Remarks by

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[Note: These remarks were part of a longer presentation with colleagues from the Canadian Media Research Consortium. For ease of reference, the contents of some of the slides used in the presentation have been included with the text of the remarks; the numbering system for the slides follows the original order of presentation.]

We are coming to the end of a 100-year-old economic model for the media industry. And that has profound implications for how, and where, we will get our news in the future.

Some may argue that none of this is important; that something new will automatically take the place of traditional journalism. But what kind of journalism will that be? A recent comment from an editor at the trade publication *Advertising Age* neatly sums up the problem:

> If all the newspaper newsrooms go away, so too does an entire base of knowledge about proper journalism practices. The ethos of the web is very different from that of a newspaper, and not that the web is in itself bad, but it is a different way of looking at how we disseminate information. 'Blog first and ask questions later' is not always the most responsible way to report the news.[1]

If we are to have a meaningful discussion of all of this, we have to have a clear understanding of what is happening. The current turmoil may be accelerated by economic downturn, but it is not caused by the recession. What is happening now is nothing less than a fundamental restructuring of the economic model for the media. It is systemic. It is structural. And it is not likely to go back to the way it was before.

We now are in an era in which new and old media are competing for our attention, in which we have the luxury of both the "mainstream" and the "alternative". But that may be transitory, and we have to consider what the "alternatives" might look like if, or when, the "mainstream" is gone or much diminished.

So how did we get here?

In the 20th Century, media were intermediaries, connecting content, consumers, and advertisers. That role was shaped in part by the limited number of media players – a function of capital costs in print and regulatory and "spectrum scarcity" considerations in broadcast. So the economic structure in each of the media was based, for the most part, on what might be called a "coincidence of oligopoly".

At the same time, it was reasonably possible to maintain borders and protect copyrighted content. So, in the 20th Century, the media business evolved as a business based on "protectable scarcity".

But the fundamental reality about media in the 21st Century is that technology now threatens to challenge media's role as intermediary – because media from other places, content-producers, other consumers and advertisers will all be able to send media-like content directly to consumers.

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[1] Simon Dumenco, "Retrain Journalists to Save Biz? OK, But What About Civilians?", *Advertising Age*, March 2, 2009 [www.adage.com].

Consider the example of carmaker Land Rover in the United Kingdom, which in 2006 launched its own broadband channel, and commissioned TV-like content for that channel. According to the person in charge of the project:

> Instead of using traditional media outlets like TV networks to distribute programming with TV commercials embedded in it ... increasingly broadband will become the source of content for channels that advertisers distribute directly to consumers.[2]

Canadians are consuming more – and different – media than ever before. And younger consumers, in particular, are not only receiving media from many sources (often at the same time), but are also modifying and copying what they receive, and redistributing to others. This, too, is a fundamental change from the way media have operated: <u>For the first time in history, on a mass scale, the means of production and distribution for information and entertainment products are finding their way into the hands of the consumers.</u>

[Slide 17] describes the traditional media model that prevailed through much of the 20th Century. It illustrates how traditional mass media were the scarce resource that connected content, consumers and advertisers, and public and private policies [for the media] were based on that scarcity.

[Slide 18] describes the emerging media model. Based on this model, public and private policies in the future may have to consider at least three key components – search and other Internet-based content, a multiplicity of media choices, and the relationship between content and carriage.

And where does journalism fit in all of this? The most important point to remember is that media's role as an intermediary based on scarcity led to its development as a "bundled" or "packaged" product. And journalism has, for the most part, existed within those bundles or packages.

Of course, one could pull out the direct cost of the journalism, and argue, for example, that it was roughly equal to some source of revenue. But that would miss the point – the journalism function exists within a larger economic unit, and depends on the ability of that unit to house that function, to deliver its product (in print or broadcast), and to sell the subscriptions and/or advertising that pay for it.

This is no way devalues the journalism, which may well be the main reason people purchase, read or view a particular medium; it merely states an economic reality – the choices those people have made to read or listen or watch have been based on prices (to them) that do not reflect the full actual cost of delivering to them the journalism they are consuming.

