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The New York Times Paywall

Every newspaper in the country is paying close, close attention [to the Times paywall], wondering if they can get readers of online news to pay. Is that the future, or a desperate attempt to recreate the past?. . . Will paywalls work for newspapers?

— Tom Ashbrook, host of *On Point*, National Public Radio[1]

On March 28, 2011, *The New York Times* (*The Times*) website became a restricted site. The home page and section front pages were unrestricted, but users who exceeded the allotted "free quota" of 20 articles for a month were directed to a web page where they could purchase a digital subscription.

The paywall was launched earlier on March 17, 2011, in Canada, which served as the testing ground to detect and resolve possible problems before the global launch. *The Times* website had been mostly free for its entire existence, except for a few months in 2006–2007 when TimesSelect was launched. Traditional newspapers had been struggling to maintain profitability in the online medium, and they were eager to see how the public would react to the creation of a paywall at the most popular news website in the U.S.

Martin Nisenholtz, the senior vice president of Digital Operations at *The Times,* was optimistic about the willingness of users to pay:

> I think the majority of people are honest and care about great journalism and The New York Times. When you look at the research that we've done, tons of people actually say, "Jeez, we've felt sort of guilty getting this for free all these years. We actually want to step up and pay, because we know we're supporting a valuable institution.[2]

However, many commentators, both in the blogosphere and in the traditional media, were openly critical of this approach. Michael DeGusta, a blogger, represented the critics' view: "It's sad that instead of competing for the future by pricing for the digital age, The Times has opted to fight an inevitably doomed battle to hold on to the past."[3]

Professors Vineet Kumar, Bharat Anand, Sunil Gupta and Felix Oberholzer-Gee prepared this case with the help of Research Associate Dharmishta Rood. This case was developed from published sources, and the presentation of some data have been simplified to aid in classroom discussion. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Mathew Ingram of GigaOm considered *The Times* paywall as a stopgap arrangement and went on to say, "If paywall is your only strategy, then you are doomed."[4] Katharine Weymouth, publisher of *The Washington Post,* another major newspaper, strongly resisted a paywall:

> For us, we believe at the moment it doesn't make sense. We are making a bet for the long term. We want to be around as The Washington Post for a long time and many generations to come, and at the moment, we think that the best way to do that is to have a free website that is open to everybody and attract as many people as we can to spend as much time as they can with our journalism, and assume that that will bring them back for more.[5]

By December 2011, digital subscribers for *The Times* grew to 390,000, and Arthur Sulzberger, Jr., the company's chairman, described the paywall as a success that represented "a robust new revenue stream."[6]

However the long-term prospects of paywalls remained uncertain. The subscriber growth was slowing down, and many of the paid subscribers of *The Times* were enticed by the introductory offer of 99 cents for a 4-week subscription. A previous experiment with a paywall, TimesSelect, was abandoned in 2007 after *The Times* secured 227,000 paying customers.

Was the paywall a good idea for the long-term? Would it provide a foundation for a sustainable business model as *The Times* approached an ever-evolving technology and media landscape?

Company Background

The New York Times Company was a leading global multimedia news and information company with 2011 revenues of $2.3 billion and an operating profit of $57 million, and operated *The New York Times*, the *International Herald Tribune*, *The Boston Globe*, and *About.com*. (See **Exhibit 1** for company structure, **Exhibit 2** for business units and their revenues, and **Exhibit 3** for company financials.) The company defined its core purpose as "enhance[ing] society by creating, collecting and distributing high quality news, information and entertainment."[7]

The New York Times, the flagship daily newspaper of the company, was founded on September 18, 1851, by journalist and politician Henry Jarvis Raymond, and former banker George Jones. By 2011, the newspaper had won 106 Pulitzer Prizes, the most of any news organization. Reflecting on *The Times's* importance, Michael Hirschorn, the contributing editor of the Atlantic, remarked:

> *The Times* still, I think to a remarkable degree, does set the agenda. You really can trace almost any major story these days to something that originally appeared in *The Times*. The problem is that once it reaches the public, they may not even know it came from *The Times*.[8]

In spite of its prize-winning journalism, *The Times* was facing significant pressures. Its subscription and revenues had steadily declined over the years (see **Exhibits 3** and **4**). Its advertising revenues in 2011 were down by over 6% compared with 2010 ad revenues, and in spite of cost cutting, the operating profit in 2011 was 76% less than the previous year. In January 2012, the company sold its Regional Media Group consisting of 16 regional newspapers for $143 million in cash.[9]

The Newspaper Industry

The New York Times was not alone in feeling this pressure—the entire newspaper industry was facing significant challenges. Overall circulation in the industry for both weekday and weekend newspapers was declining (**Exhibit 5**). Traditional sources of newspaper revenues—subscription, retail, and classified advertising—were also declining (**Exhibit 6**). In contrast, most of the costs for editorial staff, production, and distribution were fixed and had very little room for reduction. **Table A** shows the revenue and cost structure of a typical U.S. newspaper.

Table A Revenue and Cost Breakdown of a Typical U.S. Newspaper, circa 2010

Revenue (%)		Cost (%)	
Advertising	75%	*Core*	37%
Retail	42%	Promotion	13%
Classified	25%	Editorial	15%
National	8%	Administrative	9%
Subscription and Newsstand	25%	*Production & Distribution*	52%
		Production	20%
		Distribution	14%
		Raw materials	18%

Source: Harold L. Vogel, *Entertainment Industry Economics*, 8th edition (Cambridge University Press, 2010), p. 371.

The U.S. newspaper industry, with 2009 annual revenues of around $35 billion, was highly fragmented with over 5,000 players.[10] However, the top 50 firms accounted for over three-quarters of the industry's revenue. The top 25 newspapers ranged from national newspapers like *USA Today* and *The Wall Street Journal* to more regionally focused dailies like *The Boston Globe* (**Exhibit 7**).

