Small is Beautiful

New Business Models for Digital Media: A Case Study

A Shorenstein Center Fellow's Paper

May 2019

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HARVARD Kennedy School
SHORENSTEIN CENTER
on Media, Politics and Public Policy

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Abstract

This paper argues that subscription might be the only viable business model for digital media in the long run. The research suggests that this model may provide the best guarantee for excellent, useful, and independent journalism.

The first part of the paper analyzes and reviews the old business model of the legacy print media and explains why this model is not working anymore. The decline of the legacy media started long before the Internet. But the Internet exposed a business model that relied too heavily on the wrong customers.

Second, the paper shows new approaches based on recent research of the media industry.

Third, it examines four profitable digital outlets:

- The Information, San Francisco, CA
- Prime News, Basel, Switzerland
- Axios, Washington, D.C.
- Inside Paradeplatz, Zurich, Switzerland

All case studies support the argument that a solid financial basis serves independent journalism best. If a media outlet wants to be profitable, however, a small circulation might be large enough. Small is beautiful.

Introduction

An Industry Like No Other

When I started my career as a reporter, most staff in the newsroom did not understand or care how the newspaper was profitable. We cared about a good story, breaking news or an exciting hire. In 2002, I was a political correspondent assigned to the Bern Bureau covering national news from the capital of Switzerland. Those were good days for newspapers. We did not realize how lucky we were.

When the executives announced an occasional budget cut, we were appalled by this purely "capitalist" behavior. After these events, a catastrophic atmosphere loomed in the newsroom. Such events were rare, but the reaction was out of proportion to the actions. Fear spread quickly. The reporters acted like sailors on a sinking ship. Every budget cut, every layoff was devastating news. Cuts were rare. We were spoiled and ultimately ill-equipped to calmly manage bad news without alarm. Luckily, all would be forgotten, and everyone moved on. We did not focus on the economics of the industry. If we did, we only saw disaster in the making.

The newspaper industry crisis has affected every country in the Western World. Some still expect a renaissance for the printed newspaper. This optimism wears thin with each passing revenue quarter.

It was a mistake maintaining ignorance of the financial side of the business. The newspaper I worked for, the *Tages-Anzeiger* of Zurich, made hundreds of millions of francs by simply publishing a separate classified ads section. This section was the paper's largest revenue source. Sometimes, advertisers had to wait – because the section was fully booked weeks in advance. Money flowed in. The newspaper had the money from the classifieds to add pages, sections and correspondents at will. Our newsroom grew every year – contrary to the reporters' uninformed perception.[1]

Twenty years later, I was publisher of the *Basler Zeitung*, an old daily in the Basel area of Switzerland established in 1842/1844. Now, I spent a great deal of time cutting costs. Every year, we laid off staff. Increasingly, my visits to an advertiser were less of a query and more of a plea to beg for their business. Occasionally, very old subscribers sent letters thanking us. "I have been subscribing to the *Basler Zeitung* since 1949, when the newspaper was still named *National-Zeitung*. Your staff is better than ever!" Usually, the letter was handwritten, diligent and tidy, each word painstakingly printed. I loved those letters. When I responded, the subscriber would often write back overwhelmed that the publisher had taken the time to correspond. As gratifying as such letters were, they were depressing too. Because next time we heard from this subscriber, he would be dead, and his daughter cancelled the subscription. These readers died with an alarming frequency, leaving no young people to fill their places.

The newspaper industry crisis has affected every country in the Western World. Some still expect a renaissance for the printed newspaper. This optimism wears thin with each passing revenue quarter. The collected wisdom believes the future of journalism lies in the digital world. Despite this knowledge, the media industry has failed to monetize the business on the Internet. The old business model is inadequate – and a new one has not emerged, so far.

What next? In this research paper, I plan to examine and evaluate the current digital news outlets' business models. As a journalist and publisher, I believe in sustainable journalism; journalism that generates income.

Content as a Trap

A range of theories exist detailing the decline of the newspaper industry. Conventional wisdom thinks the central problem newspapers face today lies in the fact that the reader can easily switch to digital outlets without paying. In other words, users cancel their subscriptions because they can get content free elsewhere. Many publishers in the industry consider this the best explanation. However, Bharat Anand, a scholar at Harvard Business School, disagrees. In his bestselling book "The Content Trap" he recently presented a different approach that seems useful for a deeper understanding how to build new business models.[2] According to Anand, publishers never made money with content, but with the connections they offered – meaning the newspaper connected people who shared a common interest. Usually, this common interest consisted of a market transaction. An employer, for instance, was looking for an employee – and the employee was searching for a job. A classified ad in a newspaper brought them together, i.e. *connected* them.

There is a risk that content turns out to be a trap if the potential network effects are ignored. This is exactly what happened in the industry.

The Internet cannot be blamed for the industry's crisis, then. This is backed up by data. In fact, newspapers have been losing subscribers for decades. They suffered when radio was invented, when TV, VHS, CDs, and cable news came along and when the Internet conquered the media world. Until quite recently, publishers recouped losses by increasing the subscription prices or by growing ad revenues. This changed around 2000, everywhere in the world, and it changed suddenly. Newspapers lost the revenue from the classified ads market almost entirely when it moved to the Internet.

There are two types of ads – classified ads and commercial ads. It is important to distinguish them: Classifieds provide a forum to advertise jobs, housing, cars or potential marriage partners. They comprise individuals looking for an individual buyer or specific tenant while commercial ads aim at a broad, anonymous audience helping companies to market a new product or brand.

In contrast to the reader market, i.e. the thousands of subscribers, the classified ad market is driven by so-called network effects. The more classified ads an outlet/newspaper can offer the more attractive it is for customers and advertisers. As a consequence, this tends to favor the biggest player. This was true in the past, too, but few noticed. Often just one city newspaper – in the US and in Europe as well – drew most of the classified ads, creating an actual monopoly. Only the biggest newspapers thrived. The others left the market or failed.

The same applies to the Internet, but here the winner – outlets specializing in classified ads without adding any content – took it all. Newspapers suffered huge losses – forfeiting almost all of their classified ads' revenue.

According to Anand's approach, a new business model for digital news has to make sure it creates connections rather than merely content. That does not mean content is not important anymore. Quite to the contrary, this would be a misunderstanding of Anand's theory: "Content is a critical ingredient to draw people in – who you can then connect", says Anand, "At the same time, network effects are the more powerful economic force. If content is in conflict with network effects, content invariably loses out."[3]

In other words, there is a risk that content turns out to be a trap if the potential network effects are ignored. This is exactly what happened in the industry.

"Content is King" or Self-Delusion of an Industry

The industry perhaps had a self-importance that made it easy to ignore the truth – especially for publishers and journalists. It did not seem possible that classified ads were more important to the reader than serious news articles. But there was another reason, too.

In earlier times, for technical reasons, two business models coexisted in one newspaper. It was impossible to separate content from commercial and classified ads entirely. A newspaper that published solely ads would not have survived. Content attracted the readership and created a market for potential classified ads. As soon as this market was working, network effects kicked in. Ad revenues skyrocketed, while subscriptions' revenue grew at a much slower rate. This resulted in huge gains for publishers. At the same time, it distorted and corrupted journalism.

"That easy-money culture has led to some bad habits", writes Philip Meyer in his book "The Vanishing Newspaper": "If the money comes in no matter what kind of product you turn out, you become production oriented instead of customer oriented. You are motivated to get it out the gate as cheaply as possible. If your market position is strong, you can cheapen the product and raise prices at the same time. Innovation happens, but it is often directed at making the product cheaper instead of making it better."[4] Meyer is Professor Emeritus of Journalism at the University of North Carolina at Chapel Hill.

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To put it in a different way, journalism – content – was highly subsidized by ads. As a consequence, many newspapers and news media began to neglect readers as customers. The content they produced did not matter as much since most newspapers' income depended to an overwhelming degree on ads – not subscriptions. And because many local and regional newspapers monopolized the classifieds market in their area, the network effects made users reliant on the newspaper. Where else could they find a new home, a car, a job or a spouse?

As a result, advertisers became the most important and valuable customers of the publishing industry, while readers counted for much less. Quality suffered. Was content worth anything at all? And when the Internet emerged, publishers did not stand by their content and even offered it for free. Free content, they apparently hoped, would bring in more subscribers to the print edition, and would attract ads as it had once in the days of the rising newspaper industry. In other words, they tried hard to reproduce the old business model for a digital era.

However, this is not what happened. It turned out that ads did not generate as much revenue for the Internet as they had in print. And because classified ads were gone for good and could not be tied to digital content anymore, this free-content strategy yielded very disappointing results.

This outcome has motivated some publishers, such as Jessica Lessin for instance, to change course. Lessin is the founder of *The Information*, a digital-only outlet. She advocates a business model that focuses on subscription and content uniquely. Content is king again. Only when an outlet can produce meaningful, useful content will the users pay for it. And with *The Information*, Lessin has, so far, successfully proven that she is able to make money with this model.

