



# RIPTIDE: What Really Happened to the News Business

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# Joan Shorenstein Center on the Press, Politics and Public Policy

## Discussion Paper Series

#D-81, September 2013

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### RIPTIDE:

## What Really Happened to the News Business

An oral history of the epic collision between journalism and  
digital technology, 1980 to the present

Reported by **John Huey, Martin Nisenholtz and Paul Sagan**  
Shorenstein Center Fellows, Spring 2013

With the Nieman Journalism Lab  
[www.digitalriptide.org](http://www.digitalriptide.org)

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## Table of Contents

|  |     |
|--|-----|
| 1. PREFACE .....                                       | 2   |
| 2. INTRODUCTION: RIPTIDE .....                         | 4   |
| 3. PREHISTORY: THE TELETEXT/VIDEOTEX ERA .....         | 10  |
| 4. AMERICA GOES ONLINE (or, It's the PC, stupid!)..... | 15  |
| 5. THE BIG BANG .....                                  | 23  |
| 6. THE ORIGINAL SIN .....                              | 35  |
| 7. THEN CAME CABLE.....                                | 41  |
| 8. RETURN OF NEWSPAPERS.....                           | 52  |
| 9. THE NERDS & THE NEWSIES.....                        | 59  |
| 10. THE INNOVATOR'S DILEMMA .....                      | 64  |
| 11. BIRTHING THE BLOGOSPHERE .....                     | 69  |
| 12. THE RISING TIDE LIFTS ALL BOATS .....              | 77  |
| 13. FROM THE ASHES.....                                | 84  |
| 14. GOOGLE: THE SECOND COMING.....                     | 95  |
| 15. THE ADVERTISING ROLLER COASTER .....               | 99  |
| 16. GOING SOCIAL. AND PAYING TO PLAY.....              | 106 |
| 17. TIME WILL TELL .....                               | 118 |

## PREFACE

This project is the result of collaboration among three Fellows at the Joan [Shorenstein Center](#) at the [Harvard Kennedy School](#) during the 2013 spring term.

[JOHN HUEY](#) has been a writer, editor, and publishing executive for 40 years, beginning as a reporter for a small weekly newspaper in Georgia before moving on to report for The Atlanta Constitution. There he filed his first story electronically from the Georgia state capitol on a Xerox Telecopier (six minutes a page). He spent 13 years at The Wall Street Journal, where he covered the Nicaraguan revolution of 1978 (filed by hotel Telex) and was founding managing editor of The Wall Street Journal/Europe. He worked for 24 years at Time Inc., where he covered countless industry disruptions as a writer and later editor of FORTUNE. He retired from Time Inc. at the end of 2012, after serving seven years as its editor-in-chief.

[MARTIN NISENHOLTZ](#) is a senior advisor for The New York Times Company and an adjunct professor at the Columbia Journalism School. He was senior vice president for digital operations at The New York Times Company from 2005 to 2012. He was the founding leader for nytimes.com in 1996 and was later CEO of New York Times Digital. Before joining the Times in 1995, he founded the Interactive Marketing Group at Ogilvy and Mather, among the world's first digital advertising agencies. More than any of the three of us, he has been at the heart of many of the crucial moments chronicled here. As such, he is an interviewee as well as an interviewer in this oral history project. He began his career as an assistant professor at NYU's Interactive Telecommunications Program, where he worked on an early version of Teletext in 1979.

[PAUL SAGAN](#) is executive vice chairman of Akamai Technologies (a company that counts thousands of significant Internet players as clients and delivers as much as an estimated quarter of the Web's traffic daily). He was employee #15 and the company's CEO from 2005 until 2013. He grew up in a newspaper publishing family in Chicago and began his journalism career as a news writer at WCBS-TV more than 30 years ago. He went on to become news director and the recipient of three Emmy Awards for broadcast journalism in New York. He designed and launched NY1 News for Time Warner and was president and editor of new media at Time Inc. in the mid '90s, where he worked on the creation of Pathfinder, Roadrunner, and the Full Service Network.