Digital Disruption

The rise of the Internet brought new opportunities and challenges for the newspaper industry. Nicholas Carr, a technology writer at *The Times*, described the digital disruption for this industry:

> The nature of a newspaper, both as a medium for information and as a business, changes when it loses its physical form and shifts to the Internet. It gets read in a different way, and it makes money in a different way. A print newspaper provides an array of content—local stories, national and international reports, news analyses, editorials and opinion columns, photographs, sports scores, stock tables, TV listings, cartoons, and a variety of classified and display advertising—all bundled together into a single product . . . . When a newspaper moves online, the bundle falls apart.[11]

The industry had clearly struggled with the advent of digital media. James McQuivey of Forrester Research summed up the dire situation: "The newspaper industry didn't see monster.com taking the jobs portion away. They didn't see Craigslist taking the classified portions away. They didn't see Ford or GM making their own websites to take automotive advertising basically away forever."[12]

Clay Shirky, a writer and media commentator, provided a grim perspective of newspapers:

> Society doesn't need newspapers. What we need is journalism. For a century, the imperatives to strengthen journalism and to strengthen newspapers have been so tightly wound as to be

> indistinguishable. That's been a fine accident to have, but when that accident stops, as it is stopping before our eyes, we're going to need lots of other ways to strengthen journalism instead.[13]

Newspapers' Response

While the Internet posed some threats to newspapers, it also offered them new ways to reach their audience. Almost all of the major newspapers rushed to put their content online for free, and the industry witnessed a tremendous growth in online traffic of readers (**Exhibit 8**). According to comScore, a market research company, over 123 million people in the U.S. visited newspaper websites in May 2010, making the transition to online news highly important for the entire industry. The Pew Research Center reported that the Internet was the number-two source for news after television, but was ahead of newspapers and radio.[14]

For newspapers, the new source of revenue through online advertising, however, did not compensate for the revenue decline from print. Online advertising rates for newspaper websites were significantly lower than the print advertising rates, and by 2009, online advertising revenue was only 8.2% of total newspaper revenue.[15]

Some local newspapers, like the *Detroit Free Press*, responded to falling circulation by limiting home deliveries to certain days of the week (e.g., Sundays) when advertising was high.[16] Others, like the *Ann Arbor News*, chose to shut down print operations and move all of its content online.[17]

A few newspapers had implemented paywalls, most notably *The Wall Street Journal* (*WSJ*), which received over 15 million unique visitors to its website every month, in addition to remaining the largest newspaper by weekday circulation. However, this experience was not representative for most newspapers, since *WSJ* dealt with more specialized content. In fact, when *The Times of London* had introduced a paywall in May 2010, its traffic dropped from 2.79 million unique visitors before the paywall to 1.61 million a few months after the paywall was introduced.[18]

Other media sectors, including music, books, and movies, had struggled through their own transitions to digital media. Reflecting on the challenges of transition accompanied by these new channels, Jeff Zucker, the CEO of NBC Universal, said in 2008:

> What we know historically is every time there's a new avenue of distribution, that's good for the consumer . . . What we have to do is make sure we're playing in both worlds, the digital world, and the analog world. The economics around these digital properties are not yet fully formed—they will be, but that's five years at least. We can't trade analog dollars for digital pennies.[19]

The iPad Arrives: Spring 2010

In the midst of the online trends buffeting the industry, the introduction of the iPad provided a revolutionary new platform for consuming news. On January 27, 2010, Martin Nisenholtz joined Steve Jobs on stage to present a slick Times iPad app during launch, saying: "We're incredibly psyched to pioneer the next generation of digital journalism. We want to create the best of print and best of digital, all rolled up into one."[a]

[a] In pricing the digital subscription, *The Times* had to account for a 30% revenue share with Apple if a new subscriber was acquired through the app store, but consumers who had subscribed directly with *The Times* were not subject to the 30% fee.

There was huge speculation in the media about the effects of the iPad, with diverging opinions on whether it was the last best hope for an old media industry, or whether it would merely hasten its decline. Mercedes Bunz of *The Guardian*, a UK-based newspaper, had commented: "If Steve Jobs would save journalism, it might be possible that publishers would get him the Holy Grail."[20] Rupert Murdoch, the chairman of News Corporation, which owned *The Wall Street Journal* and Fox News in the U.S., remarked: "The iPad may well be the saving of the newspaper industry [. . .] it's better than them getting out of business altogether."[21]

The iPad was considered a significant new way to consume digital media, since the "lean back" experience it enabled was more immersive and considerably different from the "lean forward" experience that users typically had with a computer. A survey by the Reynolds Journalism Institute in Fall 2010 revealed that 99% of iPad users consumed news on the device, and user experience on the iPad was closest to a print newspaper. Those who owned iPads were also found to be less likely to have and retain subscriptions to newspapers.[22]

Earlier Paywalls at *The Times*

The First Experiment

In 1996, *The Times* launched its website and started charging overseas users $35 per month for access to the site. This experiment was abandoned about two years later; the company cited an interest in increased advertising revenue as the cause for the shift.[23] Nisenholtz explained: "Internet usage overseas is growing at a faster pace than domestic usage and we are intent on building our franchise worldwide. We are convinced that our advertiser-supported, no-fee registration model, which has worked so well for us here, is the best path to accomplish this."

TimesSelect—The Second Experiment

TimesSelect was the second attempt by *The Times* to charge its readers. The program was introduced in September 2005, and was priced at $49.95 per year for access to noted columnists like Thomas Friedman, Nicholas Kristof, and Paul Krugman. Access to news and other content on *The Times* website remained free. The paywall offered discounts to college students and other select readers, and remained free to all of its print subscribers.