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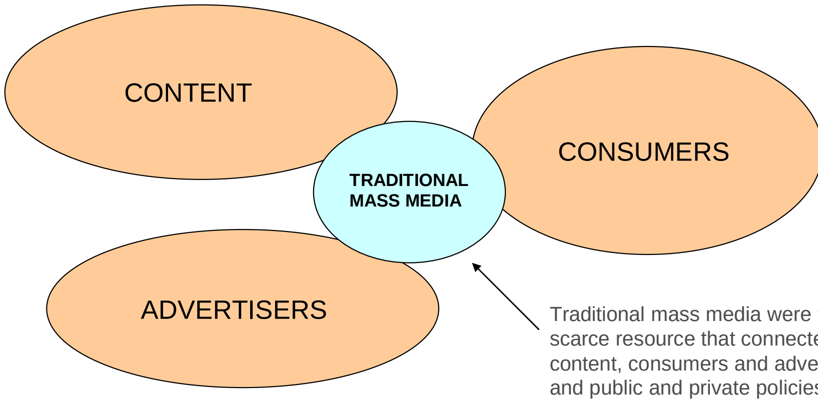
[2] Joe Mandese, "Land Rover Goes Beyond Media, Direct-To-Consumer", *MediaPost*, April 14, 2006 [www.mediapost.com].

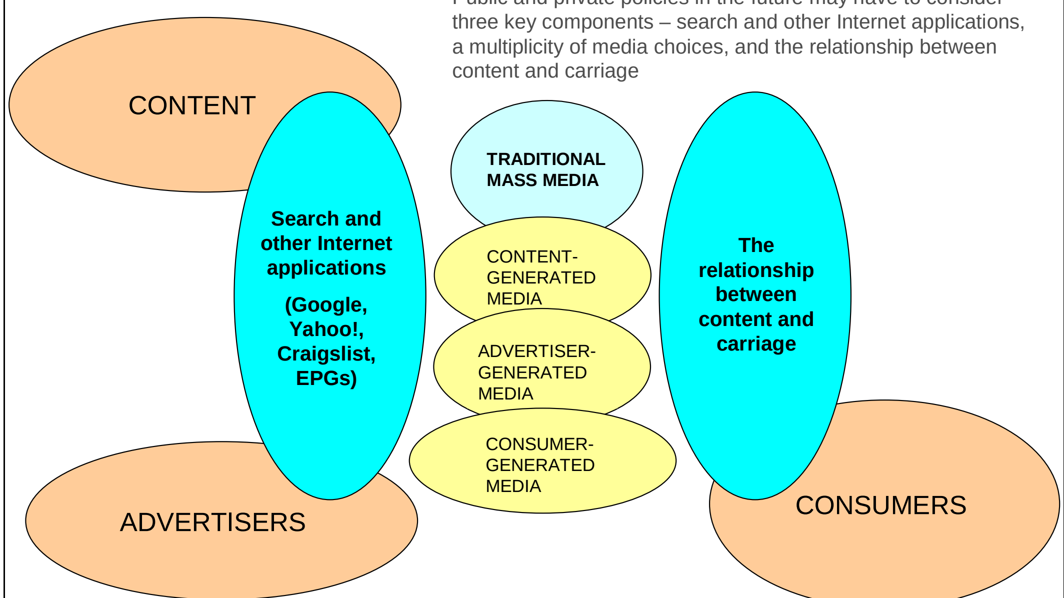
The traditional media model



Traditional mass media were the scarce resource that connected content, consumers and advertisers, and public and private policies were based on that scarcity

The emerging media model?

Public and private policies in the future may have to consider three key components – search and other Internet applications, a multiplicity of media choices, and the relationship between content and carriage



Last week, an article in *The Economist* described a newspaper in this way:

> A newspaper is a package of content—politics, sport, share prices, weather and so forth—which exists to attract eyeballs to advertisements. Unfortunately for newspapers, the internet is better at delivering some of that than paper is. It is easier to search through job and property listings on the web, so classified advertising and its associated revenue is migrating onto the internet. Some content, too, works better on the internet—news and share prices can be more frequently updated, weather can be more geographically specific—so readers are migrating too. The package is thus being picked apart.[3]

Marshall McLuhan put it more starkly in 1964, in his book, *Understanding Media: The Extensions of Man*:

> The classified ads (and stock-market quotations) are the bedrock of the press. Should an alternative source of easy access to such diverse daily information be found, the press will fold.[4]

Now I don't think the press is about to fold. But we cannot ignore the fact that, for the past 100 years, journalism has lived within a bundled product called media, and that bundle now is beginning to unravel.

We also have to recognize that most journalism has been contained within, and delivered by, what can best be described as "horizontal" media – media that deliver a package of news across many topics and many interests.

More recently, particularly in broadcasting, we have seen the rise of "vertical" media, dedicated to specific genres, interests and viewpoints. For journalism, that represents a change from the pooling of resources within a medium to produce a package of news on many subjects, to a variety of vertical services, within which a small number may be all-news, and many may not contain news at all.

