systems (as explored in Chapters Two and Three respectively) were extremely innovative in the early 1980s. However, a key theme that emerged from this history is that this early innovative spirit was quashed by a culture that was inherently risk averse. In the past three decades, as explained throughout this thesis, newspaper executives intellectually acknowledged that their industry needed to accept change in order to survive in the digital era. In Chapter Two, for example, the newspaper industry was the forefront of pioneering online delivery with early videotext projects. Chapter Five recalls the ambitious attempt by the newspaper industry to fund a cooperative research and development effort based at the Massachusetts Institute of Technology and Chapter Six recounts the example of NCN as the newspaper industry's initial aggressive push to exert its influence in the emerging Internet era.

Emotionally, however, the industry never embraced the depth of change required to prevent the economic calamity that led to the industry's decimated condition in 2010. Observers point to the underlying conservative nature of the industry's business practices as fostering complacency. Chapter Seven's discussion of operational convergence, for example, noted how employees interested in enabling change—internal entrepreneurs as they were described—were often assigned to online departments but afforded no real authority to implement policies that would have affected their larger organizations. Sequestering entrepreneurs, however, was only symptomatic of larger cultural issues that affected how the newspaper industry reacted to the challenges of online media.

As the newspaper industry confronted a series of unforeseen shifts in technology, it grew increasingly uncomfortable with its surroundings. The newspaper industry entered the online market in the early 1980s from a position of power and influence, but the surprising surge of cable television and the power plays of the telecommunications industry forced the newspaper industry into a defensive posture

from which it never recovered. After playing offence for several decades following the Great Depression of the 1930s, the newspaper industry found itself trying to protect its markets rather than expand beyond them.

Operating from this defensive position, newspaper companies essentially eschewed innovation. As discussed in Chapter Four, newspaper industry trade groups lobbied lawmakers and regulators to restrict the telecommunications industry's ability to distribute electronic information. While those efforts were largely successful, the newspaper industry suffered from a protectionist stance that allowed it to farther and farther behind more technically savvy competitors. The efforts to fund research and development such as the one discussed in Chapter Five turned out to be too limited to affect the market. Rather than invest in new technologies at a level required to make a difference, newspaper companies allowed those funds to flow to the bottom line inflating current profits at the expense of long-term planning. Chapter Five includes a discussion about the newspaper industry's apparent dismissal of innovation as the result of a short-term focus inherent in an industry required to produce an entirely new product every day. Although this was referred to as a pragmatic approach, the culture it fostered led to risk management strategies that embraced partnerships and alliances instead of direct industry investment in innovation. While this strategy worked well in terms of preserving capital, it meant the newspaper industry was relegated to a role of content provider on someone else's platform. When the market turned dramatically toward the Internet, the newspaper industry was unprepared to stand on its own in a marketplace driven by innovation. The newspaper industry's dismissive attitude about innovation had roots in the failure of some of its earliest online efforts.

### ***The Lasting Effects of Early Online Failure***

One of the key themes that emerged from the overall study of this 25-year period is that the early videotext projects had negative, long-term implications for the newspaper industry's approach to online media because of their characterization as failures. Newspaper executives had been heavily influenced by the prevailing Information Society rhetoric and, as shown in Chapter Two, moved to implement technology that would transform the rhetoric into reality. However, the early videotext technology did not appeal to consumers and newspaper projects built on that platform never achieved any audience traction. When Knight-Ridder closed its

Viewtron project followed closely by Times Mirror's decision to shut down Gateway, the industry was chastened. There had been so much hyperbole surrounding these services and the role newspaper companies would play in ushering in a new era, the failure of these two projects left a scar on the industry that never healed. More than a decade later, newspaper executives were still pointing to Viewtron and Gateway as reasons why the industry should approach electronic services with extreme caution (see Chapter Five).