Within two years of its introduction, TimesSelect grew to 227,000 paid subscribers (**Exhibit 9**). However, the rise of social media and high-quality blogs led many users to question the value of the content on TimesSelect. In addition, the columnists featured in TimesSelect were said to be unhappy with the system. Tom Friedman had remarked at the time, "It pains me enormously, because it's cut me off from a lot of people, especially because I have a lot of people who read me overseas . . . ."[24]

Faced with widespread criticism of the paywall approach, the program ended on September 19, 2007. In a letter to readers explaining the decision, Vivian Schiller, senior vice president and general manager of *The Times,* wrote:

> Since we launched TimesSelect in 2005, the online landscape has altered significantly. Readers increasingly find news through search, as well as through social networks, blogs and other online sources. In light of this shift, we believe offering unfettered access to *The New York Times* reporting and analysis best serves the interest of our readers, our brand and the long-term vitality of our journalism. We encourage everyone to read our news and opinion—as well as share it, link to it and comment on it.[25]

Designing the New Paywall

The Times management designed the new paywall after considerable research and its own reflections on lessons learned from the nearly two years of operating TimesSelect. The success and failure of other newspapers were also helpful in management's deliberations.

Metered System

There were four broad options for designing the new paywall, based on the degree of access provided to users, the type of content, and the type of medium that was included.

- **All or nothing**: In this option users would not get access to any content unless they subscribed to the newspaper. *The Economist* and *The Times of London* were examples of publications that chose a version of this option.

- **Exclusive content**: Another option was to make the news content available for free to everyone, since many consumers viewed news as a commodity, but restrict access to exclusive content, such as op-ed articles and analysis, to paid subscribers. TimesSelect was based on this option.

- **Metered system**: The third option was to use a metered system where users would be able to get free access to all content up to a pre-specified number of articles or pages, but would need to subscribe for access beyond this threshold.

- **Device-specific offer**: *The Times* could also charge consumers based on the medium (e.g., print newspaper, website, iPad) by which they consumed news. Given the recent evolution of these technologies, few publications had chosen this option.

After much debate, the management chose a device-specific and metered system that allowed users to read 20 articles a month without paying. The limit of 20 articles was chosen to draw in subscription revenue from the most loyal readers who saw value in *The Times* content, while not driving away casual visitors who made up the vast majority of the site's traffic. The home page at nytimes.com and all section front pages were *free to all users at all times*, whereas for the iPhone and iPad apps, the "Top News" was free and all other content was placed behind the paywall.

Since the cost of serving more content to an additional user was minimal, not everyone in the industry agreed with the idea of charging based on the amount of content consumed. Raju Narisetti, managing editor at *The Washington Post*, disagreed with this approach, tweeting: "Don't penalize engaged readers of websites with a paywall: reward your active users."[26] Jeff Jarvis, a journalism professor and media expert, went even further by suggesting a "reverse paywall" where the more active users would see their charges reduced as a reward for their loyalty.[27]

Leaky Wall

The new paywall accommodated users who came in from traffic generators like social networks and search engines. Readers who came in through Google were restricted to a five-article-per-day limit over and above the 20 monthly allotted articles, whereas those who visited from social media sites like Facebook and Twitter as well as other search engines faced no limits, as long as articles were linked directly from those sources.

Thus, the company created a "leaky paywall" design rather than the "bulletproof paywall" approach adopted by other publishers like the *Financial Times* or *The Wall Street Journal*, which did not permit any user who had not registered to have access to any article.

Although this system had the potential to cause user confusion about what was freely available, *The Times* was trying to generate additional revenue while promoting the social buzz generated by its articles. (**Exhibit 10** shows the top five sources of incoming traffic to *The Times* website.)

Pricing

The pricing for digital access was put into three tiers depending on the device used to access content (see **Table B** for the pricing of digital and print editions). After accounting for introductory offers and special deals, the average price paid by the digital subscribers of *The Times* by the end of 2011 was estimated to be a little over $4.00 per week.[28] All print subscribers were granted full access to all content across all media without any additional charge.

Table B Pricing of Digital and Print Editions of *The New York Times*, 2011 (per week)

Digital		Print Home Delivery	
Subscription	**Price**	**Subscription**	**Price**
NYTimes.com + Smartphone	$3.75	Seven Days	$15.40
NYTimes.com + Tablet	$5.00	Friday–Sunday	$10.80
All Digital Access	$8.75	Sunday	$7.80
(NYTimes.com + Smartphone + Tablet)		Monday–Friday	$7.70

Note: Print home delivery prices are approximate and depend on location.

Source: Company website.

Bloggers and media pundits were highly skeptical about this pricing. One blogger, Michael DeGusta, compared the annual cost of digital access to *The Times* with the cost of other digital content (**Exhibit 11**), and commented: "Does *The Times* really think the mass audience is going to decide their $455/year is better spent on *The Times* rather than getting 20+ free articles/month from *The Times* plus *The Wall Street Journal* ($207/year) plus *The Economist* ($110/year) plus say *The Daily* ($39/year) for good measure, and still having ~$100 left over each year?"

Promotions

In addition to marketing the new digital program to its current print subscribers (who got the digital access for free) and lapsed subscribers, *The Times* also partnered with the auto manufacturer Lincoln to provide free subscriptions to heavy users of the website until the end of 2011. Lincoln aimed to reach an audience that would help the company build its brand, and it expected to execute this strategy with an e-mail campaign and through interstitial ads on *The Times* website.

Connie Fontaine, manager of U.S. Lincoln marketing communications, said, "Our brand is one that has a lot of great news and a lot to say but isn't always heard. *The Times* did bring us this idea and we thought it was really relevant to the brand for a lot of reasons. The type of reader we'll be able to engage through this program is a thought leader."[29]

Although Lincoln would not pay the actual subscription costs for participating readers, valued at $150 per reader, the company was expected to increase its online ad spending with *The Times*.[30] Details of the agreement were kept private.