In an ironic twist, this business model harkens back to the roots of the industry. Before ads subsidized content, newspapers had to rely overwhelmingly on their subscribers if they wanted to remain profitable. Without attractive, valuable content they could not survive – or so it would seem. In fact, that was never entirely the case. At the beginning of the news industry many a newspaper was only established because printers had too much capacity.[5] Their printing machines stood idle, especially during the night, so it seemed like a good idea to print a paper during those evening hours. Rarely was this business good enough to sustain the company, rather it added some income to its main business, i.e. printing of anything: books, brochures, telephone directories, magazines, birthday cards, collection of laws, bibles, government decrees, etc. News production alone, in other words, was never a sustainable business.

Tragically, this approach may now be the only option left.

A New Business Model for the Media

In the Doghouse

"Dire" describes the current climate for media, especially the newspapers. In 15 years, newspapers in the US and Western Europe have lost considerable numbers of readers and ads. Newspapers that once boasted half a million readers have 200,000 now, newspapers that reached 100,000 subscribers have only 40,000. The *Berliner Zeitung*, for instance, once one of the biggest newspapers in Germany's capital, has shed 50 percent of its circulation in only ten years.[6] Ads moved to the Internet and revenues in print media shrunk dramatically. Many newspapers closed or were sold to bigger competitors and the number of employed journalists was almost cut in half.

This trend can be observed in most parts of the developed world, even if there are some notable differences. In countries such as Italy, Spain or France the decline was much more devastating than in the German-speaking part of Europe. Germany, Austria and Switzerland retained a healthier newspaper culture while the Anglo-Saxon countries like the UK, Australia and the US mixed, some areas retaining news outlets and others suffering losses. In the US, people even talk about "News deserts", i.e. communities, cities or rural counties which do not have any newspapers covering local news. The facts speak for themselves.

According to a report from the University of North Carolina at Chapel Hill aptly called “The Expanding News Desert,” about 200 communities in the US alone have entirely lost any local newspaper – which has not only economic and political implications, but also cultural and social ones. “The people with the least access to local news,” the researchers write, “are often the most vulnerable – the poorest, least educated and most isolated.”[7] The latest update to the report was published in October 2018.

Total Number of U.S. Newspapers, 2004 and 2018

	2004	2018
Total	8,891	7,112
Daily	1,472	1,283
Nondaily	7,419	5,829

Since 2004, 1,779 papers (weeklies and dailies) closed or merged with other papers.[8] The same is true for circulation.

Circulation of U.S. newspapers (in millions), 2004 and 2018

	2004	2018
Total	120	73
Daily	50	29
Nondaily	72	44

Circulation has decreased by 47 million since 2004.[9] In Germany, the fifth largest newspaper market in the world, circulation has declined similarly.

Circulation of daily newspapers in Germany (in millions), 2002 and 2018

	2002	2018
Daily	27.5	14.7

In other words, the daily circulation of newspapers was nearly cut in half in 16 years.[10]

Even in Switzerland, a country that traditionally boasted an extremely high number of local newspapers due to its decentralized and multicultural political system (four official languages), even here there was a decline.[11]

Newspapers in Switzerland, 2009 and 2018

	2009	2018
Daily, weekly	330	309

Circulation of newspapers in Switzerland (in million), 2009 and 2018

	2009	2018
Circulation	9.4	7.2

In 2019, businesses in the US will spend more money on digital than on traditional advertising for the first time in history, $115 billion versus $108 billion.[12] Nobody expects this trend to revert back. This is bad news for the media industry, especially television and print outlets. Newspapers will not only lose revenue in print ads again, but their share of the new market remains negligible. In contrast, Google, Facebook, and increasingly Amazon are dominating with roughly 70 percent of the market. The top five companies have nothing to do with media, and barely provide content.

Digital advertising in the US, 2018 and 2019, top 5, market share in percent.[13]

	2018	2019
Google	38.2	37.2
Facebook	21.8	22.1
Amazon	6.8	8.8
Microsoft	4.1	3.8
Verizon	3.4	2.9

Given these numbers, it is obvious that the old media industry business model is losing ground substantially or you could say precipitously. To date, the media have not replaced their losses in the print ad market with any substantial gains in the new, expanding online ad market. If they want to survive financially, they cannot rely on this market, where they are increasingly marginalized. In other words, the media industry's golden era might be gone forever. The old model is obsolete.

In Search of a Lost Business Model

Who is to blame? Many people blame the publishers for the current problems. Did they not commit a fatal error when they gave content away for free? No doubt, publishers underestimated the dynamics of the Internet. When the Internet emerged in the late 1990s, most people in the industry were convinced it was possible to replicate the old business model in the digital world. The more readers a newspaper and its website could reach – and the Internet seemed without borders in that respect – the more digital ads they should be able to sell. Reach was paramount, and revenue seemed to be guaranteed.

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However, that was not case. Quite the contrary, digital platforms surfaced as far more powerful competitors: "In short, giant platforms such as Facebook and Google have usurped individual media outlets as the places where most people find content online," Will Oremus, a former *Slate* senior technology writer, observes. "Those platforms are also in the advertising business, and they're much better at it than the publishers, for various reasons. So, advertisers increasingly go straight to those platforms, cutting publishers out of the loop. Publishers are still bearing the costs of producing content, but Facebook and Google are the ones making most of the money from it."[14]

At the dawn of the digital age, almost no publisher in the media industry considered charging for content – an exception was *The Wall Street Journal*. For most publishers that exception proved the rule. In hindsight, this miscalculation is surprising. The WSJ successfully converted its subscribers to digital users and even attracted new subscribers. In 1997, it implemented a hard paywall. By 2000, it had attracted approximately one million digital subscribers – more than forecasted. "We were surprised, too, that no one followed our lead,"[15] Gordon Crovitz, a former publisher of the Journal familiar with the decision-making process at the time, recalls: "It never occurred to us that we should give away our content for free. Certainly, our legacy as a financial newspaper played a role. At that point, Dow Jones, the owner of the newspaper, already had a great deal of experience in the electronic news business. Since 1890, Dow Jones published the *Newswire*. So, there was never a question about charging for our content."[16]

Furthermore, "dating back to 1971 Dow Jones was a pioneer in the delivery of electronic news with *Dow Jones Newswires* and *Dow Jones News Retrieval Service*. By 1981 this service had 11,000 subscribers and by 1986 over 200,000," says Mike Hill, a member of the family that controlled the ownership of Dow Jones.[17]

From the start, the Journal operated the website with a paywall. The rest of the industry sat back and did not acknowledge the WSJ's success. This behavior could be attributed to the paper's distinct culture. "To most journalists the *Wall Street Journal* lived in a different world," Marcus Brauchli, a former managing editor of the WSJ, explains. "It was a business newspaper that covered stories no other newspaper would cover, mostly about the stock market, or so they thought. Few were aware of the fact that the Journal was the largest newspaper in the US in terms of circulation, even bigger than *The New York Times*. Everyone in the industry would take notice how *The New York Times* dealt with the challenges ahead, but the WSJ seemed a special case one could learn little from."[18]

A few years into the 21st century, publishers realized that they had failed to anticipate the digital business correctly.

The Journal's path was inherently different. As it was not a local or a metro paper, it never pursued classified ads vigorously. Therefore, it had a history of relying on subscribers for its revenue. WSJ was ahead of the industry in this respect. Other outlets had to scramble for income when the classified ads migrated to the Internet. In an interview with Riptide, a project of Harvard Kennedy School's Shorenstein Center, Gordon Crovitz recalls, "I used to keep a running chart on revenue volatility comparing *The Wall Street Journal*, largely advertising based to other revenue streams, which were almost all subscription based. One was a beautiful flattish line that grew over time, but not very volatile. That was a subscription part. Advertising looked like an EKG of a dying person, up and down. Several years after the launch of the WSJ.com, it became clear that the most valuable revenue stream, the *Wall Street Journal* franchise, was digital subscription revenue. Very high renewal rates, extremely high profit margin."[19]

A few years into the 21st century, publishers realized that they had failed to anticipate the digital business correctly. Some like *The New York Times* reconsidered their business models. As a leader and recognized entity in American media, NYT's strategies would have a huge impact. In 2005, *The New York Times* decided to implement a hard paywall for part of its content – a step that was closely watched by the whole industry.[20] However, the NYT made the wrong choice. Believing in the high quality of its editorial page, the Times put some of its comments and columns behind the paywall. The rest of the newspaper remained freely accessible. *TimesSelect*, the selective paywall, captured only 227,000 paying readers. At the same time, 13 million unique visitors still accessed its free content in just one month. *TimesSelect* turned out to be a complete failure. It was terminated in 2007.[21]

If *The New York Times* could not convince readers to pay, who could? This skepticism seemed all the more justified as the Opinion Page of the NYT increased its traffic and its ad revenue considerably after the paywall had gone.[22]

As print media's financial situation declined further in the following years, the *The New York Times* tried again in 2011, this time examining and testing its paywall model more thoroughly beforehand. "This effort was organized differently from almost any past digital effort", recalls an executive of the NYT who was involved, "Arthur Sulzberger [Jr., the publisher] more or less took direct control."[23] After a lengthy evaluation process, the company launched a so-called metered model. In this model, the readers had access to a certain number of free articles and then they would be asked to subscribe. The model – barely utilized at the time in the US – proved to be an almost immediate success. In the first three months, the Times gained 224,000 subscribers, in four years, in 2015, the Times reported 1 million digital–only customers. It was an unprecedented breakthrough. Since it was the Times, an American media role model, the new business model had far-reaching implications. Many publishers copied the method. The better the numbers the Times achieved, the more other newspapers followed suit. The metered model appeared to be the best last hope of a struggling industry.