By allowing projects such as these to be branded as failures rather than as risk-taking research and development, the industry began a descent into technology cynicism that fomented protectionism as examined in the Chapter Four discussion of the newspaper industry's strident opposition to the telecommunications industry's entry into electronic information delivery. Newspaper companies that were heralded as technology pioneers in the early 1980s were by the end of the decade seen in a completely different light. Had the newspaper industry considered its early videotext projects in the spirit of innovation and experimental learning rather than a means to an end, the setup to the Internet era likely would have been very different.

The early online projects demonstrated that consumers wanted more than a passive experience. When content was distributed through a networked computer, the natural instinct for a consumer was a desire to do something with it. Consumers wanted to respond, to share content with others, to alter it in ways that would give them ownership. In other words, the early projects pointed to the importance of interactivity as online attribute, an area that will be discussed more in the second section of this chapter.

From the outset, however, newspaper companies viewed their content as sacrosanct. In protecting what they viewed as an asset, newspaper companies used their online platforms to create electronic versions of printed newspapers. In the process, they ignored how consumers wanted to use online information. In recalling the Viewtron project, for example, Boczkowski found that Knight-Ridder "neglected its own usage data showing that adopters were more interested in communicating with each other than reading newsroom-generated content."<sup>12</sup> In Chapter Two, the thesis recalled how the discovery of this consumer behaviour contributed to the company's decision to end the project. When consumers did not respond to Viewtron

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12. Boczkowski, "The Mutual Shaping of Technology and Society in Videotex Newspapers: Beyond the Diffusion and Social Shaping Perspectives," 263.

as a newspaper, the newspaper company that created it was not inclined to support its growth and development.

This is the first key example of a time when newspapers largely missed the significance of a turning point in the evolution of media and stubbornly clung to their print-centric publishing model. When consumers did not regard Viewtron or Gateway as newspapers per se, the newspaper industry shut them down rather than try to respond to the interactive services consumers wanted in an online experience. When the online market moved into the proprietary services era as recounted in Chapter Five, newspapers failed to grasp that consumers were turning to these services largely for their email and messaging platforms. Content was ancillary, but newspaper companies partnered with AOL and Prodigy because they afforded publishers some semblance of control. The proprietary model allowed newspaper companies the ability to organize and distribute their work supported by advertising. The close resemblance to the offline publishing model appealed to newspaper publishers, but the resulting gated communities as discussed in Chapter Five (content on Prodigy was not available to subscribers of AOL and vice versa) left these companies exposed when the open network of the Internet arrived.

The Internet did not conform to any control model, which explains why it represented such a disruptive technological shift for the newspaper industry. With the Internet, consumers could take control of content; they no longer needed a publisher's consent. As explored in Chapters Six and Seven, this fundamental difference in the Internet versus previous online platforms was ignored by newspaper companies at the outset and represented another significant period when they missed a significant turning point in the evolution of media technology.

The newspaper industry's reaction to the Internet can now be seen as also having roots in issues discussed earlier in the themes of information control and a reliance on the print model. The outcome of the industry's activities clearly indicates that they were an insufficient response to meet the competitive demands of the marketplace, especially in protecting vital revenue streams.

### ***Advertising Position Left Unprotected***

Throughout the digital era, the newspaper industry was warned that online distribution threatened its advertising revenue. However, a key theme that emerged

from the history was the newspaper industry's failure to heed to those warnings thereby leaving its advertising position unprotected against many new competitors. The newspaper industry's actions in the early part of the digital era—specifically investments in cable television (see Chapter Three), the protracted lobbying battle against the telecommunications industry (see Chapter Four), and alliances with proprietary online services (see Chapter Five)—were largely viewed as attempts to defend its advertising position. In the case of cable television, for example, newspapers saw cable franchises as direct competition in local markets. The newspaper industry's lobbying to keep AT&T and the telecommunications industry out of the online information business—although framed as necessary to protect information diversity—was also aimed at stalling online competition with vast databases of Yellow Pages advertising. During the brief period when newspapers formed alliances with proprietary services, Prodigy emerged as the industry's most-preferred partner because its advertising model was seen to be the most closely-related to the newspaper industry's advertising model.