Early Results

In a press release in February 2012, the company reported 390,000 paid subscribers for its new digital initiative, including *The Times* and the *International Herald Tribune* (**Exhibit 12**).[31] In addition, almost 70% of the print subscribers registered for digital access, which was free with their print subscription. Commenting on the 2011 results, chairman Sulzberger, Jr. said:

> In 2011 we made significant strides in our strategy to transform and rebalance our Company. Our fourth-quarter results demonstrate the continued focus on building *The Times's* digital subscription base and developing a new robust consumer revenue stream, while maintaining its significant digital advertising business.[32]

A key concern was the potential drop in website traffic and online advertising revenue. *The Times of London* had started a paywall in July 2010, and within 17 days its web traffic dropped by 66%.[33] (**Exhibit 13** shows unique visitors and page views of *The New York Times* before and after the paywall.)

In Q4 2011, the digital advertising revenue for the News Media Group—that included The New York Times Media Group, The New England Media Group, and The Regional Media Group—increased by 5.3% but print advertising revenue declined by 7.8%. For 2011, digital advertising revenue for the company was about 28% of total ad revenue. **Table C** shows the revenues of The New York Times Media Group (which included *The Times* and *International Herald Tribune*).

Table C Revenues of The New York Times Media Group (in millions of dollars)

Revenues	2011	2010	2009	2008
Advertising	756	780	797	1,068
Circulation	705	684	683	668
Other	93	93	101	181
Total	1,555	1,557	1,582	1,917

Source: Compiled from company annual reports and press releases.

Note: Circulation in 2011 includes revenues from both print and digital subscribers.

The Future of Newspapers

Some experts in the industry considered *The Times* paywall a success. Encouraged by the results of *The Times* paywall, in September 2011 the company introduced a paywall for *The Boston Globe*, another newspaper in its News Media Group which covered the New England region. By the end of December 2011, *The Globe* had attracted 16,000 paid subscribers.[34]

At the same time, others viewed this as only a stopgap arrangement for the eventual decline of newspapers. John Paton, CEO of the Journal Register Company that oversaw several local newspapers, was a particularly outspoken critic of the paywall strategy:[35]

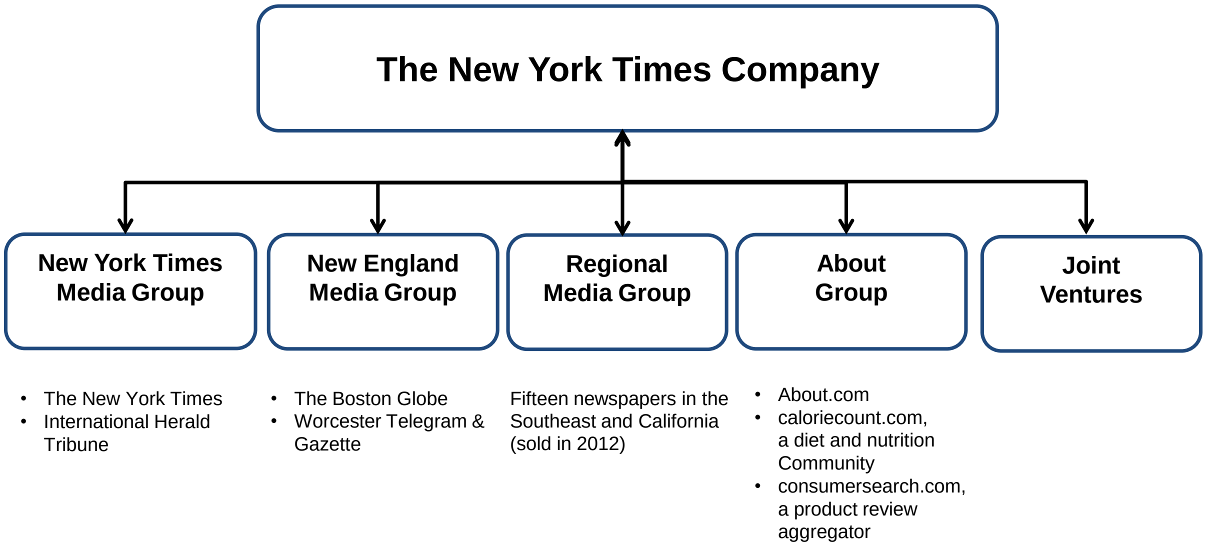
> Newspapers have less than 10 years in America to change their business models profoundly or they're going to go out of business. And this doesn't do it, focusing on paywalls, marrying a new idea to an old model. Focusing on paywalls is an idea that's never going to fail to fail [*sic*].

The industry was buzzing with a series of questions and speculation. Was the paywall working? Would the paid subscriber growth continue? Would subscribers enticed by the introductory offer pay full price? Would churn among digital subscriber be higher or lower than for print subscribers? Would digital subscription cannibalize print subscription? Would the digital strategy change the content and editorial process of the print edition? Most important, would the strategy provide a sustainable business model for *The Times* to create a multimedia multi-platform news presence in the future?

Newspapers across the world were carefully watching *The Times* experiment with the paywall in the hope that this might provide a solution to their declining fortunes. Frédéric Filloux, a blogger who covered technology and media, had remarked on the blog Monday Note: "Every newspaper, magazine or website is working on a paywall of sorts and closely monitoring what everyone else is doing…The strongest players don't just bow to the inevitable, they accelerate their transition to digital."[36]

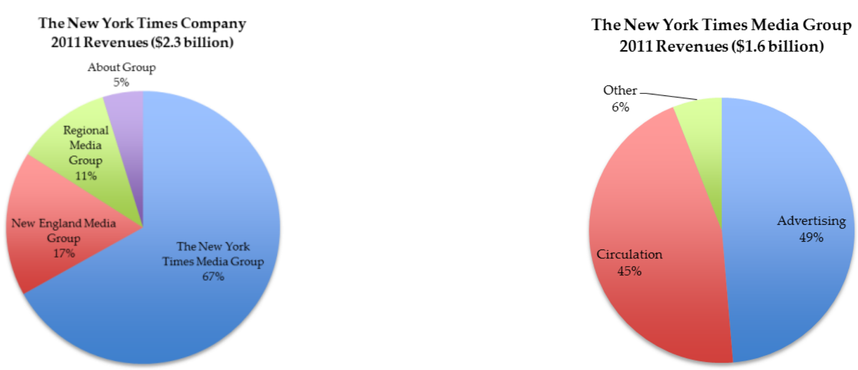
But as Tom Ashbrook had wondered, could the paywall be a strategy of the past with no relevance to the future, which would instead bring new and ever-evolving technologies for consumers to receive news? Or could the strategy be a savior for the declining newspaper industry?