As you can see from [Slide 21], in just the last 10 years, the balance within television in Canada has shifted from the general, horizontal conventional channels, to the specific, vertical specialty channels.

We estimate that, in 2008, the total revenue in the Canadian consumer media market was about $26 billion. But, as you can see from [Slide 22], we have not treated the Internet as simply another medium.

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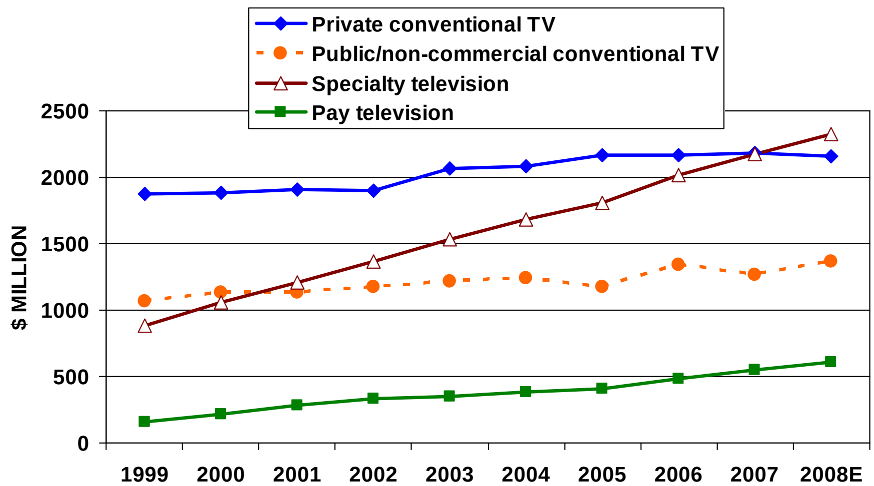
[3] "The rebirth of news", *The Economist*, May 16, 2009 [www.economist.com].
[4] Marshall McLuhan, *Understanding Media: The Extensions of Man*, McGraw-Hill, 1965, p. 207 (originally published in 1964).

The TV programming industry

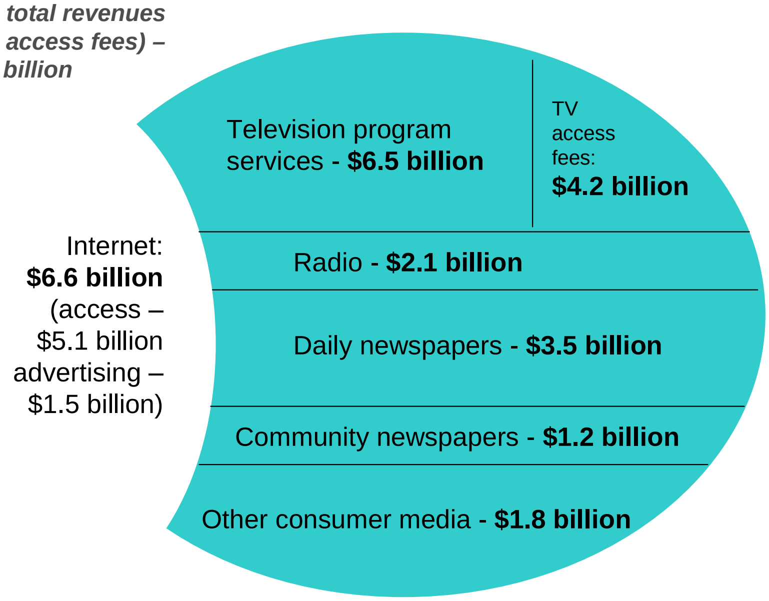
Trends in total revenues for the four main components of the television programming industry, Canada, 1999-2008:



Source: Statistics Canada; CRTC; CMI.

The Canadian consumer media market in 2008

Estimated total revenues (including access fees) – about $26 billion



Source: Communications Management Inc. / *Does not include direct mail, catalogues and Yellow Pages.*

It is important to ask whether the Internet is truly a "medium" in the classic sense, or is, in fact, a platform or system of distribution that links all other media. The Internet has profound implications for all media that prospered on the basis of defined geographical territories, because it eliminates distance.

Having said that, we must also note that some new applications – blogs, consumer generated media, Craigslist – have become a significant presence on the Internet, and some forms of news or journalism are being created today specifically for the Internet.