With so much attention given to advertising concerns during the pre-Internet portion of the online era, it is perplexing to see how vulnerable newspaper companies were when upstart companies targeted their markets as the Internet emerged. Google's search-based advertising, eBay's auction listings, and Monster.com's online job postings are examples of online advertising that contributed to significant erosion in the newspaper advertising market, especially in the classified advertising category. The newspaper industry's failure to protect its online market for classified advertising is especially problematic given the early and frequent warnings that this category of revenue was perhaps the most vulnerable to online competition.

Chapter Two, for example, presented Compaine's observation from 1980 that "classified advertising ... does lend itself more to these futuristic delivery modes," adding that "this would appear to be one area in which newspapers may well have to take the lead, before ... others usurp this function."<sup>13</sup> As noted in Chapter Seven, however, newspaper companies did not take the lead in developing online classified technologies and fell further and further behind their competition as the online era transformed into the Internet era. Newspaper companies placed their classified advertising online through platforms that were not as interactive or sophisticated as

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13. Compaine, *The Newspaper Industry in the 1980s: An Assessment of Economics and Technology*, 213.

the competition. The industry tried to create scale and share risk through numerous joint ventures and investments in new companies, but had little success with those efforts. From the perspective of industry analysts and consultants, the newspaper industry's approach to advertising—especially classified advertising—was reflective of the overall pattern of operating without a coherent strategy. Chapter Seven features a comment from the chief executive officer of Times Mirror in 2000 when he acknowledged that the newspaper industry had taken classified advertising for granted. Newspaper company managers had allowed such complacency to control their industry's destiny. These executives had dismissed the need for innovation and the results underpin this key theme. The advertising position was exposed to an onslaught of new competitors born out of the very innovations and inventions newspaper companies chose not to exploit.

The complacency that underlies such decisions had its roots in profitability. The following material, which will complete this section of Chapter Eight, examines how the relentless pursuit of profits ultimately created an industry full of short-sighted companies unprepared for dealing with the rapid shifting technologies of the digital era.

### ***Emphasis on Short-term Profitability over Long-term Planning***

The final key theme identified in this history—an emphasis on short-term profitability over long-term planning—can be seen as the unifying idea behind the overall thesis. The newspaper industry's pursuit of profits above all else led to decisions that were detrimental to the long-term health of the industry. In Chapter Seven, an industry observer noted the “emotional” issues newspaper executives had in accepting fundamental shifts in media revenue. He stated: “It's really hard to cannibalize yourself and trade high-margin revenues for low-margin revenues one second before you have to.”<sup>14</sup> Delaying that transition, however, proved to be a dangerous tactic as the industry mistimed its response. The market for printed newspapers deteriorated faster than publishers anticipated, and they had not developed their Internet operations to the extent that online revenue could offset the declines in print revenue. Throughout the 2000s, newspaper companies saw their Internet operations as supplemental to the core printed product and managed them as

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14. Gunther, “Publish or Perish?,” par. 29. [Statement attributed to David Israel, CEO of Classified Ventures, a company backed by newspaper industry investors that focused on online automotive and apartment advertising.]

an expense to be controlled. Newspaper executives never embraced their online editions as engines of growth worthy of long-term investment.

By the time newspaper executives understood their new reality, it was too late to make up the lost ground and affect their immediate economic circumstances. Rosen described it in Chapter Seven as a period of “profitable demise,” underscoring the notion that newspaper companies had maintained high profits only by jeopardizing long-term viability.<sup>15</sup> Within this context, Knight-Ridder’s decision to sell its newspapers and shut down, also presented in Chapter Seven, can be viewed as the symbolic end of the traditional newspaper model.