Exhibit 1 The New York Times Business Units



Source: Casewriters, from company website.

Exhibit 2 The New York Times Company Revenue by Business Unit



Source: Compiled from company annual reports and press release.

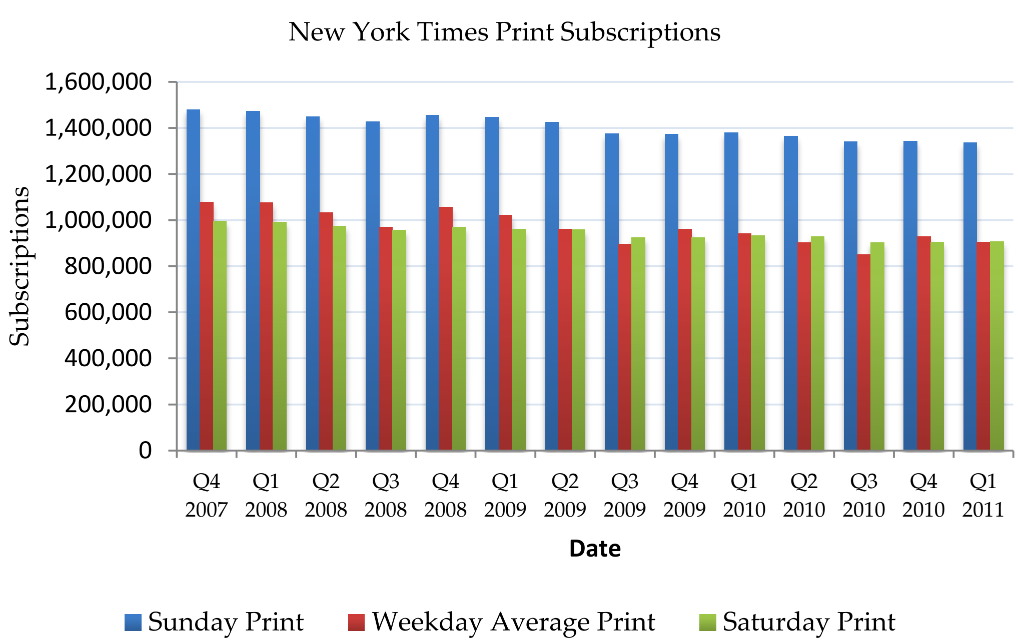
Exhibit 3 Selected Financials of The New York Times Company ($ millions)

	2011	2010	2009	2008
Revenues				
Advertising	1221	1300	1336	1771
Circulation	941	931	936	910
Other	160	162	167	258
Total Revenues	2323	2393	2440	2940
Operating Costs				
Production Costs	957	962	1021	1310
SG&A	1020	1054	1153	1328
Depreciation and amortization	116	121	134	144
Total Operating Costs	2094	2137	2308	2783
Operating Profit/Loss	57	234	74	(41)
Net Income/Loss	(40)	108	20	(58)

Source: Compiled from company annual reports and press release.

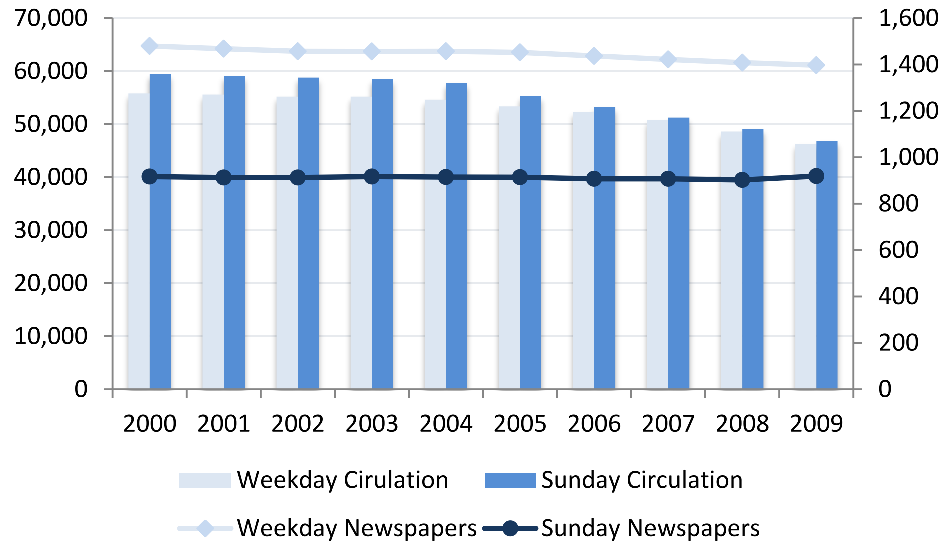
Note: In 2011, the company took a non-cash charge of $161 million for the write-down of goodwill at the Regional Media Group.