We are extremely grateful for the support of the Shorenstein Center. Alex S. Jones, the Laurence M. Lombard Lecturer in the Press and Public Policy and the director of the Center, believed in us and our project, and he trusted that we would create something worthy of the Center's reputation for excellent scholarship and provocative thinking. In addition, Tom Patterson, the Bradlee Professor Government and the Press, and Nancy Palmer, the Center's executive director, provided important and timely input. Edith Holway, the events and Fellows program director, guided us without a hitch through many of the ins and outs of being a Fellow at Harvard. Janell Sims, the communications manager, was a tireless partner in helping us proof and ready the text.

We are in debt to the [Nieman Foundation](#), particularly to Joshua Benton, director of the [Nieman Journalism Lab](#), for his work building this site.

We received timely and insightful help from Alex Remington, now a product manager at The Washington Post and previously a student at the Harvard Kennedy School and our graduate research assistant, without whose assistance we simply would not have been able to complete this project. Yin Chen, another Kennedy School student, also joined our team as a graduate research assistant and supported our effort. In addition, two Harvard College students, [Corinne Curcie](#) and [Tom Silver](#), ably and critically assisted us along the way.

We also want to thank our fellow Shorenstein Center Fellow Peter Hamby, from CNN, for filling in for us to interview John Harris and Jim VandeHei at Politico; Randall Rothenberg, president and CEO of the Interactive Advertising Bureau, for interviewing Sir Martin Sorrell; and our friend Walter Isaacson, president and CEO of the Aspen Institute, for jumping in to interview Steve Case.

We want to be clear, however, that at the end of the day, we three selected the topic, recruited the interview subjects, and are responsible for the outcome of the project. We conducted all but three of the interviews ourselves and we noted those three above. We relied on [CastingWords](#) to transcribe the interviews, and we generally exercised only minimal cleanup of the transcripts, so we acknowledge that some discrepancies from the video and audio may exist.

We hold no one else accountable for the content of this effort but ourselves. But we hope that others will find this collection of interviews and attendant material interesting and helpful as they try to understand and unravel what really happened to the news business. Perhaps, future Shorenstein Center Fellows will conduct additional interviews for this story and contribute more material to make this a growing archive. In particular, we recognize that disruption is happening on a global basis, and we hope that others will follow with a more international perspective. While we came to believe certain things about what did happen and why—and we share those ideas and call them out in our narrative here—we invite you, the reader, to dig in and draw your own conclusions.

John Huey  
Martin Nisenholtz  
Paul Sagan

September 2013

## **INTRODUCTION: RIPTIDE**

For most of the 20<sup>th</sup> century, any list of America’s wealthiest families would include quite a few publishers generally considered to be in the “news business”: the Hearsts, the Pulitzers, the Sulzbergers, the Grahams, the Chandlers, the Coxes, the Knights, the Ridders, the Luces, the Bancrofts—a tribute to the fabulous business model that once delivered the country its news. While many of those families remain wealthy today, their historic core businesses are in steep decline (or worse), and their position at the top of the wealth builders has long since been eclipsed by people with other names: Gates, Page and Brin and Schmidt, Zuckerberg, Bezos,

Case, and Jobs—builders of digital platforms that, while not specifically targeted at the “news business,” have nonetheless severely disrupted it.

The precipitous fall of the industry that produces what we have come to call quality journalism—that is, independently reported, verified, branded information published or broadcast by institutions prepared to “stand by their stories” despite pressures from commercial or government interests—is hardly a fresh subject. Tens of thousands of articles, books, research papers, and documentaries have been devoted to the topic.