As such, the newspaper industry continued to deteriorate in the latter half of the 2000s. In many cases, those coveted profit margins turned to losses and the few remaining investors bid down the value of the stocks. Some newspaper companies lost 80 percent of their market value and the entire sector traded on financial markets at or near historic lows by the end of the decade.<sup>16</sup>

Some would argue that the condition of the newspaper industry in 2010 should be expected of any mature industry at the end of a natural life cycle (see a discussion of Lehman-Wilzig and Cohen-Avigdor work in Chapter One). In the case of the newspaper industry, however, its history presents a compelling argument against natural evolutionary forces. As a Wharton Business School report asserted: “newspapers themselves are to blame for a large part of the problem” indicating that a willingness to adopt a more long-term focus and make different strategic decisions could have altered the industry’s circumstances.

Chapter Two recounts how the newspaper industry cast the early videotext projects as failures and fixated on how much money had been lost. The industry could have cast that money as an investment in research and development. Chapter Four chronicles a decade of the newspaper industry waging a protectionist campaign against the telecommunications industry rather than investing in its own technology innovation. Chapter Six discusses the closing of NCN as the failure of leading newspaper companies to cooperate. Imagine the altered landscape if NCN had emerged as a well-funded portal rather than disintegrating amidst industry infighting.

As the history demonstrated, U.S. newspaper companies faced many decisions during the online era where conservative responses assigned the industry to

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15. Rosen, “Laying the Newspaper Gently Down to Die,” par. 14.

16. Kirchoff, “The U.S. Newspaper Industry in Transition,” 7.

its predicament. With the loss of nearly \$24 billion in advertising revenue this decade, the industry's old business model has been discredited. But a completely new model has yet to emerge. Through employee layoffs and other budget cuts, most newspaper companies had by the end of the decade stopped the financial losses that had crippled them in the latter half of the 2000s. But even the most ardent supporters of the newspaper industry understand that media economics make it highly unlikely that newspaper companies will ever again be able to rely on printed products for long-term growth and sustainability.

Newspaper companies now speak of their operations as multiplatform, and the Gannett example of the changes at *USA Today* that opened this chapter could signal an effort at real operating reforms. Once again, the future of the newspaper industry rests on its ability to embrace *new media* products that are innovative and accept *interactivity* as a core attribute as *media convergence* becomes increasingly about devices. The intentional emphasis included in the previous sentence illustrates that the three key concepts that formed a foundation for this thesis continue to be relevant. The following material reviews these concepts and suggests that understanding the newspaper industry's relationship with them helps to explain how the industry must adapt going forward.

## **Concepts Revisited**

This thesis presented three key terms in Chapter One that related to the development of online media, including the phrase "new media" and the concepts of interactivity and convergence. How newspaper executives came to understand what these terms represented for their own industry is reflected in their responses to development of online media. In relating to "new media," for example, newspaper executives accepted "new" to mean online media and digital media. They did not appreciate, however, that when applied to Internet-based media, "new" truly represented a different paradigm that required new modes for operating. In the following subsections of this chapter, each of these three key terms is revisited in light of the history presented to more fully discuss their significance.

### ***"New Media" Misunderstood***

Newspaper executives believed from the outset that a key strength of their industry rested in its ability to organize information. It was expected that newspaper

companies would translate those organization skills to their online platforms. As quoted in Chapter Six, an industry leader stated: “It is information *processing* that is newspapers’ greatest strength,” adding that “newspapers must understand that what they do best—gathering, packaging and distributing news and information—is much more than ink on paper.”<sup>17</sup> Newspaper executives clearly understood that electronic distribution represented a physical change in product form from paper to digital, but this understanding represented the limits of how newspaper executives defined “new media.”

For newspaper executives, the term new media was synonymous with digital distribution. But that simple definition, while not entirely incorrect, did not allow them to frame the broader implications that digital distribution represented. They did not grasp that all digital distribution would not be the same. As such, they did not recognize that Internet-based new media represented a new paradigm that destroyed the structure of content as they knew it.