Alex Williams, a research fellow at the American Press Institute, observes, "the model has been increasingly emulated. One appeal is that only core readers, who are the most likely to purchase a digital subscription for unlimited access, are prodded to subscribe. Another is that casual readers are not scared away. This minimizes any potential losses in readership and maximizes the potential for digital advertising revenue."[24]

For *The New York Times* the metered model has been an ongoing success story so far: in 2019, the company reported $709 million in digital revenue, of that $400 million was for digital subscriptions. At the end of 2018, 3.3 million subscribers paid for digital products, such as news, crossword or food apps. The number of paid subscriptions for digital and print totaled 4.3 million. In light of these results, Mark Thompson, CEO of the Times, set the goal to reach “more than 10 million subscribers” by 2025.[25]

Encouraged by this accomplishment, many more newspapers embraced the paywall or some form of it. “The metered paywall is seen as a best practice in the industry.” says Mark Campbell, Tronc’s senior vice president for digital marketing in an interview with the *Columbia Journalism Review*.[26] In fact, by 2015, it had become a new industry standard, a study found: 77 of 98 newspapers with a circulation of more than 50,000 in the US had adopted a digital subscription model that expected readers to pay. Some are completely impenetrable; some allow a certain amount of free access while others offer slightly alternative approaches. Most newspapers avoided the free content that was so prevalent at the beginning of the Internet era. The change was remarkable. In 1997 the *Wall Street Journal* was the only newspaper with a circulation of more than 50,000 that had a paywall. In 2010, there were still only 6 newspapers that required readers to pay.

Will *The New York Times* model work for other news outlets?

Will *The New York Times* model work for other news outlets? Many assume *The New York Times* to be an exception: as one of the largest and well–known news organizations in the world and the newspaper of record for the US, it can attract and keep subscribers in a way only few others can. As it may be, there are not too many alternatives to this model. It does not seem prudent to rely on foundations or wealthy donors for survival. The market remains unpredictable. A few years ago, new digital-only outlets such as *BuzzFeed* or *Vice* appeared to be viable alternatives. Most of them offered content for free and attempted to increase traffic to be appealing to digital advertisement. First, this approach seemed to work. Many investors poured literally millions into this new media. In the meantime, when revenues did not meet expectations, advertisers grew leery. By February 2019, *BuzzFeed*, *HuffPost* and *Vice* laid off staff in order to remain profitable. *BuzzFeed* decimated its workforce by 15 percent. Content was not the problem, nor the quality of the journalists, but income. Some investors were having second thoughts.

Publishers and media executives continue to search for a business model to make journalism profitable in the digital age. They have tried several approaches. So far, they have not found a solution. Ironically, there is a growing consensus that the old subscription model is the most promising way to go. And recent research seems to support this theory.

New Research

Research has intensified to explore ways the news industry might thrive again. Journalism schools and think tanks of the industry, such as the American Press Institute in the US or similar institutions in Europe, have examined users' behavior and needs. This includes comparing and scrutinizing different media outlets, their conversion strategies and business models. Recently, Elizabeth Hansen from the Shorenstein Center at Harvard Kennedy School and Emily Goligoski from New York University have investigated a considerable number of digital outlets in order to draw up a sort of guide to managers and executives in the industry contemplating new digital strategies for their outlets.[27] It is probably one of the most comprehensive studies on the topic. For our research, three findings of Hansen/Goligoski turned out to be especially valuable:

1) Almost every outlet is combining different models, none of them is relying on audience revenue alone. Hansen/Goligoski found models that included "advertising, corporate underwriting, foundation funding, article syndication, events, affiliate programs, merchandise, and book sales."[28]

2) If an outlet can provide "highly differentiated" journalism to a "strong audience base," it might make sense to focus on a subscription model. To subscribers this outlet has to offer "unique value."[29] Here, they read or listen to news, commentary, and analysis they can get nowhere else.

3) A subscription model works best if a media outlet is able to turn its subscribers into members. "Audience engagement" is indispensable. To foster it, however, is a demanding task. Hansen/Goligoski put it that way: "News membership isn't about premiums, tote bags, mugs, or local business discounts. Readers become members or donors when they want to be part of the larger cause that the news organization represents."[30]

In the past years, many publishers got the impression users were not willing to pay for news anymore, understandably, since audience revenue had been declining continually. According to a survey conducted in 2017 by the Media Insight Project, that might be a correct assumption.[31] When questioned if they were prepared to pay for news and information, 73 percent of respondents stated that they would "not at all" or that they were "not too likely" to do so. Only ten percent were "very or extremely likely" to pay. A devastating result from the perspective of publishers. But even more disappointing was the answer to this question: "Suppose [the source] decided to charge a weekly fee to access its news and information. Would you pay that fee to continue getting news and information from [source] or would you stop getting your news and information from [source]?" More than 70 percent answered that they would not read this outlet anymore if they had to pay. Even a small amount like $0.50 would be too much. The higher the price, the more people would stop using this website. For instance, if the fee was $7, only 9 percent would pay, while 91 percent stopped immediately.

This finding has to be interpreted cautiously, since the respondents were not answering under realistic circumstances. Maybe they would react differently when they wanted to read an article and were facing a paywall that could only be opened with a small fee. This could be quite often the case as another finding in the survey indicates. An overwhelming majority, i.e. 89 percent of respondents, still appreciate news and information and consider them "important" (moderately, very, extremely). At the same time, 54 percent do not want to pay for it because "I can find plenty of free content, so I don't need to pay". In other words, if they are encountering a paywall, chances are they will not pay.

In a second survey, the same researchers contacted people who recently had bought a subscription to a newspaper, a digital outlet, or a magazine, and questioned them about their motives. Again, it turned out that a majority, 72 percent, deemed news to be "extremely" or "very important."[32] Since these respondents had just subscribed, this result is not shocking. Surprisingly, the respondents did not state the importance of news as the motivation for a subscription. Rather, a plurality stressed they wanted to support a news organization they believed in. This confirms the findings of Hansen/Goligoski: Some subscribers are looking for a "larger cause" they can support by subscribing to an outlet.

In the digital era, a small minority of users might be the most attractive audience for digital media if they want to be profitable.

This focus on a highly motivated, committed, clearly defined readership might be the only option to enable a subscription model to work. This echoes a study by Tran Ha of the American Press Institute.[33] While Hansen/Goligoski surveyed numerous outlets, Ha chose a different tact. She selected fifteen people across the US and interviewed them one-on-one. She conducted in-depth interviews detailing how they used and paid for media. This was hardly a representative sample. Instead, Ha gained a detailed and qualitative insight into the motives and needs of modern users – in a way few studies had. Based on her findings, Ha developed a typology of news users confirming what Hansen/Goligoski and numerous other surveys found: in the digital era, a small minority of users might be the most attractive audience for digital media, if they want to be profitable. Ha developed three user categories:

1. "**Civically committed**". This group highly values journalism. These users want to stay informed and believe in journalism's crucial role in a modern democracy. Therefore, they are willing to pay dearly for subscriptions. Often, they subscribe to many outlets even though they cannot read them all. From the point of view of a content-focused outlet, they are highly-prized potential customers. Unfortunately, there are not many of them.

2. "**Thrifty Transactors**". Very price-sensitive, these users are willing to pay for news, but only if there is added value. They are selective in their choice and taste and only subscribe to outlets that regularly offer valuable, useful news. Even the slightest price fluctuation can affect them negatively. They leave. You cannot rely on their loyalty.

3. "**Elusive Engagers**". These readers are hard to convince. They consider news a commodity that is free. If they have to pay for it, they desert the website and look for a free source. This is not a group for revenue and most news businesses do not bother catering to them – although they constitute a plurality of all users. There is no point in trying to gain them.

Last but not least, data show that only 7 percent of the regular visitors to a website usually account for more than 50 percent of its traffic. For this clientele, experts coined the term "power user."[34] This data suggests that it might be worthwhile to focus on a special, committed minority of users, like types #1 and #2 in Ha's typology. If a newspaper wants to increase its conversion rate (converting subscribers from print to digital), it should do the same. *The Wall Street*

Journal took advantage of this and recently allowed its subscribers to share five articles with friends per month for free. Many of those later subscribed. 62 percent of the traffic on its website derives from its subscribers, while non–members account for only 38 percent.[35]

In the next chapter, we will present four case studies of existing digital outlets based on these research results. All of them work and seem to be profitable as far as we can tell.