Tectonic Shifts in News: A Few Good Reads:

- [\*Post Industrial Journalism\*](#) from the Tow Center for Digital Journalism
- [\*Leading the Way to Better News\*](#) by Geoffrey Cowan
- [\*Information Needs of Communities in a Democracy\*](#) from the Knight Commission on the Information Needs of Communities in a Democracy
- [\*Why Newspapers Matter\*](#) by John S. Carroll
- [\*Big News Forges Its Own Path\*](#) by David Carr in The New York Times

Not surprisingly, the press hasn’t treated this story like just any other industrial disruption. With newspaper news jobs [down by 30%](#) in little more than a decade, this issue hits as close to home as possible for journalists. More importantly, some go so far as to argue the disruption is so profound that it threatens the future of democracy itself.

Reasonable people can—and do—debate whether the replacement of legacy media by new forms of information gathering and distribution—including citizen journalism and smartphone photojournalism, crowdsourcing, universal access to data and, of course, a world awash in Twitter feeds—makes democracy more or less vulnerable. Usually the argument is reduced to a couple of symbolic questions: Who’s going to pay for the Baghdad bureau? Who’s going to replace the watchdog function at city hall traditionally provided by healthy metro newspapers?

The arguments supporting the idea that the decline of quality journalism threatens democracy are frequent, familiar, logical, and voluminous, and they come mostly from either academia or people invested one way or another in the legacy journalism business.

As Alex S. Jones, director of the Joan Shorenstein Center at Harvard’s Kennedy School (sponsor of this site) writes in his book [\*Losing the News, The Future of the News That Feeds Democracy\*](#):

It is an article of faith among journalists that what they do is essential to democracy. Indeed, if one were to eavesdrop on a gathering of traditional journalists deploring the state of the news media, it would be easy to conclude that without high-quality journalism, American democracy would be hugely diminished. This is a view also shared

by many nonjournalists of all political persuasions, even though these same people might also be very critical of the media. Despite their quarrels with the news, they recognize that reliable news is important. If news isn't credible, it loses its ability to persuade. If news institutions cease to be trusted to be honest brokers of information, then disagreeable or politically unwelcome news will be dismissed as spin and bias. In such an environment, the argument goes, a genuinely informed citizenry is replaced with an anarchy of half-truths, misinformation, and propaganda.

Those arguing the other side tend to be many of the so-called disruptors—entrepreneurs engaged in building new digital-only news business models around aggregation, blogging, and low-cost newsgathering. One of those is Henry Blodget, founder of [Business Insider](#).

Henry Blodget, founder, Business Insider:

There's a big argument right now about what's going on in the news business. There are two big different opinions. One is that news is dying. The world is going to hell in a hand basket. Who is going to do the hard reporting? Newspapers are caving in. How is the world going to police itself? That's one. The other is what's actually happening: The amount of news that's being created has been increased by a hundredfold over the last five years. People are absolutely drowning in it. That's the one I subscribe to.

Anybody with an opinion can tweet. They can blog, or they can go online.... In the old world through 1995, media organizations were the equivalent of a hydrant in the desert. They controlled the vital information flow. They had tremendous power because they were the gateway. Now, we are a hydrant in the ocean. Media organizations are often still coming at it from the point of view of "Wait, we get to choose what's important. People should consume it because we say it's important." The point I'm making here is there is so much out there to consume right now that you actually have to build something that people like. People do not want to have to eat spinach because it's good for them. They simply won't. There are too many options.

On the national level, the owners of the big legacy news businesses have fought fiercely against the disruptors, often with the effect of a frustrated ocean swimmer flailing against a fierce rip current. They have waged legal battles over "fair use"; they have lobbied against anti-competitive behavior; and in many cases they have yielded to the current, creating substantial digital advertising businesses with hundreds of millions in [revenue dollars of their own](#). And at least three big news players—[The New York Times](#), [The Wall Street Journal](#), and [The Financial Times](#)—all have built emerging models that rely substantially more on consumers paying for their digital products than merely relying on digital advertising. Other legacy news businesses—

[CNN](#), [Fox News](#), CBS's [60 Minutes](#) to name three—also continue to operate with highly profitable margins.