Newspaper formats belonged to an era of linear information processing in the McLuhan vernacular and relied on the hierarchal concept of presenting information from most important to least important. The advent of hypertext allowed users to approach information from a multidimensional perspective. Readers could access information at any point in the continuum and could navigate from one point to another based on their own interests and desires. Furthermore, online users could choose content without advertising or advertising without content. And in some cases, Monster.com and eBay are examples, the advertising was the content. In Chapter Six, this thesis quoted an industry analyst who wrote that “the components of what we historically know as the newspaper have become unbundled.”<sup>18</sup> In Chapter One, the thesis noted that Allen referred to this phenomenon as the emergence of “not media” when he explained that companies such as Google do not operate in the ways normally associated with media, but merely “trespass into the economic fiefdoms of media.”<sup>19</sup>

Newspaper people had no response for the unbundling process and the ensuing creations that did not fit neatly into their media definition. The newspaper

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17. *Presstime*, “Putting it Together: The Las Vegas Trade Show Proved a Technological Oasis of Shared Ideas, Strategies and Solutions,” 31. [Statement attributed to Charles T. Brumback, chairman and chief executive officer of Tribune Co. and chairman of the NAA.]

18. Fine, “The Daily Paper of Tomorrow: It Won’t Look the Same. But with Reimagining, the Local Daily Ain’t Dead Yet,” par. 2. [Statement attributed to Mark Colodny, managing director of Warburg Pincus.]

19. Allen, “Old Media, New Media, Not Media?,” par. 2.

industry's perspective relied on the tenet of content creation; that consumers responded to original content and, that in turn, created a healthy information exchange conducive to selling advertisement. In reality, however, consumers gave less credence to the original content of newspapers than executives and journalists were willing to believe. This became especially problematic for newspapers as the abundance of news available electronically gave such content the characteristics of a commodity and reduced its perceived value. Even so, consumers welcomed structure and they rewarded those companies that provided it in ways that enhanced rather than dictated an information experience.

Yahoo! and Google are examples of innovators that filled the structural void of the Internet with portals and robust search engines—models that relied on content aggregation rather than content creation. As quoted in Chapter Six, the chief executive officer of Yahoo! Stated: “I don't think old media is what people are going to spend most of their time doing on the Internet. This paradigm needs its own inventions, its own methods, its own way to go forward.”<sup>20</sup> In that sense, “new media” became identified with breaking media tradition by enabling and empowering interactivity.

### ***Interactivity Defines the Paradigm Shift***

From the outset of their earliest online endeavours, newspaper companies learned about the inherent interactive nature of online media. However, newspaper companies mostly ignored the interactive capabilities of online systems. They used online as a form of distribution to push out news and information to consumers, but it was rarely considered as an opportunity for two-way communication with readers. Some interactive functionality was tolerated within the walled gardens of the proprietary systems such as Prodigy and AOL as discussed in Chapter Five, but newspaper companies reverted to their early videotext mentality when migrating to the Internet in the mid-1990s. There was gradual acceptance of interactive features throughout the first decade of the Internet, and online editions eventually featured full complements of interactive functionality such as blogs and message boards. But critics contended that newspaper companies never appreciated interactivity to the

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20. Schonfeld, “The Flickrization of Yahoo!,” 158. [Statement attributed to Terry Semel, chief executive of Yahoo!]

point that would cause them to make interactivity the focal point of how their online editions operated.

Such criticism reflected the frustration of many industry commentators who saw the newspaper industry's failure to embrace interactive functions as short sighted. When newspaper companies initially automated content repurposing, the practice was accepted as necessary for expediency to market. As the practice became commonplace, however, critics contended that newspaper companies were taking an easy route to the Internet, but one that failed to take advantage of either immediacy or interactivity.