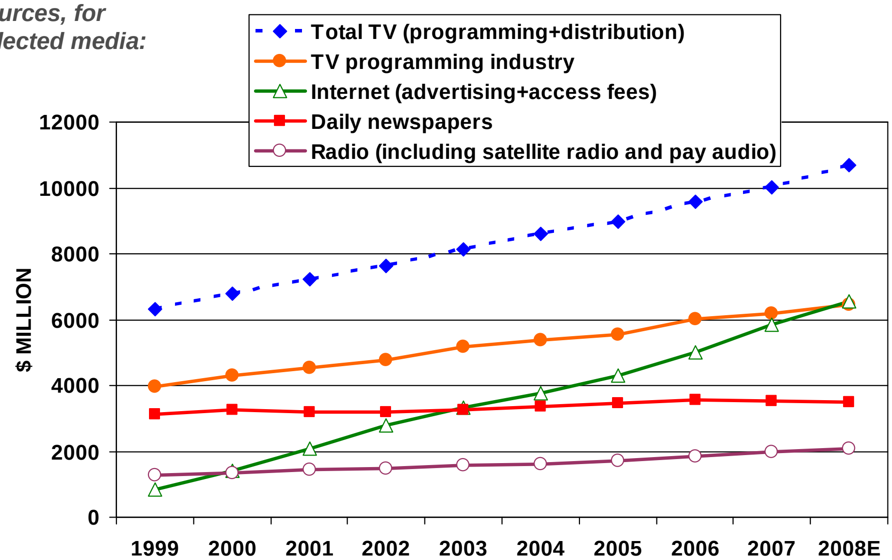
At this stage, then, we likely have to consider the Internet as having characteristics which encompass both the elimination of distance and the elimination of scarcity; both a platform for distribution and a source of content created specifically within that new distribution environment.

To help put all of this into context, the next two slides compare the trends in total revenues for the four largest media in Canada, from 1999 to 2008 – [Slide 23] compares the actual revenues; [Slide 24] compares the trends as a percentage of GDP.

All of the changes described to this point will have a profound impact on journalism in Canada in the next decade, because each of those changes moves us farther away from our traditional understanding of how journalism was practiced and paid for, and closer to an uncertain future.

Trends in total revenues, Canada, 1999-2008

Revenues from all sources, for selected media:



Source: Statistics Canada; CRTC; CNA; CMI.

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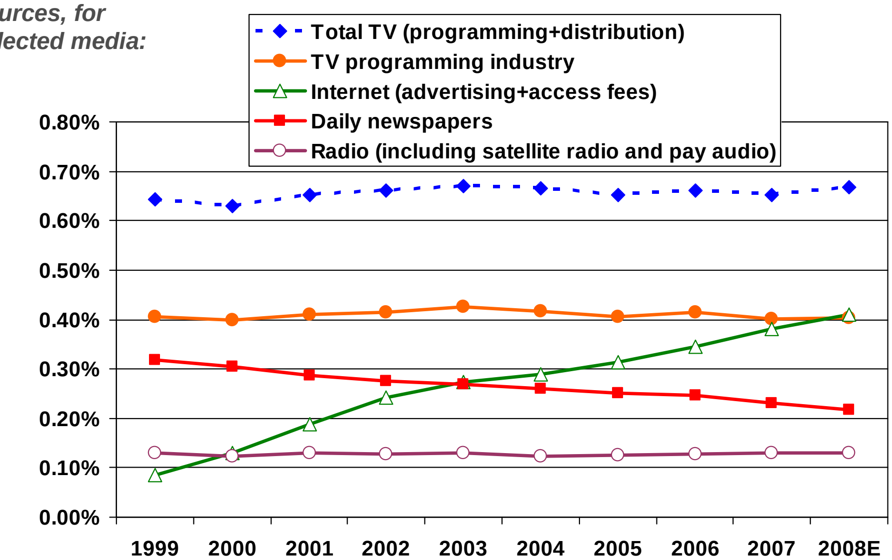
Total revenues as % of GDP, Canada, 1999-2008

Revenues from all sources, for selected media:



Source: Statistics Canada; CRTC; CNA; CMI.