Exhibit 4 Print Subscriptions to *The New York Times*



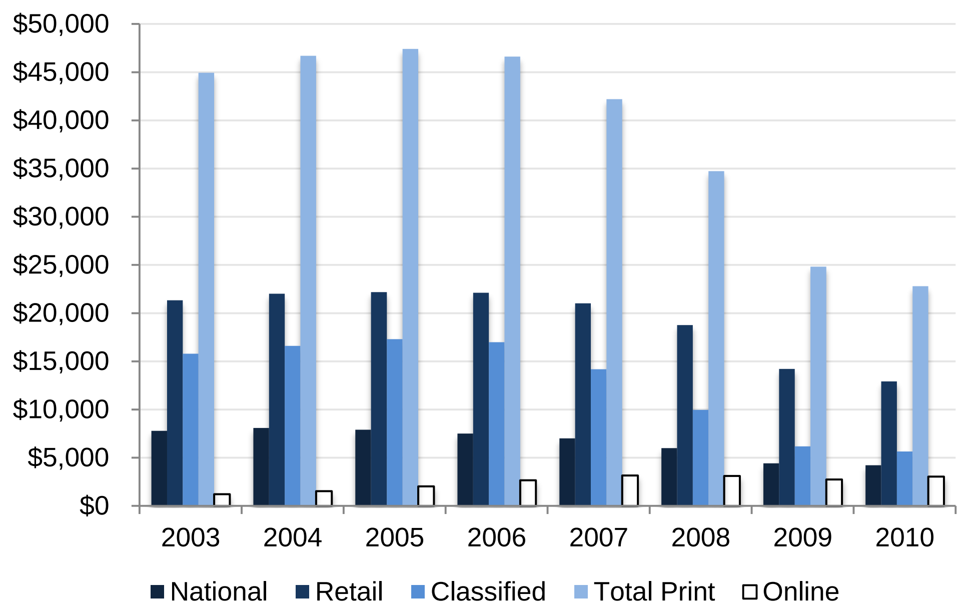
Source: Casewriter, based on data from Audit Bureau of Circulation and publisher's statements.

Exhibit 5 Number of Newspapers and Total Circulation (000s)



Source: Casewriter, based on data from Newspaper Association of America.

Exhibit 6 Newspaper Advertising and Classified Revenues ($ millions)



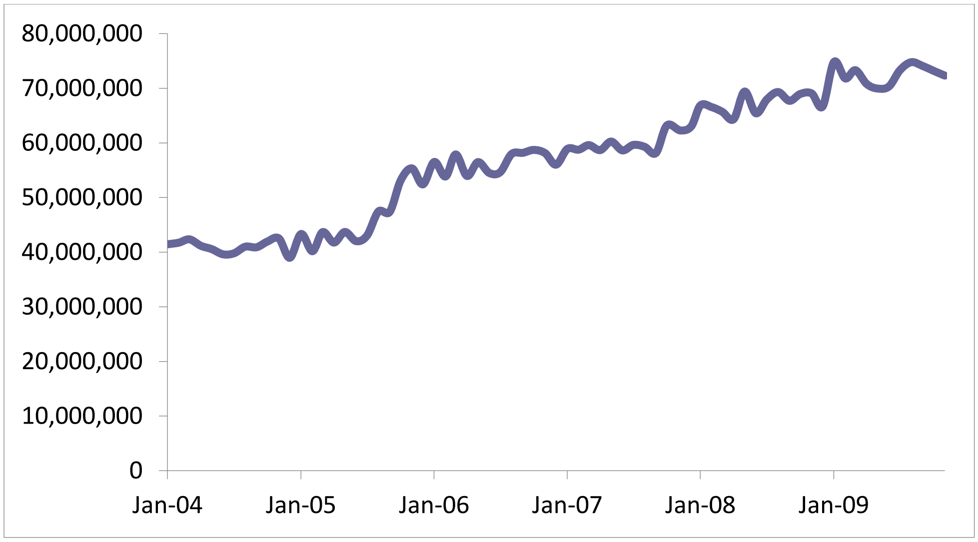
Source: Casewriter, based on data from Newspaper Association of America.

Exhibit 7 Top 25 Daily Newspapers in the U.S. by Circulation in 2011

Rank	State	Newspaper Name	Average Daily Circulation
1	NY	Wall Street Journal	2,096,169
2	DC	USA Today	1,784,242
3	NY	New York Times	1,150,589
4	NY	New York Daily News	605,677
5	CA	Los Angeles Times	572,998
6	CA	San Jose Mercury News	527,568
7	NY	New York Post	512,067
8	DC	Washington Post	507,465
9	IL	Chicago Tribune	425,370
10	TX	Dallas Morning News	409,642
11	NY	Newsday	404,542
12	IL	Chicago Sun-Times	389,353
13	TX	Houston Chronicle	369,710
14	CO	Denver Post	353,115
15	PA	Philadelphia Inquirer	331,134
16	MN	Star-Tribune	298,147
17	AZ	Arizona Republic	292,838
18	CA	Orange County Register	270,809
19	OH	Cleveland Plain Dealer	243,299
20	WA	Seattle Times	242,814
21	OR	Oregonian	242,784
22	FL	St. Petersburg Times	240,024
23	MI	Detroit Free Press (e)	234,579
24	CA	San Francisco Chronicle	220,515
25	CA	San Diego Union-Tribune	219,347

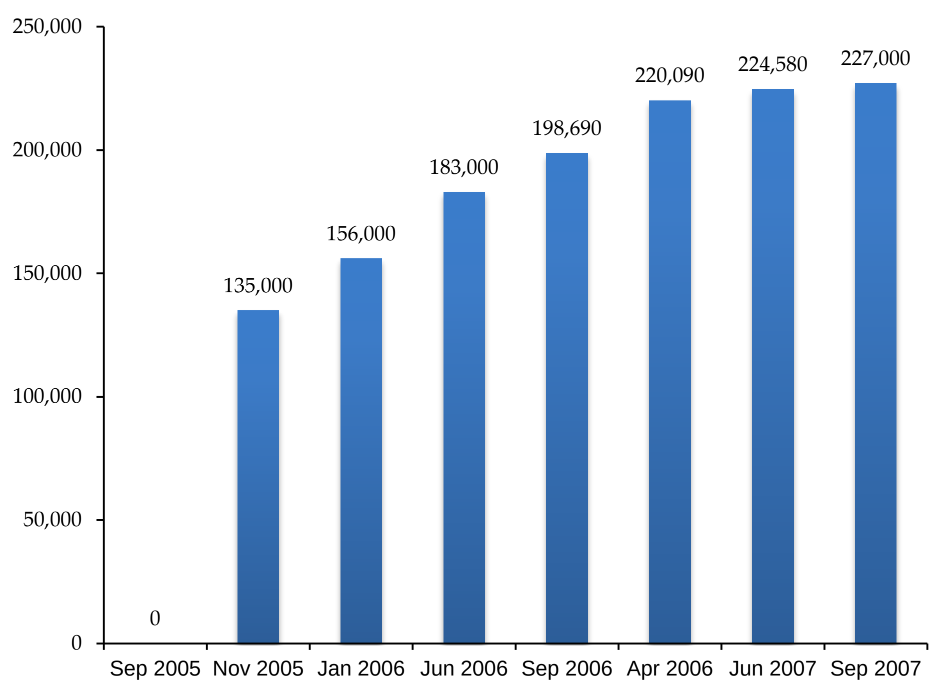
Source: Audit Bureau of Circulation, compiled by Poynter Institute; http://www.poynter.org/latestnews/mediawire/151696/wall-street-journal-usa-today-new-york-times-top-latest-circulation-report/, accessed February 2012.