As the Internet developed, interactivity emerged as the major reason a media paradigm shift occurred. The Internet was ideally suited for interactivity because its creation was rooted in the development of a communication platform that was deliberately designed to facilitate sharing of data and ideas. Entrepreneurs who were not wedded to the artefacts of media tradition embraced the Internet's open platform and introduced new media products that empowered consumers. Newspaper companies did not understand what was taking place until after fully developed competition appeared. Newspaper companies initially saw the Internet as just another wire and were sceptical of its long-term viability given that it had no ownership or governing body in the traditional sense. Its interactive nature, however, had, in effect, made all of its users de facto owners, which was a concept the newspaper industry did not appreciate. Furthermore, newspaper companies ignored interactivity because embracing it would have meant ceding control. Culturally, newspapers were aloof and detached from their readers. Interactivity, therefore, represented the antithesis of newspaper culture.

The reluctance of newspaper people to appreciate the Internet's inherent interactivity was manifested in the tepid response mounted against Internet-enabled competitors. Whether or not this grew out of a risk averse business culture or a culture steeped in agenda-setting journalism can be debated, but the history demonstrates that newspaper companies only reacted to online media out of a perceived necessity. They never fully committed their operations to online media; and never embraced online media as their core business. It is difficult to win a war when the troops are not convinced of the cause. In the case of the Internet, the newspaper industry simply did not believe in interactivity, and therefore, it could not muster the passion necessary to compete.

If interactivity can be seen as the essence of online media as this line of thinking indicates, then convergence can be used to describe the media evolution taking place around it. The many iterations of convergence have been discussed throughout this thesis. The material that follows discusses various perspectives of convergence and how the concept relates to the newspaper industry's relationship with online media.

### ***Convergence: A Matter of Perspective***

Newspaper companies initially were fearful that electronic distribution would allow others to become newspapers. The early videotext experiments were seen, at least in part, as a response to commercial services such as CompuServe who were entering the consumer market. The newspaper industry's political war with the telephone companies throughout much of the 1980s and early 1990s was aimed at preventing them from creating local news and information services. Later, as dozens of newspaper companies partnered with Prodigy, they bargained with the proprietary service to eliminate its own content staff and drop plans to create original content.

Newspaper companies approached the advent of electronic distribution from an industry-centric point of view. As such, the concept of convergence was considered rather narrowly. It was a technological construct that defined the process of computers connecting to the telephone infrastructure for the purpose of delivering information. Newspaper companies, therefore, understood convergence as a technology construct separate from a media construct. In this context, convergence was about enabling technology that would allow newspaper companies a new way to distribute their content.

Chapter One explained there is wide acceptance among scholars that convergence, as it is discussed in the context of new media, began as technology shifted from analogue to digital. But that discussion also noted that the digital transition represented only one aspect of understanding convergence and its ramifications. Jenkins, for example, wrote about convergence as a multi-dimensional phenomenon "occurring at various intersections of media technologies, industries, content and audiences...."<sup>21</sup> Jenkins' explanation of convergence allows for the construct to be understood more holistically including its role—not only in terms of information distribution—but also in terms of information production and

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21. Jenkins, "Convergence? I Diverge." 93.

consumption. From this broader perspective, convergence encompasses many cultural considerations, especially as the Internet fostered user-generated content. The broader construct allows us to understand that media convergence is more than the melding of technology; it is also a cultural phenomenon where the creator of content and the consumer of content emerge as one; where producer and audience converge.

However, newspaper companies approached convergence as principally about enabling new production and distribution methods. As a result, they spent much of the online era looking at the media landscape through the lenses of mergers and acquisitions or strategic alliances and partnerships. As explained in Chapter One, Dominick referred to the former as “corporate convergence,” or what happened when a single corporate entity would form to offer multiple media products, and the latter as “operational convergence,” which occurred when competitive media outlets set aside their rivalry to cooperate on content creation often with the intent of jointly producing material for online distribution.<sup>22</sup>

As newspapers considered convergence in these pragmatic terms, they formed partnerships with television stations as explored through the example of Media General’s efforts in Tampa (see Chapter Seven). In the end, however, these types of initiatives were convergence in name only because they did not truly address the issue of creating content suited for the interactivity of new media. A newspaper and television station cooperating to produce content for a website likely saved both parties money in terms of production, but it was not convergence in the broader spirit of contributing to the evolution of media by creating something new out of old parts. Essentially, these projects turned out to be nothing more than distractions. They gave the industry the illusion of pursuing productive courses of action, but in reality the partnerships and alliances allowed the industry to avoid engaging with the larger, fundamental shift that the Internet represented.