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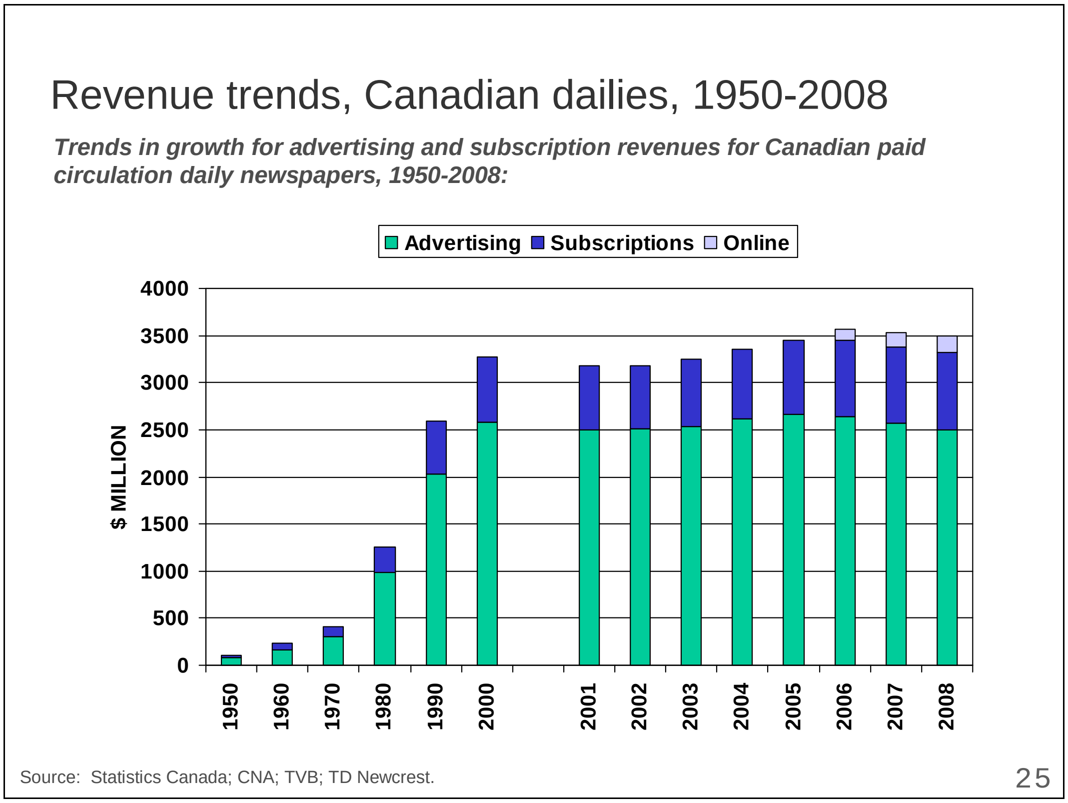


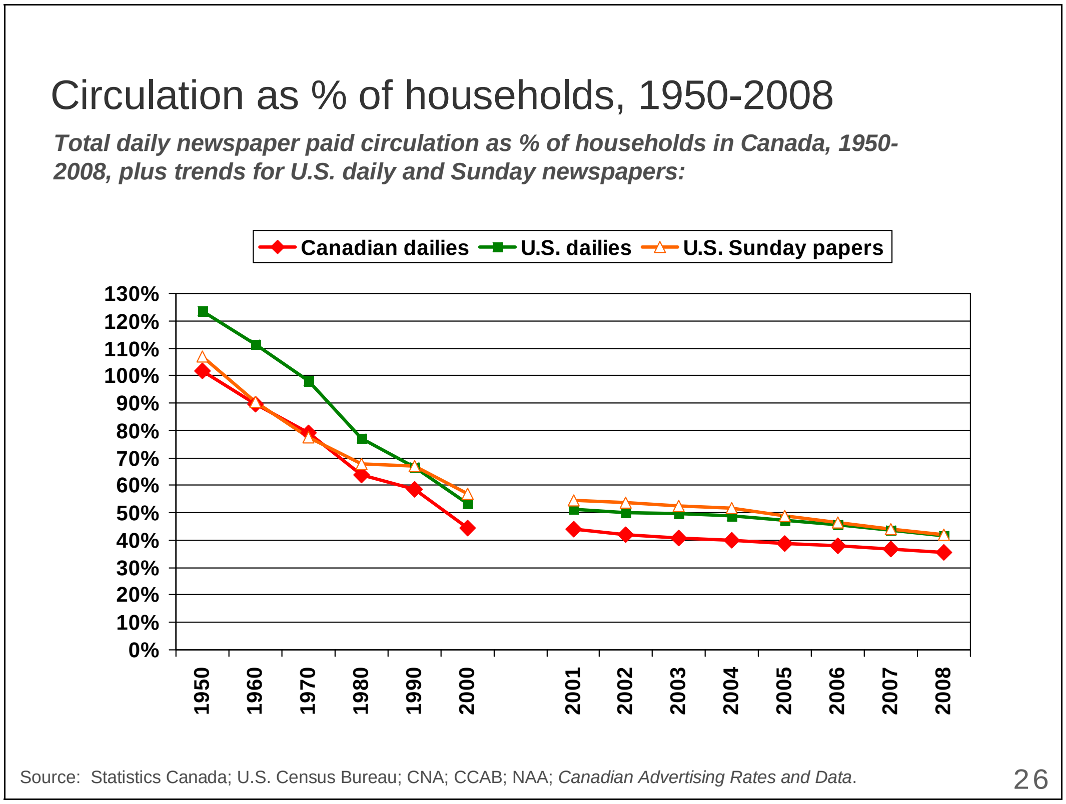
Now let's focus more directly on daily newspapers, the third largest medium in Canada, measured by revenues.