Exhibit 8 Online Newspaper Web Traffic in the U.S. (unique monthly visitors)



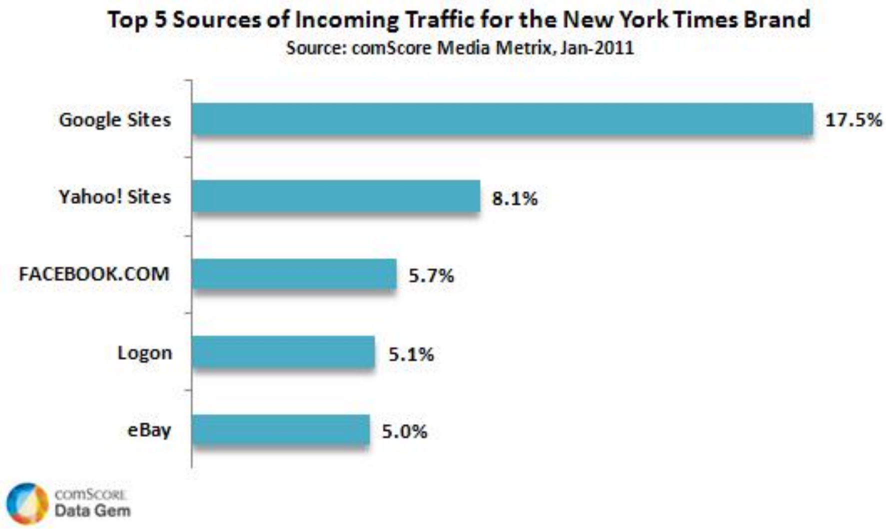
Source: Nielsen Online, MegaPanel data.

Exhibit 9 TimesSelect Subscriptions over Time



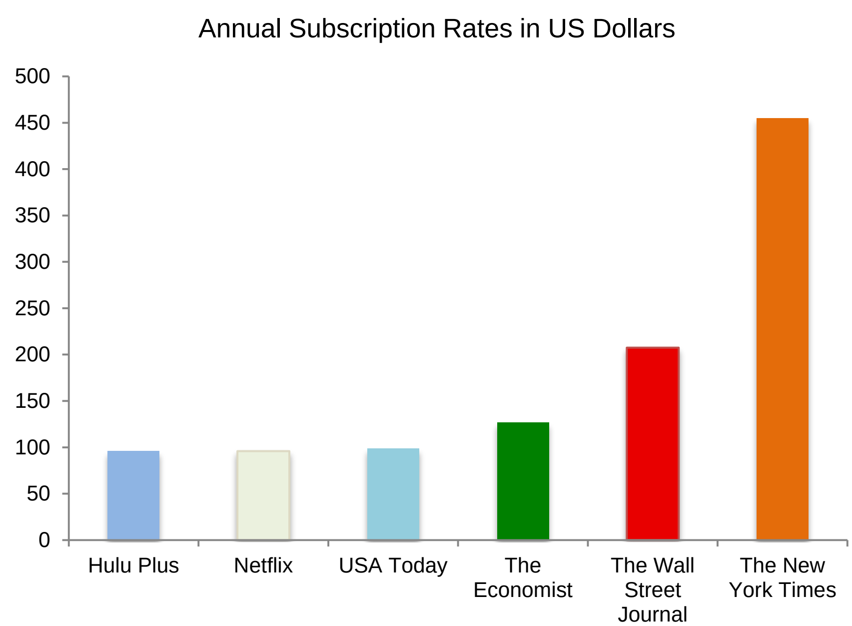
Source: Company public communications.

Exhibit 10 Source of Traffic to *The Times* Website



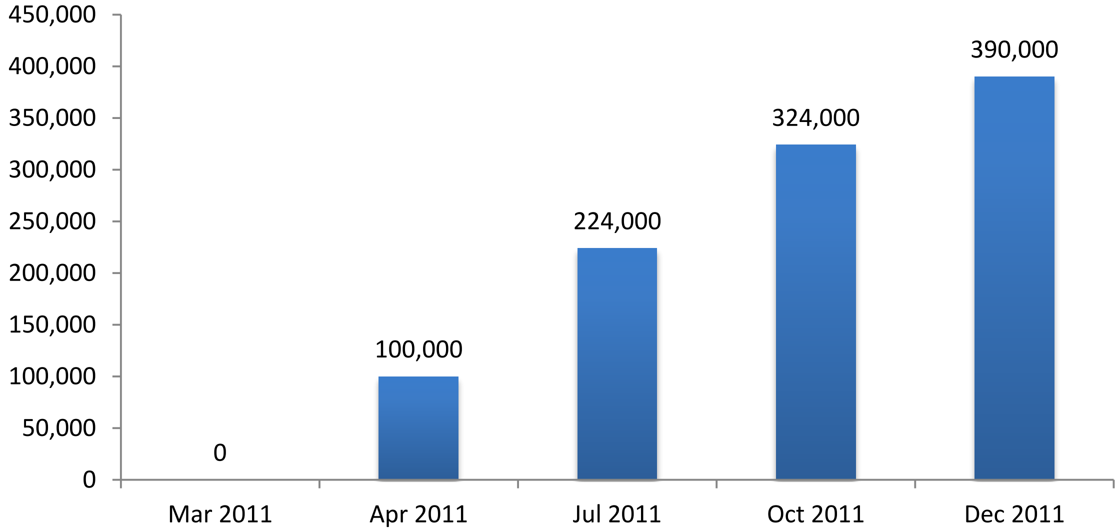
Source: comScore Media Metrix, http://www.comscoredatamine.com/2011/03/google-most-popular-incoming-traffic-source-worldwide-for-the-new-york-times/, accessed February 2012.