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22. Dominick, *The Dynamics of Mass Communication*, 19.

## Conclusion

The Internet often is described as a disruptive technology and many enterprises across all sectors of business and society, from telecommunications providers through to travel agencies, from software developers through to mainstream politics, have been transformed since the Internet emerged as a platform for citizens and consumers to communicate, consume and produce media content, to conduct transactions and to share themselves with others online. Yet the media has probably been more affected by (and also most challenged by) the Internet. This thesis has provided a detailed examination of how a specific form of the media—newspaper publishing in the United States— has attempted to respond to the Internet and in doing so provides a deeper understanding of the condition of the newspaper industry itself. Perhaps more significantly, however, this thesis shows that the disruption for the newspaper industry had as much to do with its *understanding of* and *reactions to* the Internet as the actual technology itself. Technology is shown, inevitably, to be part of and not distinct from the human societies from which it emerges.

Clearly, the newspaper industry has been transformed—any industry that sheds half of its revenue in a decade would find its business model discredited and the notion of its survivability questioned. This thesis, however, has shown that the newspaper industry was not a passive bystander as Internet-based competition invaded its markets. It would be incorrect to characterize the newspaper industry as a victim of technology; that the disruption and subsequent transformation of the newspaper industry was out of its control. Although the newspaper industry had no influence on the timing of the Internet’s emergence, it was in complete control of its reaction to it.

This study found the newspaper industry had ample warning about the shifts occurring in its market. Newspaper companies learned early in the digital era about the vulnerability of their classified advertising franchise yet failed to protect them. Newspaper companies learned about the significance of interactivity yet ignored their audience’s pleas for a relationship. When a business knows of its weaknesses and realizes that its marketplace is changing, but does not have the conviction to address its problems forthrightly, its deteriorated condition is not the result of disruption. The newspaper industry arrived there on its own volition through the diluted choices made and the lacklustre competitive response that ensued.

In some media histories of the newspaper industry's relationship with digital media, the timeline begins with the emergence of the Internet as a consumer platform in the mid-1990s. However, this thesis began earlier with the advent of the broader online era and the creation of the first online newspapers in the early 1980s. It is important to consider this earlier perspective because the newspaper industry in the 1990s was not reacting to the Internet in a vacuum. From the vantage point of the newspaper industry, the Internet was part of a technological continuum that began with videotext and progressed through the period of proprietary online systems. These earlier platforms had served to inform newspaper companies that online systems were first and foremost communication platforms. Users of such systems felt empowered by a level of control that was missing in the realm of traditional media. This user empowerment was apparent even in the systems that preceded the Internet. However, the newspaper industry ignored this finding then and, again, more detrimentally, in the Internet era.

While the Internet may have been part of a continuum in online technology, its arrival—more specifically, the arrival of the content presentation layer known as the World Wide Web—represented a radical departure from earlier online systems. The Internet was far more decentralized, being an end-to-end network in which each computer attached to the Internet might be both a client and a server, and whose operations were governed by protocols that deliberately encouraged open interconnection rather than proprietary closure. The early online models were similar to publishing models with content created centrally and distributed to subscribers. Newspaper companies completely misunderstood the openness inherent in the Internet and stubbornly tried to force its control-based publishing model into a platform that fundamentally was designed to operate without central control. Ignoring the audience's desire for interactivity and empowerment in 1985 led to a series of small online failures; ignoring those same wishes in 1995 created the conditions for the newspaper industry's cataclysmic fall.

Nevertheless, a smaller and retrenched industry has survived to face yet another period where strategic decisions must be made in regards to a media industry inflection point: the emergence of wireless computing, including smartphones and tablet devices. However chastened the newspaper industry may be in the wake of its recent history, it has an opportunity to be resurrected as a content provider for these new platforms. Doing so, however, will require that newspaper companies accept

that the media landscape has changed inalterably. Once that fundamental concession is made, newspaper companies must then adapt in ways that have eluded them previously.