But with each digital click upward in [Moore's Law](#) (processing power) and [Metcalfe's Law](#) (network power) the tide of technological disruption has only risen, washing many of the legacy swimmers further out to sea, or at least diminishing their financial prowess. The summer of 2013 saw two particularly seminal events that highlight the acute situation legacy journalism companies find themselves in today: [The Boston Globe](#) sold for a mere \$70 million to the owner of the Boston Red Sox (after once selling to The New York Times for \$1.1 billion), and The Washington Post Company stunned the journalism world by selling its iconic newspaper to one of those very names we mentioned at the outset: Amazon founder Jeffrey Bezos.

The choice of the riptide metaphor—or the rip current to be strictly accurate—is deliberate. The recommended survival technique against a rip current in the ocean is to quickly move sideways outside the current, but that's been easier said than done in the news business, just as it is in the open sea. We chose the metaphor to represent what happened to the news business: When successful, pre-digital players who had learned to swim out to sea and return safely with confidence and regularity found themselves over time confronting a stronger and stronger force that made it more and more difficult to get back to shore. And just like a school of swimmers caught in a real riptide, even some of the best-prepared and forward-thinking media companies were swept away no matter how hard they tried to survive.

These exponentially increasing digital building blocks have enabled generation after generation of wunderkind engineers to develop fresher ways to deliver, receive, and share information, much of it directly in the wheelhouse of the old news businesses—not just news, but display advertising and distribution and, most devastating to many newspapers, classified advertising.

In some cases, a disruptive force has been aggregation (think The [Huffington Post](#) or [Google News](#)), while in others it has been disaggregation ([Politico](#) is only about politics; [Cars.com](#) is only about cars). In the case of classified advertising the disruption was almost just a stray bullet; programmer [Craig Newmark](#) basically set out seeking a way for people to share information about local events, not kill an industry. But none of these new content creators is really the big winner, in spite of their ability to chip away at consumers' [dependence](#) on legacy media. They are mostly small players. It is the platform providers—[Google](#), [Facebook](#), and [Twitter](#), in particular—with their engineering prowess, massive audiences, viral networks, deep data, and grip on the prime demographic targets for advertisers that have captured enormous shares of the revenue once flowing to the old media companies. (If you've never done it, try Google's free [Google Earth](#) tool to view the company's own sprawling California headquarters campus some time. Or better yet, take a look at the nearby facilities of Facebook, a company launched only in 2004 that took over the former headquarters campus of Sun Microsystems at



what’s now called 1 Hacker Way, Menlo Park.) Also, as advertisers increasingly use automated “programmatically buying” to target specific audience segments on the web, general news providers are losing the core proposition of their traditional businesses—that is, serving as intermediaries between their audience and the advertisers wanting to sell them things.

One point that now seems clear: The news business had no shortage of visionaries who could imagine the future. As you will see over and over in this compilation of recollections going back many years, numerous editors and business executives in the employ of legacy news media companies set out to harness new technologies that would revolutionize the delivery of news. But (to get out of the sea for a moment) they were rewarded more as pioneers (who are often the first to perish) than as settlers (who eventually claim the new land).

And while it has been Moore’s and Metcalfe’s laws driving most of this change, perhaps it is another law, [Amara’s](#), which best describes the results. That law states, “We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.” Or, as Frank Rich put it in an April 2013 [column](#) for [New York magazine](#): “We didn’t realize we were up against change so sweeping as the building of the transcontinental railroad or the invention of electricity [*sic*].”