Exhibit 11 Comparison of Annual Subscription Rates for Online Content



Source: Adapted from chart by Michael DeGusta, *theunderstatement*, http://theunderstatement.com/post/4019228737/digital-subscription-prices-visualized-aka-the-new, accessed February 2012.

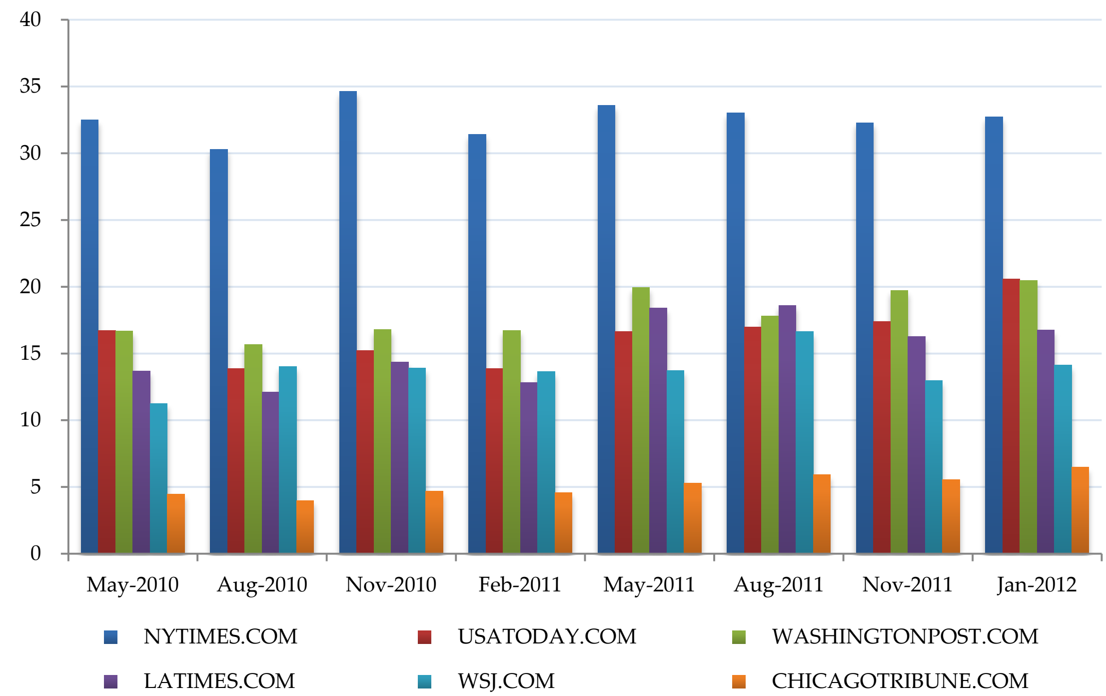
Exhibit 12 Paid Digital Subscribers to *The Times*



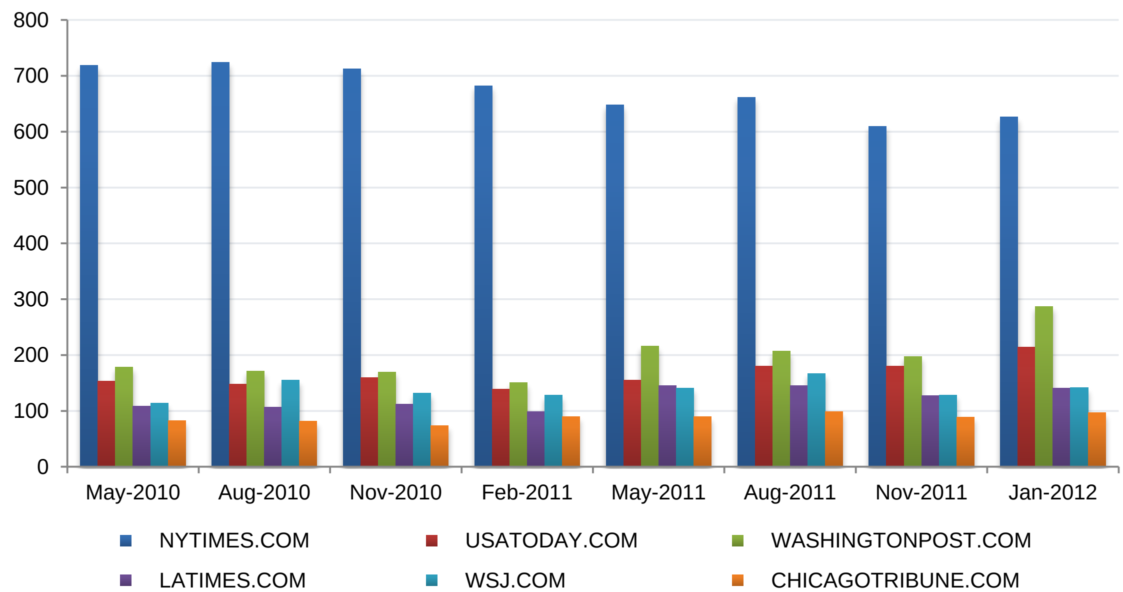
Source: Company, from public announcements.

Exhibit 13 Online Newspaper Web Traffic

(a) Number of unique visitors (millions)



(b) Page Views (millions)



Source: comScore.

Endnotes

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