Although this thesis has reported on many of the activities undertaken by newspaper companies regarding online media, it essentially recounts that much of the effort was a fight against the natural forces of convergence that throughout history has allowed new forms of media to supplant older forms. Even though newspaper companies created online media throughout the period studied by this thesis, they never embraced the natural evolutionary process and refused to free their online products from the artefacts of a newspaper heritage. Mostly, they rejected interactivity, which emerged as the defining attribute of online media. In doing so, the redemptive power of convergence was lost and newspaper companies ended up losing the one attribute that had mattered to them: control of the information they created and disseminated.

If newspaper companies are to find new life within the ecosystem of applications fostered by wireless devices, they will have to address a myriad of issues that led to their current predicament. Newspaper companies must be willing to acknowledge that their primary product can no longer be a printed edition. The demise of Knight-Ridder Inc. in 2005 was the alarm sounding that the traditional business model for newspaper companies was finished. However, it took another few years of economic failure made worse by a deep economic recession for the majority of industry leaders to see Knight-Ridder as the bellwether it was. The Gannett restructuring example that provided an opening for Chapter Eight is an important, tangible sign of change. The announcement from an industry leader that print was no longer the primary product for its *USA Today* flagship newspaper was a radical admission. Given that newspaper companies have been so reluctant to renounce their print heritage, Gannett's announcement was viewed by many observers as a cathartic step necessary to the overall industry's resurgence.

For newspaper companies to revive their economic fortunes, however, there must be more than announcements; a cultural transformation that replaces naysayers with innovators and risk averse managers with those willing to abandon convention must occur. The newspaper industry can no longer afford to talk about change; it must embody change. Newspapers have a long history of experimentation as this thesis has demonstrated. The early videotext projects, alliances with Prodigy, the

formation of New Century Network and the creation of a 1990s-era prototype tablet are examples where the industry showed its ability to think about its future in new ways. In these and other examples, however, the newspaper industry failed to convert experimentation into innovation. In the final analysis of these milestones, the newspaper industry's conservative culture blocked new approaches from achieving significance.

The newspaper industry first engaged in new media activity because it felt an obligation to deliver the Information Society before someone else could. The issue, however, quickly devolved into defining what the Information Society rhetoric meant in terms of practical product development. As the concept evolved to encompass much more than news and information, the gap between this market reality and the newspaper industry's willingness to adapt grew increasingly wider. By the late 2000s, the newspaper industry had accepted—albeit stubbornly—some of the tenants of the online era and provided functionality that should have been present all along. In any case, it was too late for those concessions to make any difference in the era of the World Wide Web. The result in 2010 is a newspaper industry that is a mere shadow of the one that stood on the threshold of the digital era in 1980. Nevertheless, as noted above, the industry has a chance to rebound as technology shifts again.

The U.S. newspaper industry last faced such dire circumstances more than 70 years ago. Radio had threatened as a new media phenomenon in the late 1920s and the Great Depression of the 1930s ravaged the newspaper industry. The newspaper industry was rescued in the 1940s in part due to a citizenry that wanted all the information it could get regarding the Second World War. Further bolstered by post-war economic expansion, the newspaper industry rebounded from the Depression era and prospered for four decades. The contemporary economy is far more complex than it was in the 1940s and the roster of new media companies represents more formidable competition than radio did. Nevertheless, history suggests that it is possible for a turnaround to happen. Newspaper companies could find an economic model or a combination of several economic models to reverse their decline. Those models could be found in new forms of paid content or in new applications residing on the wireless communication devices and emerging electronic tablets. It is highly unlikely, however, that a rebound will occur in print. The future of newspaper companies—just as it did in 1995—rests with the degree to which they are willing to separate from paper and print and embrace new content distribution models.

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