Hyperbolic as that may sound, it probably isn’t an overstatement. And as such, it is a phenomenon worthy of a continual effort to understand its causes, its effects, and its possible outcomes. With that in mind, we created this oral history project—curated at Harvard by the Joan [Shorenstein Center](#) on the Press, Politics and Public Policy in conjunction with [Nieman Journalism Lab](#)—to document the experiences of a broad group of primary participants, some of whom were there at the beginning of the transformation (a time we judge to be some 35 years ago, long before the advent of the World Wide Web) and some of whom have only recently arrived but are profoundly affecting the force and direction of the current that is washing away the foundations of the legacy news media business.

Joining together as a team, we three Shorenstein Center Fellows decided to seek the personal recollections of a broad but select group of principals who faced the choices, made the decisions, placed the bets, and now have the benefit of hindsight as to how it could, or couldn’t, have played out differently. The original participants number more than 60 and could grow in time. In hierarchy, they range from the mighty: Eric Schmidt; to the defenders: Arthur Sulzberger, Steve Newhouse, Don Graham; to the disruptors: Arianna Huffington, Nick Denton, Jonah Peretti, Henry Blodget; to the artisans: Andrew Sullivan, Michael Kinsley; to the humbled: Jerry Levin, Tony Ridder; to the philosophical: Walter Isaacson, Steve Case, Gordon Crovitz; to the journalists-turned-capitalists: Mike Moritz, Will Hearst; to the scientists and academics: Tim Berners-Lee, Nicholas Negroponte. And many others in between: pioneers, martyrs, eyewitnesses, victims, conquerors. There were some players we didn’t approach, either to

avoid duplication or because we simply lacked the time to reach everyone. We purposely chose to not interview the journalists and pundits who have covered this transformation over the years, although we believe this could be a worthy addition in the future.

We sought answers to many of the big questions. Was there some “original sin” that unleashed this fierce tide of disruption—say, the decision by so many original news sites not to charge for content? Or did the move by Reuters in 1994 to sell wire feeds to the upstart Yahoo!—which would in turn give it away for free and soon become the world’s largest news service—create a current so strong that most traditional news providers forever lost the leverage to charge for digital content? Or was there some more primordial spark that guaranteed the inevitable disruption regardless—say the invention of URLs ([universal resource locators](#)) or html ([hypertext markup language](#)), which would allow any piece of content to be identified and transferred from anywhere in the world to anyone, anywhere on any Internet-connected device? Was the “news” ever really an unsubsidized business, or did it only appear so because it was conveniently bundled in newspapers and news magazines that offered numerous other amusements and services? Did the miscalculations of legacy publishing and broadcasting executives really change the course of history, or did they only matter on the margins? And, again, how serious is the threat of this transformation to the fundamentals of democracy? Is the net effect of the gains and losses wrought by digital media positive or negative for such traditional benefits of the news media as public service or civic welfare?

The answers and stories you can read and watch here are varied and, to us anyway, full of surprises. Like all oral histories, this compilation doesn’t represent cold, hard fact, but rather memory, with all its imperfection, psychological adjustment, and often, confusion. As such, the document as a whole is a Rashomon tale. Everyone may have seen the same sequence of events, but not necessarily in the same way. Many themes emerged repeatedly: [The Innovator’s Dilemma](#), the cultural challenges of legacy companies, the mistiming of trying to capture the power of technological breakthroughs (often too early and sometimes too late), the tension between “paid vs. free” content, the failure of legacy media to appreciate the importance of engineering, the power of network effects if not the networks themselves. The interviewees expressed surprisingly little regret, or guilt, nor was there much finger pointing. But there are inevitable hints of nostalgia on the part of the old guard and fervor for creative destruction on the part of the new. On some questions, particularly the importance of institutional news media to democracy and the civic good, there is fierce disagreement.