At the outset, I would note that the focus is on paid circulation dailies, mainly because of the availability of consistent data over a long period of time. We know, of course, that free dailies have been tried in a number of markets, often as extensions of established paid dailies, and finding a balance between paid and free is obviously one of the challenges going forward.

Through the first half of the 20th Century, daily newspapers were the principal medium of news and information in Canada. Yet, as we look back, we can see that that was accomplished, in part, by a contraction in the number of newspapers, resulting in better economic prospects for the papers that survived.

We begin our statistical review in 1950. [Slide 25] provides trend data for combined advertising and subscription revenues for Canadian daily newspapers with paid circulation, from 1950 to 2008.

The slide indicates substantial growth between 1950 and 2000, although we have found that the daily newspaper share of GDP actually declined from 1950 to 2000. The slide also indicates a relatively flat revenue picture for daily newspapers since 2000.



[Slide 26] tracks the paid circulation of Canadian daily newspapers as a percentage of households in Canada from 1950 to 2008. Data for U.S. daily and Sunday papers are presented for comparison. Thus, although there was overall circulation growth until at least the 1990s, that growth did not keep pace with the growth in the number of households.

But the data in the slide do not answer an important question about daily newspaper circulation: Will the decline continue unabated, or is there a point at which circulation will level off, or perhaps decline at a much slower rate?

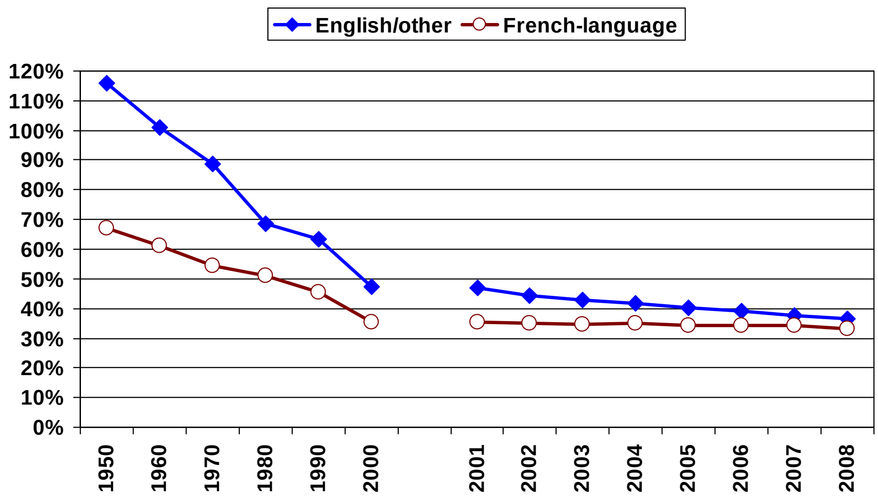
In other words, is there a floor, or a plateau, at which daily newspaper circulations might rest for some time?

Some interesting insights into that question come from splitting the data for Canadian daily newspapers into the country's two principal language groups – English and French.

[Slide 27] begins to tell what may be an important story for Canadian daily newspapers. If we look at the paid circulation trend line relative to households for English-language newspapers, it appears that it is still declining. But if we look at the paid circulation trend line for French-language dailies, it appears to have levelled.

Circulation as % of households, Canada, 1950-2008

Daily newspaper paid circulation as % of households in Canada, for English/other daily papers and French-language daily papers:



Source: Statistics Canada; CNA; CCAB; *Canadian Advertising Rates and Data*.