Case Studies

The Information, San Francisco, CA

At present, there is probably no digital outlet that has focused on subscription so systematically and consistently as *The Information*. Established in 2013 by Jessica Lessin, a former *Wall Street Journal* reporter, *The Information* boasts around 10,000 subscribers now – people who are willing to pay as much as $399 per year for access to digital news about the Tech industry. Almost nothing in *The Information* is free. If the user wants to read an article or watch a video only a few sentences or seconds are shown before a box pops up prompting subscription. Even the popular editorials by Lessin cost money. The only pieces freely accessible are short briefings on the latest news, i.e. mostly information that is not exclusive and generally available on the Internet.

At *The Information*, there is no metered model that would give away some articles for free in order to attract new customers. However, if a reader provides an email address, he can have an article sent. Of course, this is highly valuable information that enables the outlet to keep the reader posted about offers and breaking news. And *The Information* will make good use of it. In fact, this outlet has developed outstanding marketing capabilities for its product. Every day, *The Information* sends several exclusive articles directly to the subscriber's inbox, along with periodic emails encouraging subscription upgrade (say, from monthly to yearly subscription) or inviting the reader to a discounted special event. Last but not least, Jessica Lessin keeps in contact with the subscriber in a way that suggests a personal relationship, providing regular updates about the Tech industry, the economic situation of her company, and her professional and even personal life. For example, she informed her readers that she would not be writing while on maternity leave with her second child, whose birth she was awaiting.

The Information has added thousands of subscribers in the past few years. Although it has expanded its staff rapidly (to 38 employees in January 2019) it was able to stay profitable – so profitable that rumors have been circulating lately that big media companies such as the *Financial Times* are set to acquire it or start a partnership.[36] For the time being, it is considered essential reading for everybody who works in the Tech industry – and this gives a hint as to why its business model seems to be so successful.

By focusing on the Tech industry in the first place, Lessin attracted customers who show a willingness to pay a premium for journalism if it is useful to them. If we recall the three types of readers the study by Ha from the American Press Institute found, Lessin's readers fit quite neatly into the second category.[37] As price-sensitive as these customers are, they value reliable information as long it has to do with their business and is exclusive. The customers trust the veracity and uniqueness of the *The Information* – or so it seems. Jessica Lessin stated this goal right from the beginning when she founded her outlet. It appears that her audience agrees – as indicated by statements by influential people from the Tech community. Sam Altman, chairman of Y Combinator and co–chairman of OpenAI, two Tech companies based in Silicon Valley, says: "*The Information* is, for sure, the most thoughtful/smartest tech coverage."[38] Or Danny Sullivan, Editor of *Search Land*, a publication that covers search engines, acknowledges: "*The Information* has turned out to be incredibly worth the price tag, if you're into tech news. Really solid stuff I look forward to."[39] *The Information* is using both quotes currently as testimonials for its product.

In a keynote address in 2016, Jessica Lessin detailed the company's accomplishments in journalism to her subscribers. Throughout the year, she said, *The Information* broke twenty-one deals, did several exclusive interviews and profiles, and provided data that was "accurate and valuable to you."[40] This is no coincidence. Lessin is convinced that she can make money by this truly journalistic approach.

"The way I see it is, people will pay for things that are valuable to them," she said in a conversation with *Recode*, a Tech news website.

"We pay to go to the movies. We don't expect to go to the movies for free. We pay for items of clothing we like. News is information, and if it's valuable to an audience, there's a price that people should be willing to pay." In her mind, this was true for the entire industry: "That should be our default assumption, whether we're in local news or business news, that we want to create something that will have some value to someone." Looking back at the recent past, she criticized: "That hasn't been how people approached the industry."[41]

There is quite an irony here. Although Lessin had been covering and celebrating the Tech industry for years as a reporter, she would obviously not take the advice of its managers when she started her own business as an entrepreneur. Considering the usual strategies for media that were in vogue at that time in Silicon Valley, she departed from these in an almost frivolous manner: While managers in the Tech industry were demanding that content had to be free in order to maximize reach and clicks, Lessin placed her bet on paid content alone. Similarly, she did not distribute the content of *The Information* through social media, but considered emails to be more effective. Third, she looked for a niche and ignored general news – in contrast again to the prevailing opinion in the industry. Last but not least, she chose quality rather than quantity: "*The Information* proved," she told a reporter of *Traffic*, a Tech magazine, "that you don't need to be comprehensive to be valuable."[42] Her outlet does not produce volumes of text every day as every other news organization would, but only two articles per day. "Readers don't want to refresh a website all day to get news"[43] she said. It was an old-fashioned approach by someone who believed in journalism and only journalism, to say the least. But its apparent success stunned the industry.

Know your readers. If you focus on a clearly defined audience chances are better that you can turn readers into subscribers.

Already, no news organization has more reporters writing about Tech than *The Information* – apart from Bloomberg News. It has even outranked *The Wall Street Journal* and *The New York Times*.[44] That is a remarkable achievement for a start-up that did not exist a few years ago. What is even more astonishing: Lessin attracted talent from several legacy media, mostly from *The Wall Street Journal*, the very paper she used to work for. Currently, 14 of 38 employees who work for Lessin came from the WSJ. Her financial success meant that she could afford to lure respected journalists to her outlet by paying them considerably higher salaries than their former employers. Typically, Lessin increases their compensation by 10 percent.[45]

However, subscription is not the only business model on which Lessin is basing her outlet. If we think of the typology Hansen and Goligoski put forward, she apparently tries hard to turn her subscribers into members of an exclusive club by applying many methods Hansen/Goligoski are advocating.[46] As mentioned before, subscribers are invited to attend special events such as a "summit on autonomous vehicles," a "conference call on crypto currencies," or a media business boot camp, where they can meet people associated with the Tech community and network. At the same time, subscribers are intensively encouraged to comment on *The Information*'s articles. If someone is commenting on a regular basis, the editorial staff will ask him to become a "contributor." The reader has to apply for this "upgrade." Then, *The Information* will review his profile in order to manage the quality of the comments. Once the reader has cleared this hurdle, the comment will usually be published prominently on the front page of the website: the left column is reserved for this kind of reader involvement that goes much farther than most traditional media would dare to go. Rarely are comments placed so visibly. It is a clever way *The Information* has invented to engage its readers by promoting them to be authors themselves. It is a way of cherishing subscribers. It is also an effective advertisement to new customers, since every passing reader sees the possibility to be an insider in an important discussion that touches everything that is vital for his business.

A comment contributor is shown with a picture, and by clicking on his name other readers can get information about his background, business and professional bio. Another way of accessing this data can be found in the "community" section, where all contributors and their bios are listed. "Our subscribers," *The Information* claims, "include the most important and interesting people in technology and business. Here are some of them. If you are a current subscriber who would like to be included on this page, please email c*ontributors@theinformation.com*."[47]

No doubt, the list does look impressive – so impressive that some critics claim Jessica Lessin, who is married to a former Facebook executive, takes too much advantage of her connections in Silicon Valley. They argue Lessin is too close to the very people and their companies her outlet is supposed to cover critically. Of course, Lessin would not accept this criticism. "It doesn't bother me," she was quoted in Merissa Marr's profile on her for the *Columbia Journalism Review*, "If you don't write the stories subscribers know to be true and tough, it's bad for business. You earn respect by being tough, not writing puff pieces."[48] Nevertheless, Lessin seemed to care about this criticism. If you check her Facebook feed there is nothing left that would indicate her personal connections to the industry, as Merissa Marr points out. Lessin mostly posts articles from *The Information* now.

Marr was raising an important issue: Lessin's outlet is successful because it focuses on an industry that is based almost entirely in one location, Silicon Valley, and to some extent the greater Bay Area in California. People know each other, they mingle socially, they do business with each other. This close-knit community is certainly an ideal place for journalists to do their job – it is easy to get in touch with the relevant people if you live in this community. Rumors, gossip, news, scoops: it is all there and as a journalist you can pick it up and turn it into good stories. At the same time, it turns journalists into insiders, friends even, who might hesitate to write everything they know because they want to protect a relationship. The situation the reporters of *The Information* are dealing with is comparable to what journalists working for a local newspaper face every day. The smaller a city you cover the more you get to know from the people who live there – and the more you are tempted to spare them from reporting that could hurt them. To be credible you have to be tough to the very people you depend on for information, or for their subscription.

It is more worthwhile to offer deep analysis and a few breaking stories than the full program. Quality trumps quantity by far. *The Information* is a case in point for this approach.