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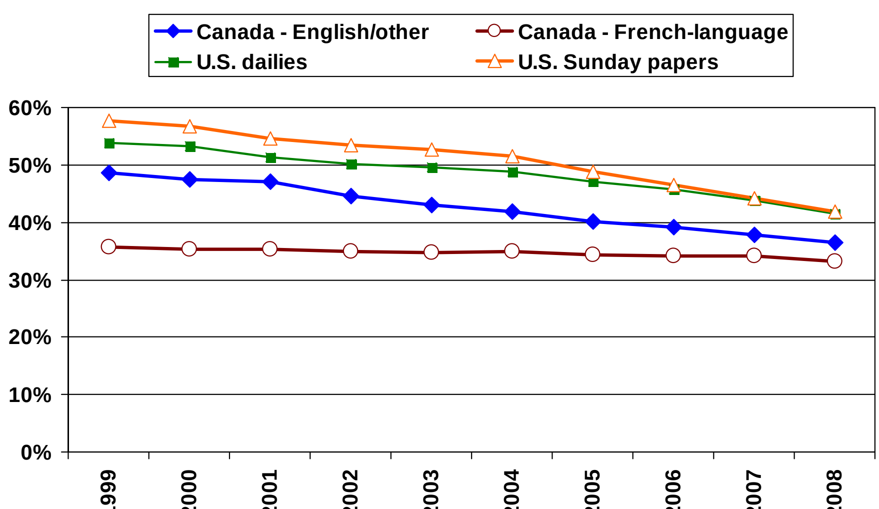
Circulation as % of households, 1999-2008

Daily newspaper paid circulation as % of households in Canada, 1999-2008, with comparisons for U.S. daily and Sunday newspapers:



Source: Statistics Canada; U.S. Census Bureau; CNA; CCAB; NAA.

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Let's focus on the last 10 years, which we have done in [Slide 28], and which also presents comparisons for the U.S. market.

Clearly, within Canada, the two markets are behaving differently, with the English-language market continuing to decline, while the French-language market has stayed essentially flat. There may be numerous explanations for this phenomenon, and my colleagues have cautioned me not to read too much into this, since the French-language market obviously has different characteristics.

But there is at least a hint in these data that, after a period of actual and relative decline, paid daily newspaper circulation might find a plateau – a level at which it might function for a reasonable period of time.

The two key questions, of course, are at what level that plateau might be found, and whether that level is sufficient to permit viable operation.

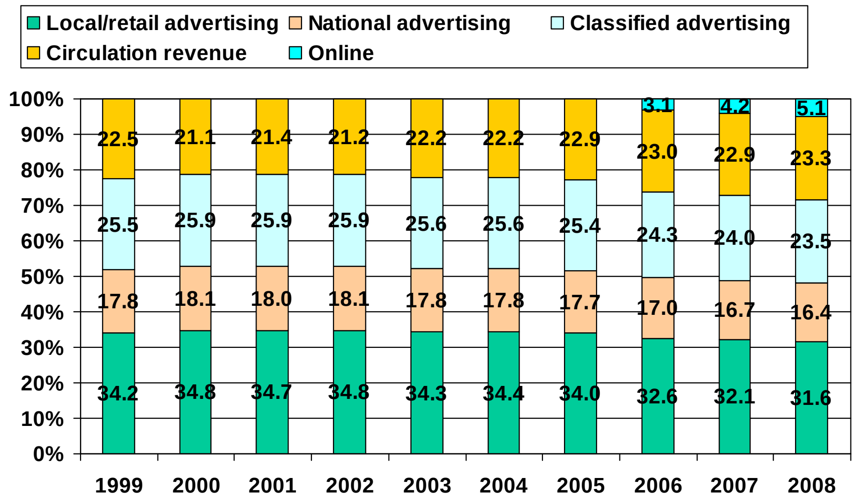
[Slide 29] presents advertising and circulation data for paid circulation dailies in Canada for the 10 years from 1999 to 2008, and indicates the percentages accounted for by the main categories of revenue. And [Slide 30] presents similar data for U.S. daily newspapers.

As can be seen from the percentage comparisons, Canadian dailies have been less dependent on classified advertising than their U.S. counterparts, and have done relatively better in terms of national advertising. We also know, from examining data from comScore, that the most serious online competitor for classified advertising, Craigslist, has lower usage rates in Canada than in the U.S.

While that should not be an excuse for complacency, it may mean that Canadian daily newspapers have at least a little more time to react to market changes.

Revenue sources, Canadian dailies, 1999-2008

Advertising and circulation revenue trends, paid circulation daily newspapers, Canada, indicating % of total revenue, 1999-2008:



Source: CNA; TVB; CMI.