If you attempt to ramp up your revenues by treating your subscribers increasingly as members of a club – as Jessica Lessin is clearly doing – this balancing act gets even trickier. So far, *The Information* has managed to draw this line well, otherwise its staff would not have been able to break so many stories and establish a stellar journalistic reputation. What the future holds, however, is open to debate, as Lessin is stepping up her efforts at a revised membership model. Her pool of ideas seems limitless. Among other products, Jessica Lessin is offering an even more prestigious kind of subscription. By invitation only, subscribers can upgrade their membership to have access to inside knowledge, presumably more exclusive, from *The Information*. For $10,000 per year, a VIP subscription provides access to more background stories, special briefings or invitations to private events where these VIPs can meet the tech industry's shapers. Lessin wants "to put you in the flow," as she explained at her keynote address in 2016.[49] When Lessin traveled to China recently, she offered a conference call after where she would give a firsthand account of her meetings with important Chinese business people and politicians. She was not sure if there was demand for this – and everybody in the newsroom was anxiously waiting for the first callers. It quickly turned out that she had hit a gold mine. Hundreds of subscribers were listening in, and 85 percent stayed on the phone for longer than an hour. An astonishing result, and proof for Lessin's growing star power.[50]

Membership at our news organization is of value to you – this is the main message Lessin wants to build on, and the high demand for the VIP subscription model suggests that she might be winning. According to Anand's theory we mentioned above, network effects can also take place in media. This is the case when a media outlet is able to build up a community that gets more valuable for its members the more members join. No doubt, Lessin is pursuing this goal and evidently with considerable success. If, theoretically, everyone who matters in the Tech industry is subscribing to *The Information*, it could become not only an indispensable news outlet, but also a platform for real business transactions.

Two products Lessin launched indicate that she is aware of this potential: first, every subscriber is encouraged to join a Slack group at *The Information* where he or she can be in touch with other subscribers. By this means a broad network has emerged where *The Information* is a facilitator in the center of the conversation. Second, Lessin has set up The Accelerator, a boot camp for entrepreneurs from all over the world who want to establish their own, subscription-only media outlets and come to San Francisco to learn from Lessin and her team. They provide know-how, mentors, encouragement, ideas, and even finance support. One could argue that Lessin is trying to grow a network of subscription-based outlets in order to turn it to an industry standard. The less free content is available, the easier it is for subscription-based media to win over users to pay. However, this interpretation may be too far-fetched. If nothing else, The Accelerator has turned out to be an efficient marketing instrument for a business model that is getting more and more attention in the industry – or as one subscriber, Mihir Bhanot, wrote when learning of The Acclerator: “This is super super super cool. Congrats to Jessica and team. This is my most read and most useful source of in-depth coverage and I can’t wait to get more ‘Informations’ :).” Bhanot is a senior manager at Amazon.[51]

A reader is willing to pay for content providing he cannot get it anywhere else.

This business model seems to work for Lessin and *The Information*, but does it work for other media outlets? Skeptics rightly point out that *The Information* is taking advantage of a very special, if not unique, setting. Silicon Valley is truly a village, and the Tech industry – although an internationally powerful and far-reaching industry – is concentrated geographically with a relatively small number of companies. This is an industry where managers, investors, engineers, founders, and journalists constitute a real community that in many respects is comparable to the social and cultural milieu of entrepreneurs we observe in the era of the Industrial Revolution in England.[52] When the textile and mechanical engineering industry emerged at the end of the 18th and the beginning of the 19th centuries it was heavily concentrated in the Manchester area – and the *Manchester Guardian*, established in 1821, soon rose to the newspaper of record. Whoever wanted to know what was going on in the cotton industry had to read the *Guardian*.[53] Of course, the *Guardian* was a political newspaper too that was promoting the liberal, free-trade causes of the Whig party. Nevertheless, the similarities to a sort of “local” news outlet like *The Information* are striking.

Given that environment, it does not come as a surprise that *The Information* is thriving. It is catering to a readership that is not hard to define, and ultimately to reach. In that respect, *The Information* is a typical special interest outlet, and similar to other media that cater to an audience with narrow interest areas instead of a general interest. Clearly, it is much easier to induce a user to pay for content which he is especially interested in. *The Information* provides information on the very topics he deeply cares for.

There is another valid point: Maybe *The Information* is not a B2C company after all, but is operating in a B2B setting. Its content is of obvious value for the Tech industry. It influences business and investment decisions. It determines expectations of shareholders and it moves the stock market. It breaks stories about mergers every competitor would like to know beforehand. And it shapes the labor market in the Valley by giving its executives an idea of who to hire and who not to. It certainly is no coincidence that one of the most sought-after products *The Information* offers are organizational charts of all the relevant firms in the Valley. To read these charts you have to buy a yearly subscription – an indication for the value subscribers are attaching to it. As a matter of fact, the data is exhaustive. Take the chart about Apple: it lists the top 180 executives of one of the biggest companies of the world. Someone looking for talent might find someone worth talking to.

Having said that, I believe that there is a lot to learn from the business model of *The Information*.

Takeaways:

1. Know your readers. If you focus on a clearly defined audience chances are better that you can turn readers into subscribers. The Tech industry might be a special case. But there are probably other special cases, too. Local news is an obvious candidate, or politics at the federal or state level if you decide to cover only some policy issues, such as energy, criminal justice or immigration policy. In many countries, news about the inner life of an administration and its authorities is missing. Why not offer organizational charts of the foreign ministry or the city administration? Political aficionados might be interested.

2. It is more worthwhile to offer deep analysis and a few breaking stories than the full program. Quality trumps quantity by far. A reader is willing to pay for content providing he cannot get it anywhere else. *The Information* is an encouraging model because it shows that a top journalistic product still can create demand for even more content. As Hansen/Goligoski recommend, try to set up publications "with highly differentiated journalism and a strong audience base in their coverage areas."[54] *The Information* is a case in point for this approach.

3. "Power users" exist. It is a good strategy to tend to those readers who are the most active in terms of commenting or attending events. *The Information* has a distinct audience and it tries hard to know as much as possible about its readers. This is a precondition if you want to complement your subscription model with

a membership model. It is not enough to send a newsletter once in a while, you have to get to know the needs of your readers. *The Information* has tried out many methods to make sure it can treat its subscribers as members. It engages and encourages them to take part in the debates that are going on at *The Information*. Almost all of these approaches might work at other outlets too.

Prime News, Basel, Switzerland

Christian Keller, a young, award-winning journalist in Switzerland, established his own digital outlet *Prime News* in Summer 2018. It is based in Basel focusing on only local news. No national event is ever covered on this outlet, no decision of the Federal Government, and no result of a national referendum – unless it has implications for the Basel area. Keller is acting as editor-in-chief, publisher and entrepreneur at the same time – his only employee is his brother who takes care of ad acquisition, marketing, subscription and finance. However, Keller has attracted quite an astonishing number of capable journalists who write for him as contributors on a regular basis, so that no reader would ever figure out that the editorial staff of *Prime News* consists basically of one person: Keller himself.

He strongly believes in local news. “This is what I can do best – and this is our chance in Basel.”[55] In fact, Keller, 36, has been working as a local journalist in Basel since age 18 when he founded a printed youth magazine in school. Already at that time, he charged his readers for the content, and even managed to make some money, if not a fortune. Since then he has always been convinced that it had been a huge mistake of almost every publisher all over the world to give away content for free. While at university he was hired by a local TV station in Basel where he quickly rose to head the news team. He became known as a persistent reporter who broke several seminal stories that influenced Basel: many local politicians and officials feared him, some even started to loathe him.

After graduating from Zurich University with a PhD, he joined the

Basler Zeitung, the biggest newspaper in the Basel area. I hired him to direct the metro team that ran the most important section of the newspaper, covering local news. At that time, I was publisher and editor-in-chief of the *Basler Zeitung*. Keller continued what he was best at. Shortly, the metro section of the *Basler Zeitung* turned into one of the most hard-hitting and prolific reporting teams in Switzerland. Keller was both head of the team and one of its active reporters. For a piece about a chemical disaster in Basel, he offered a new interpretation of its causes. He received one of the most prestigious awards in Swiss journalism for his work. After the newspaper was sold in the Summer of 2018, Keller left the *Basler Zeitung* to start his own business. Given his reputation in Basel, it was a sensible thing to do. He could expect to be read by many readers who appreciated his pieces at the *Basler Zeitung*.[56]

"If you don't charge people for the stuff you produce you don't take your own work seriously."
-Christian Keller, Editor, *Prime News*, Basel.

The business model for *Prime News* is based on combines two or even three approaches. Most importantly, nothing is free on the website. To read an article or a comment at *Prime News*, the reader has to pay, right away. Keller has stayed firm and took to heart what he already knew when establishing his first magazine: "If you don't charge people for the stuff you produce you don't take your own work seriously."[57] And to be sure, you cannot survive as a news outlet, even more so since Keller would never accept public subsidies or a donation. This question had arisen recently, when a foundation in Basel announced that it would sponsor a digital news outlet, and a competition immediately started among journalists and media entrepreneurs about who might get the money. Keller never applied.[58]

To make money he uses three methods: Subscription, for 69 Swiss francs, approximately $70 U.S., a reader receives a yearly subscription with free access to all articles. Second, it is possible to purchase a single article by texting a message on a cell phone. Keller utilizes a new technology that enables customers to pay with just two clicks. As a rule, he is keen on making any purchase as simple as possible. This is a major issue that has been plaguing the industry for quite some time. Paying for media was just too complicated and required too much time. At *Prime News* a customer simply provides an email address and credit card number. This means no name, no code, no phone number, no address, nothing more is required. Third, a reader can pay with time: this might be the most effective innovation Keller offers. After reading the first two sentences of a piece, a box pops up asking if the user would like to go forward. The choices are: subscribe, or buy a single article with a credit card, as mentioned before, or, third, watch a short commercial video, usually about 15 seconds, then continue reading the article. Not surprisingly, most users prefer the latter.