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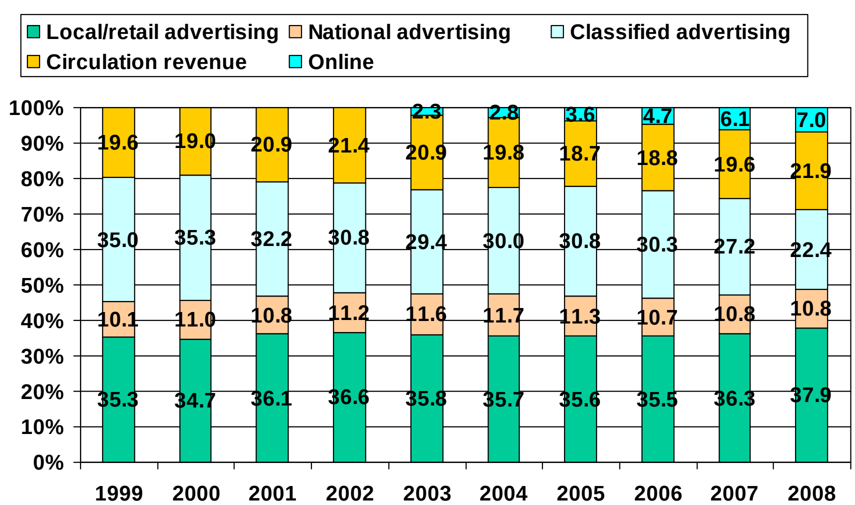
Revenue sources, U.S. dailies, 1999-2008

Advertising and circulation revenue trends, paid circulation daily newspapers, U.S.A., indicating % of total revenue, 1999-2008:



Source: NAA; CMI (U.S. data adjusted to conform to Canadian reporting methodology).

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So, where do we go from here?

Many suggestions have been made on how to respond to what some have called a "crisis" for conventional media. I would like to touch briefly on two key issues – whether changes in the form of ownership for media would make a difference; and whether it will be possible for conventional media to charge for their content on the Internet.

In the case of ownership, it has been suggested by some that the problem lies with ownership by publicly-traded companies. So alternatives have been suggested, including non-profit corporations or foundations.

Two non-profit publishers have often been pointed to as examples – the Scott Trust in England, and the Poynter Institute in St. Petersburg, Florida. The Scott Trust is currently reducing the workforce at its regional titles. Poynter has also reduced its workforce, and has put *Congressional Quarterly* up for sale.

So here is the reality – it is the underlying business model that is changing, and different forms of ownership are not a long-term answer to the inevitable change in the business model.

The second question – can we charge for this on the Internet? – is more complex. Even *The New York Times* is apparently reconsidering its strategy of not charging for its content on the Internet. And, of course, *The New York Times* is at least partly to blame for the fact that so many traditional media are faced with this difficult question. The reason? Because *The New York Times* is the number one newspaper brand; and when the top brand is free, all other brands have trouble charging.

The question is complex, because it involves the actions of many players, and also the need for the technology to accommodate the payment systems. The only thing we know for sure at this time is that as long as reasonable substitutes are free, charging for content will be difficult.

Where does this leave us in Canada, in the newspaper industry, in the middle of 2009?

Some of our findings to this point have indicated some optimism, in terms of revenue sources, and, perhaps, in terms of circulation trends. But even those possibly optimistic findings should not be seen as an excuse to pretend that it can be "business as usual".

So here are a few general comments about daily newspapers in Canada:

- It will be important to assess if it is reasonable to expect a "floor" or a "plateau" in circulation somewhere between 30-35 per cent of households.

- It will be important to assess what business plans make sense at that level.
- There will have to be a recognition that the daily newspaper industry, if it is to survive, will be smaller than it was even in the very recent past.
- Within local newspapers, particularly given the availability of non-local content from numerous sources online, the focus will have to be even more intensely local than it is today.
- And, across markets, there may be a further contraction in the number of daily newspapers in Canada.

One does not make that last comment lightly or with any pleasure. The idealized notion of competing voices is a good thing. But it is precisely because of the number of alternative competing voices, and consumer acceptance of those voices, that traditional media are shrinking.

Finally, all the suggestions enumerated above are not going to keep the print product in business forever. We hope to extend the profitable life of that product for as long as possible; indeed, that extension may prove vital to maintaining brand value in an online environment.

But, ultimately, someday, the print product may be gone. And your planning for the transition to the online environment (affecting both online and print) will have to be even more intense and even more focused in the next 18 months.