For that reason, *Prime News* gets most of its revenue from advertising. Subscription still contributes but it's minor. Keller is trying hard to engage his readers and build up a community comparable to the efforts observed at *The Information*. So far, he has roughly 1000 subscribers, not too bad a number in a city of 200,000, but definitely too little to finance his outlet through subscription alone. In contrast, advertisers are responding well. Many are thrilled about this new opportunity; others just look at the numbers or have experienced other media which have not met their expectations and remain cautious. "That makes our sales pitch more difficult", says Keller. As a matter of fact, a couple of digital media outlets have failed recently in Basel – one of them was heavily subsidized by a well–known billionaire of Basel. It closed down in 2018. "We can convince local stores and artisans to advertise in our outlet," he adds, "but to win over bigger customers such as car dealers or national retailers turns out to be much harder."[59] They prefer to wait until Keller succeeds.

"From the start, it was my goal to provide both my customers – advertisers and users – with the best deal they possibly could get," Keller says. "Advertisers often don't like digital media because their ads annoy readers more than they draw their attention. Mostly, users would just click them off. My model changed that: now an ad is the currency the reader uses to pay for content. If he really wants to read an article, he faces many options. I don't force [the reader] to do anything. Even more fundamentally, I turned advertisers into sponsors of an article. This change of role appeals to many advertisers, especially if they are entrepreneurs themselves. They appreciate my being an entrepreneur as well and understand my approach much better."[60]

Above all, they pay for a service rendered: only if a reader clicks on the ad does the advertiser have to pay – a model that Google has perfected. For 5000 Swiss francs Keller will guarantee 17,000 clicks on an ad. In a rather small but wealthy market like Basel, that apparently is a good deal for many local businesses that could never afford to purchase an ad in the *Basler Zeitung* or in the local TV station. And chances are that the reader really will take notice of the product the advertiser is offering, given his clicks indicate engagement. Twenty–five percent of the readers that click on an article in *Prime News* are usually willing to watch the video in order to get access. In comparison to many other outlets, this seems to be as good a rate as it gets, but Keller thinks it is still too low.

"It's an experience every journalist should get from time to time, to go to the market and realize how hard it is to sell our product. It's humbling and gives you a kind of reality shock." -Christian Keller, Editor, Prime News, Basel.

Now Keller is experimenting with WhatsApp, after he learned that emails do not work as well as he expected for engagement. "You never know if people you are sending your articles or your newsletter to will open this email at all. Although I've got a nice list of around 1000 addresses, and I'm using it a lot, the response so far has been disappointing."[61] Research has found that people you get in touch with directly on WhatsApp are much easier to reach. Fifty percent open your message. Given various legal uncertainties – personal authorization by the customers has to be procured to contact on WhatsApp, otherwise WhatsApp can shut down your account – Keller was hesitant. After careful considerations with lawyers and detailed preparation, however, he is going to launch a Whatsapp campaign in the near future. Already, Keller has proven his case. His outlet might not be extremely profitable, at the moment, but he can offer privately funded, independent journalism and make a living out of it. His combination of a subscription and advertisement business model seems to work at a local level.

As far as readers are concerned, they do not care about the business model, but gladly read the articles *Prime News* is running. Already this outlet and its pieces are regularly the talk of town. Keller's expertise as a seasoned local journalist with a keen eye for new talent and the feel for a good story is one factor, the other being the favorable market conditions Keller is dealing with in Basel right now. Since the *Basler Zeitung* was sold to a publishing house that is based in Zurich, the biggest newspaper of the Basel area is being watched closely. Given the centuries old rivalry between the two biggest and wealthiest cities in the German-speaking part of Switzerland, the *Basler Zeitung* is facing no trivial challenge in reassuring its audience. There lies an opportunity for Keller – and he knows it. As someone who is citizen of Basel (a big asset) and also grew up there, he is considered a native – something that still matters in a decentralized, old country like Switzerland where local patriotism is part of the way of life.

Second, as mentioned before, some digital outlets that were sponsored in one way or another crashed right before Keller started his own business. In other words, there is much potential still in Basel.[62]

Keller summarizes: "As long as we are getting this kind of overwhelming resonance from our readers, we will be going on. It's tough, no doubt. Journalism is fun, but to make sure every day has enough advertisers interested in buying your outlet, is a different story. I spend a lot of my time acquiring ads, although my brother is in charge here, yet, sometimes the customers appreciate talking to the editor and owner. So, I go there and try to win them over personally. It's an experience every journalist should get from time to time, to go to the market and realize how hard it is to sell our product. It's humbling and gives you a kind of reality shock. That's the market, and that's the place we have to succeed."[63]

Considering Keller's model, there are two **takeaways**:

> 1) Being a pragmatist, Keller decided to combine different business models – subscription and advertising – and it worked. This corresponds with what the findings by Hansen/Goligoski suggested.[64] For the time being, it might be the sensible approach. There is rarely an outlet that has succeeded by applying only one model, apart from *The Information* that we have analyzed above.
>
> 2) In his newsletter *Stratechery*, the well–respected business, technology and media analyst Ben Thompson described recently what the "new local news business model" could look like. To make his point he was singling out three features that should *not* be part of the new model.[65] It is worth paraphrasing them here because Keller has validated all of them in his outlet – unknowingly. Keller has probably never heard of Thompson.
>
> First, Thompson stressed that such a local news outlet must not offer "content that is widely available elsewhere."[66] And as a matter of fact, in *Prime News* you would never find any national or international news unless they have local implications. Keller focuses exclusively on local news.

Second, Thompson emphasized how important it was to control your costs. He urged to shut down or to do without any "non-journalistic cost centers".[67] And if you hire someone this person should be able to run the business operations and work as a copy editor as well. Keller has employed his brother for the business side of his outlet, and he is taking care of the content. If need be, however, he would pitch his product himself in person to every advertiser. He is involved in his business operation as intensely as he writes and researches the articles in *Prime News*.

That confirms the third claim Thompson called attention to: there should never be "any sort of wall between business and editorial."[68]

And further he states: "This is perhaps the easiest change to make, and the hardest for newspaper advocates to accept. A subscription business is just that: a business that must, through its content, earn ongoing revenue from customers. That means understanding what those customers want, and what they don't. It means focusing on the user experience, and the content mix. And it means selling, by every member of the organization."[69]

For Keller this change was easy since he started from scratch – and did it right from the beginning.

Axios, Washington D.C.

In 2016, Jim VandeHei, Mike Allen and Roy Schwartz created *Axios*, a digital-only outlet which focuses on national news. When it launched in 2017, it caused quite a stir since the founders were among the most prominent members of the US digital media industry. All three came from *Politico*, another well-respected digital outlet that VandeHei had co–founded some years prior. Before leaving *Politico*, VandeHei served as executive editor, Allen was a senior writer, and Schwartz, the chief revenue officer. They set up *Axios* to save an industry in crisis as announced in a "Manifesto" they published. "All of us left cool, safe jobs to start a new company with this shared belief: Media is broken – and too often a scam."[70]

Like the other entrepreneurs described in the cases studies, the founders of *Axios* believe in content, yet, they interpret its challenges differently. They are convinced that in the digital age a revolution of content creation is underway and that most of the existing 'digi-tal- only' outlets are doomed because they have neglected content by focusing too much on reach, i.e. clicks.

"Here is how they fell into this lethal trap," Jim VandeHei argued in *The Information* in 2016, when he was presumably already conceptualizing *Axios*. "They got into the content game to produce news or info they might be proud of, believing they could lure us to read it and maybe even pay for it. They quickly realized it's expensive to produce quality content and hard to get a lot of people to click on it, much less pay for it. So, they deluded themselves that the better play was to go for the biggest audience possible, using stupid web tricks to draw them in. These include misleading but clicky headlines, feel-good lists, sexy photos and exploding watermelons."[71]

"A content revolution is picking up speed, promising a profitable future for companies that can lock down loyal audiences, especially those built around higher–quality content."
-Jim VandeHei, Co–founder, CEO, *Axios*.

Originally a White House correspondent at the *Washington Post*, VandeHei has emerged as one of the masterminds of the new media. He is admired and perhaps envied for his entrepreneurial talent and understanding of media's future. Given how he analyzed the industry in 2016 in *The Information*, his conclusions were not surprising. "Here's the good news. This era is getting flushed away. Some companies feel self–conscious about the trash they are producing. Many others realize it's simply not a good business model. But the savviest ones see a very cool reason to change: A content revolution is picking up speed, promising a profitable future for companies that can lock down loyal audiences, especially those built around higher–quality content."[72]

Axios takes its name from ancient Greek, meaning *worthy*. Mike Allen explained the name in an interview with *TechCrunch*: "We are making smart people smarter. Smart brevity is our architecture. *Axios* means worthy in Greek and we are worthy of your time, attention and trust."[73] Allen is the central journalistic personality of the new outlet.

Axios puts readers first asking them to decide the length and focus of articles instead of journalists. *Axios* acknowledges that time is precious and provides articles that are much shorter than the norm. A typical article is 300 words. A reader can skim the first paragraph and find the most important news. Allen knows what he is talking about: "So much of long was long just because it served the journalist. I know from having done it, and this is the scam part. For most stories you have one great stat, one great new fact, one great insight, and we were trained to write 750 words around it to try to get on the front page…with smart brevity, I can tell you what happened…I can tell you what mattered, and you can quit, move on. Unless it is worthy of your time and attention, and then *Axios* will tell you that and you can dive a little deeper."[74] Most of *Axios*' articles are customized for Facebook or other social media.

Mike Allen practices what he preaches. For *Axios*, he authors two daily newsletters, called *Axios AM* and *Axios PM*, published in the morning and afternoon. With just a few dozen words, he summarizes current news with ten bullet points or less. Reading Allen is quite a special experience. What seems rather simplistic at first, turns out to be efficient and in-depth information. Allen is considered one of the most-informed journalists in Washington D.C., the reader trusts Allen will curate the news effectively. Brands mean everything at *Axios*, and the best brands are the authors. Allen built his reputation as the insider in D.C. early on in his career when he joined *Politico* in 2007. At *Politico*, he published a newsletter, called *The Playbook*, that almost immediately became required reading for anyone interested in Washington politics. *The New York Times Magazine* ran a profile of him entitled "The Man the White House Wakes Up To" in 2010 neatly summing up the extraordinary position Allen had arrived at.[75] Daily and nightly, Allen reported in his newsletter what was going on behind closed doors. White House staffers, senior officials, politicians, journalists, lobbyists were keen on being in touch with the latest news from Allen. Now, he is doing the same at *Axios*, and his newsletters are a central feature of the new outlet and are, surprisingly, free.

"Content is King" for *Axios*. This content is provided for a clearly defined, committed audience – people who care about politics and want to know every detail about the goings-on in D.C. but do not have hours to read. *Axios* equals "Economist + Twitter," VandeHei announced – maybe a little too ambitiously.[76] In tune with these aims, *Axios* has hired a fair number of highly specialized reporters who are experts in their fields. One reporter covers health care, another energy politics, a third autonomous vehicles. One journalist's beat is just the "future." Many of those authors also contribute newsletters. In total, *Axios* publishes twenty newsletters – apart from news, articles or graphs. Axios claimed in November 2017, 200,000 people subscribed to a newsletter and provided their email address. More than half of them (fifty-two percent) opened the newsletter on a regular basis; a high percentage in industry norms.

Output is as impressive as growth: In March 2017, the company had 60 employees with 40 working in editorial, only a few months later, in November 2017, it had 89 employees. By the end of 2018, *Axios* planned to have roughly 150 staffers, up from its workforce of 89.[77] In April 2019, there were 159 employees working for *Axios*.[78]

Axios and *The Information* share some basic similarities. They believe in content, they are built around strong media personalities, and they tend to a readership with special interest. However, *Axios* uses a different business model than *The Information*.

Axios relies on advertising instead of subscription. Admittedly, the founders have hinted they will start a high-end subscription model at some point in the future, but this has not happened yet. Instead, *Axios* offers advertisers a better deal than the other digital outlets – or so its founders claim. In its mission statement ("Manifesto") *Axios* states: "It's hard to argue with a straight face that newspaper ads, or banners, or expensive, glossy native advertising programs are the most effective means for communicating. We developed a lower–cost, more measurable and adjustable way for advertisers to do native advertising within our platform AND within our content on Facebook. We want to work with advertisers, so they feel they get awesome, measurable value – and the respect and return they deserve."[79]

Advertisers seem to appreciate this approach. Scrolling down the website, numerous articles sponsored by companies or non-profit organizations appear. And in contrast to a banner ad, these ads are almost invisible mimicking regular articles.

So far, VandeHei, Allen and Schwartz have been proven right, financially the outlet appears to be doing well: According to *The Wall Street Journal* it earned $10 million in revenue in the first seven months of its existence, mostly by convincing advertisers to book native ads. As launch partners it could win over BP, Walmart, and Koch Industries.[80] By the end of 2018 yearly revenue was $25 million.[81]

Investors trust the expertise of these well–known media innovators and have provided a lot of financing. In a first round, *Axios* secured $10 million from venture capitalists and won backing by NBC News which is a media partner. In a second round, *Axios* raised $20 million.[82]

In terms of content creation and presentation, *Axios* is very innovative. Putting the reader and content first is proving to be successful.

At this time, *Axios* is not introducing some sort of paywall to make readers pay for content, instead it relies on increasing its audience to attract advertisers. In this model, *Axios* must broaden its reach to be attractive to advertisers. However, this business model does not seem to work well in today's current markets as Patrick Appel, editor in chief of *Traffic*, argues: "The days of scaling up fast and monetizing as an afterthought are giving way to upstarts like Lessin's where the business model shapes the editorial product form the onset."[83]

When VandeHei, Allen and Schwartz were setting up their new outlet in 2016/2017, they obviously had Lessin's outlet in mind. By delaying a subscription model, the founders of *Axios* risk committing the errors they criticized other outlets for. Maybe at some point in the future, *Axios* will be forced to publish "misleading but clicky headlines, feel-good lists, sexy photos and exploding watermelons" as VandeHei wrote in 2016 mocking his competitors. He could fall into the same "trap" if *Axios* does not expand beyond an advertising model. Funders are backing *Axios* for now, but how does it sustain these advertisers?

Takeaways

1) In terms of content creation and presentation, Axios is very innovative. Putting the reader and content first is proving to be successful.

2) The Axios business model has a dubious track record. Although subscription seems to be a goal, it has not happened yet. While it makes sense to build an audience, there is a danger to delaying a paywall. Research has shown that readers who are used to free content, are less willing to pay later and rarely show loyalty.

Inside Paradeplatz, Zurich, Switzerland

It came as a big surprise when Lukas Hässig of *Inside Paradeplatz* broke the story about corruption at the highest echelon at the third largest bank of Switzerland, Raiffeisen. Its CEO, Pierin Vinzenz, a flamboyant, popular figure, who was on a first name basis with many journalists covering the financial industry of Zurich, had invested in companies he knew beforehand his bank would take over. He allegedly made huge profits for his private account – among other questionable actions. After Hässig's disclosures the Swiss Financial Market Supervisory Authority (FINMA) stepped in and announced an investigation of its own. Soon Vinzenz was taken into custody and charged with multiple wrongdoings. At the time of writing, it is still unclear when he will be put on trial, and of course the presumption of innocence applies to him. Nevertheless, Vinzenz's reputation is in tatters and his career has come to an unruly end.[84] Just a few months ago, he was considered to be one of the most powerful and most capable bankers of the country. He had turned Raiffeisen, a formerly small, conservative, if not stuffy bank, into a highly profitable powerhouse. It seemed set on rivaling even UBS and Credit Suisse, the titans of Swiss banking.

His fall was all the more surprising because it took only one journalist and his outlet *Inside Paradeplatz* to achieve it. Lukas Hässig had single-handedly taken him down without any help from the other big media in the country. In fact, Hässig had been researching this story for months, and would report his findings on an ongoing basis. Yet, whenever he published pieces about this case, most financial journalists would frown upon it. They did not think it to be newsworthy. Was it true, after all? Not until his story was taken up by the authorities, did the "experts" bother to take Hässig seriously. At first sight, this seems hard to explain, because everybody in the media was aware that Hässig was not an unexperienced newcomer. Quite the contrary, he had been working for years at the most renowned newspapers of the country. He had put his name on the map as one of the most aggressive business reporters in Switzerland, before he decided to set up shop on his own.

In hindsight, it was less surprising. Vinzenz had built up a network of numerous "friendly" journalists and editors in the Swiss media. No money was involved, as far as we know, and no other illegal or immoral favors – Vinzenz' exceptional charisma sufficed to do the trick. He was likable and outspoken and knew how to feed journalists with exclusive information helping them to write interesting stories – above all about the other big Swiss banks. Having worked for quite some time at the Swiss Bank Corporation, now UBS, Vinzenz knew about many things that were newsworthy indeed and he was happy to share his knowledge. When Switzerland was confronted with mounting pressure from the U.S. and the OECD to abolish its tight banking secrecy laws, Vinzenz was one of the first prominent Swiss bankers who publicly agreed and urged the Federal Government to comply. In doing so, he caused a sensation that did not endear him to his colleagues in the industry, but enhanced his standing among many journalists. Due to his personality and networking capabilities along with the immense advertising budget of Raiffeisen, many editors thought twice before publishing a critical article about Vinzenz. For that reason, most media hesitated to follow Hässig's lead – until they had no other choice.

Lukas Hässig of Inside Paradeplatz in Zurich does not believe in subscription but in Google. Instead of relying on local or national advertisers, he cooperates with Google, an American company.

This was Hässig's chance. Because he worked alone and owned all the shares of his outlet, he was independent. He knew Vinzenz well and even had his cell phone number. At the same time, he had kept distance and never belonged to his circle of friends in the media. However, nothing would prove to be more important than Hässig's economic situation: He could do without Raiffeisen's advertising money due to his business model.

Hässig does not believe in subscription but in Google. Instead of relying on local or national advertisers, he cooperates with Google, an American company. Its European headquarters is based in Dublin, Ireland – in other words, far, far away from Zurich and its financial industry. The giant company disposes of the biggest part of ad space Hässig has to offer and sells it according to its own needs and decisions. In exchange, Hässig gets paid depending on the audience he can deliver. The more clicks he generates, the more he gets. "Sometimes I'm making 10,000 Swiss francs per month [approximately $10,000], sometimes much less. It all depends on my journalistic output. If I can capture the headlines, business is excellent. The Vinzenz story was my breakthrough."[85] In fact, as soon as the truth about the former CEO of Raiffeisen had come to light, Hässig wrote more intensely than ever about this subject, and the click numbers skyrocketed. Hässig recalls the day when his outlet took off financially, too: "All of a sudden I got a call from Dublin. We have analyzed your numbers, they look impressive," he was told by

Google. "We would like to suggest you work with us even closer than before."[86] Hässig was thrilled. The deepened cooperation increased his revenues considerably.

Hässig is convinced that Google is key both to his economic and journalistic success. "When I started publishing about Raiffeisen, I could feel how the heat was building up in Zurich. The bank and its former CEO did quite a lot to prevent me from writing about the more secretive parts of the case. Advisors, PR managers, advertisers, other bankers got in touch with me and tried to intervene. I'm sure they also looked at my revenue model very closely hoping they could put pressure on me financially." Since Google was far away and not especially vulnerable to local pressure, Hässig could go on as if nothing had happened. He even authored a long form series about the case and sold it as pdf to his readers. "This was good business, as well."[87]

Instead of fighting Google, Lukas Hässig is cooperating closely. His approach indicates that for some outlets Google might be a solution rather than a problem.

Finally, the other media picked up his stories, he was invited by both TV and radio stations to talk about Vinzenz. This helped him to increase his reach even more. "Everybody in the financial district of Zurich," a prominent banker tells me off the record, "reads Lukas Hässig, first thing in the morning – before all other financial newspapers."[88] Every day, just before 8 am, Hässig publishes his latest news knowing that many a banker turns on his computer exactly at that time only because he wants to check if Hässig has something on his bank or his boss. "It's kind of embarrassing," the banker adds, "since Hässig is publishing a lot of personal gossip, too. Irrelevant, but juicy stuff – and sadly it is mostly true. For the banks, he is a real headache. Many of their own staff are talking to him behind closed doors, so it's hard for them to control communication policy."[89] For Hässig there is also a risk involved. The banker says: "Whoever bears a grudge against his bank, feeds him with compromising information, sometimes accurate, yet, often very biased. Nevertheless, Hässig has become a sort of ombudsman for many bankers."[90] On his website there is a box where anyone can post an information, anonymously, as if to advertise: Leakers and whistle blowers, welcome!

Despite his contract with Google, Hässig is free to sell ads on his own. He does so but to a small extent. Although business is good, he is not considering adding more staff, for now at least. "As soon as I have to pay salaries, my economic independence is at risk." And subscription? “No way. I don’t think a paywall works, certainly not for me.”[91] Because he relies primarily on Google, this is not an option. Google sustains him as long as he is delivering an easily defined, increasing readership. Clicks matter.

When Hässig started his outlet, he attempted to increase its reach. Given his reputation, he was able to do that quickly, but he also made a crucial decision. Similar to *The Information*, he focuses on one industry, the financial industry of Switzerland. Since it is mainly concentrated in Zurich, he can cover it as if it were a village. The name of his outlet takes account of this: *Inside Paradeplatz*. The Paradeplatz, formerly a military parade ground, is today one of the most expensive squares in Zurich where most of the banks are located. So far, he has resisted to expand the scope of his reporting, but from time to time he feels tempted. “Wouldn’t it be worthwhile to cover the pharmaceutical industry of Basel the same way?”[92] he asks himself. Similarly, investors approached him to talk about buying shares of his company. Hässig turned them down. Having succeeded as a lone wolf, he obviously is not prepared to change his journalistic or his business approach – for the time being. Hässig possesses 15,000 email addresses of his readers, a tremendous number, but even this potential is still untapped. Maybe Hässig will figure out how to take advantage of it in the near future. “We will see. Most importantly, there must be some kind of action on my website.”[93]

Takeaways

Hässig’s case is intriguing. It shows that there might be ways to finance good journalism if you do exactly what all other media prefer not to do:

1) Hässig is operating alone. He does not rely on a big staff as most legacy media still do. Of course, that is a high price to pay because that way it is impossible to expand the scope and the output of reporting. On the other hand, it prevents you from being vulnerable. Hässig is not entirely independent but more flexible financially, as he does not need to fulfill large payroll obligations.

2) To many publishers, Google appears now almost as a natural enemy. Google takes away all the revenue, Google distributes

content without paying for it, Google is hurting the industry – or so many publishers believe. Hässig, a newcomer and an outsider, sees it quite differently. Instead of fighting Google, he is cooperating closely. His approach indicates that for some outlets Google might be a solution rather than a problem.

Conclusion

In this paper four digital outlets, two in the U.S. and two in Switzerland, were examined. Without saying, this is not a representative sample and does not describe all digital media. However, the goal was not to offer a general overview, but rather an in-depth understanding of how existing business models work in a fast-changing environment. Technological developments and market forces are hard to predict in the media industry, and almost every news organization is struggling.

Given these circumstances, the relative success of the outlets seems remarkable. We could not get all the data that might have been useful to examine their economic situation thoroughly, given they are private companies. Yet, enough data was gathered to observe the success of the structures.

Based on these case studies and other research, four principles emerged that digital outlets should consider for success.

1. In the long run, a functioning subscription model is the best guarantee for excellent, useful, and independent journalism. Subscribing users demonstrate real interest in a product. If they pay for content, they appreciate it. Experience shows that journalism depends on this kind of real, monetary feedback to remain relevant – and substantive.

2. It is clear that the subscription model marketed to a mass audience does not work. Too many news organizations provide free content resulting in a nearly impossible task to turn these non–paying customers into paying subscribers. If an outlet wants readers to pay, it must offer a special product. Quality, a targeted readership and a unique journalistic approach are necessary ingredients for success. Small is beautiful, cater to a minority. The mass audience will not yield profits while the power user will.

3. Subscribers alone will not suffice – subscribers must be committed members. In order to turn subscribers into members, however, the outlet has to build up its own community. Relationship management must drive the core business. An effective outlet engages its members regularly: members who comment on articles, attend events, get in touch with authors, take part in a virtual community life – and debate among each other. The more useful an outlet is for its members as a platform for debate, the more members it will attract. Network effects can play a positive role.

A solid financial basis still serves independent journalism best. If a media outlet wants to be profitable, however, a small circulation might be large enough.

4. Subscription as sole business model will not be profitable enough. A combination with other models might add crucial income, such as online advertisement (native ads especially), donations, micro–payment models, news bundling (such as *Apple News*), event marketing, book sales, or merchandise.

In short, what Joseph Pulitzer, the iconic American publisher, once said about journalism still rings true, but only partly: "If a newspaper is to be of real service to the public, it must have a big circulation: first, because its news and its comments must reach the largest possible number of people; second, because circulation means advertising, and advertising means money, and money means independence."[94]

A solid financial basis still serves independent journalism best. If a media outlet wants to be profitable, however, a small circulation might be large enough. It is not possible anymore to reach a large audience and make it pay at the same time.

Acknowledgements

Research is often a lonely business and at the end only one person is responsible for the results. Without help, without debate and critique, however, it would have been even lonelier and the results much poorer. It was a rewarding experience to participate as a Shorenstein Center Fellow at the Harvard Kennedy School. I met excellent faculty and fellows who challenged my ideas throughout the process. I'd like to mention above all Tom Patterson, Heidi Legg and Richard Parker and co–fellows Koa Beck, Miguel Head, Juan Carlos Iragorri, Ed O'Keefe and Adam Serwer. Thank you very much for some lively and heated debates. Thanks to Tim Bailey and Kelsi Power–Spirlet who continually assisted with the logistics and organizational issues; and my research assistant Nourhan Shaaban, a tireless researcher, who made valuable contributions to this paper.

Last but not least, I would like to thank Nicco Mele, who invited me to be a fellow, and whose energy, leadership and charisma made the Shorenstein Center such a special, inspiring place to be.

Mike Hill and Susan Bear, our good old friends, have been most generous as always and provided us with a home in America. And Pietro Supino, publisher of Tamedia in Switzerland, and Rolf Bollmann, my old partner at the *Basler Zeitung*, have supported my research in many indispensable respects.

But of course, there is nobody who has been more important for my work and life in the past decades than my wife Anita and our children Sophie, Max, Paula, Marie and Hans. Without their support and good sense of humor nothing would have been possible.

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