## Chapter 1

### PREHISTORY: THE TELETEXT/VIDEOTEX ERA

In the beginning, there was print. And then there was the telegraph, which enabled news “wires,” and then radio, followed not too far behind by television. And while each new entrant wrought disruption, all soon found stable paths of coexistence and even fresh lucre (while network TV killed Henry Luce’s enormous [Life](#), it also spawned Walter Annenberg’s huge [TV Guide](#)). Then, sometime just before the 1980s, the worlds began to intersect slightly, with the first emerging hints of a future for publishing beyond print. That’s when journalism companies, including newspapers, broadcasters, and fledgling cable operators, invested heavily in early consumer information services that bridged the telephone and television with a low-cost “decoder” box to deliver text and, in separate ventures, pictures. Warner Cable famously debuted its interactive [Qube](#) service in Columbus, Ohio. Knight Ridder launched its Viewtron videotex service in Coral Gables, Florida. Time Inc. fielded its Time Teletext service in Orlando. Times-Mirror Co. launched Gateway in Orange County, California. And PBS, CBS, and NBC each had broadcast teletext versions.

There were those, such as Jerry Levin at Time Inc., even before it was Time Warner and he was CEO, and Roger Fidler at Knight Ridder, among others, who anticipated that being able to move content—the news—digitally would be transformative and even produced a [video](#) in the mid-’90s of how news could be delivered to electronic tablets that wouldn’t be fulfilled until Apple’s breakout product, the iPad, was [introduced](#) in 2010. But their experiments came too early, before there was enough bandwidth, enough processing power in the hands of consumers, enough devices in the market, to build new businesses.

Jerry Levin, former chairman & CEO, Time Warner:

My whole introduction to journalism and technology was all about two-way. There was no talk of digital at the time. No Internet. No computers. It was taking all these pieces and seeing how you can get interactivity. That was the goal....

Before we [Time Inc.] started HBO [1976 or 1977] I was in Sterling Manhattan Cable in a little office working on the business plan. Next to my chair was an AP news wire with a camera in front of it. In the cable system at the time, that’s how news was delivered to the audience. What fascinated me was I was more interested in reading what was coming off the wire. I thought this was fantastic because somebody at home could get the news just as quickly as any reporter working for any company. That was a pivotal thing for me. I didn’t think it was primitive that there was a camera set up in front of a news wire.

After we started HBO, I kept thinking about ways of delivering news into the home...I was taken by Life magazine and pictures...I asked one of the engineers at Manhattan Cable, is there a way you can get a news wire into the home? Let's get pictures into the home because...“To see Life, to see the world,” that's what Henry Luce said about Life.

[He told me they] had this technology called slow-scan technology. A photograph will wipe across the screen. Now it takes a little time and people may get a little impatient, but you can deliver a picture. We set it up in our office...and I thought, it's probably going to be too difficult for people, but at least they gave me the notion that you could deliver text and you could deliver pictures....

Teletext was part of this drive [for interactivity]. I don't know how I was able to get authorization [I was running the video group at the time] to build a studio that would deliver journalism that was theoretically two-way [but was actually one-way] and was called Teletext.... We got a number of journalists involved. We created a Teletext newsroom. It was to be delivered to Orlando by satellite [from Queens, NY] into something that wasn't a cable converter box. ...I thought, “This is great because we can test how much information the consumer can handle, what kind of journalism, what kind of information.” The most interesting finding was that we couldn't deliver enough information fast enough, deep enough, to satisfy the consumer's appetite. Rather than being, “hey, we're on to something with this technology,” it suggested that if ever you could find a technology that had much greater capacity, that was truly two-way, the consumer would be there.

Time Teletext was eventually [introduced](#) in underwhelming fashion with the tagline, “Our time has come,” when sadly, as the corporate promotion seemed really to demonstrate, it was still a distant dream. But it wasn't the only digital news idea that wasn't ready for prime time.

Roger Fidler, former director of new media, Knight Ridder:

In 1979, in January, Jim Batten [Knight Ridder's CEO] called me and asked me if I could come to Miami to talk about a new project that they wanted me to be involved in, but he wouldn't tell me what it was. I flew to Miami, met with Batten, who told me at the time, “This is our top-secret project.” He called it our Manhattan Project to develop an electronic publishing system that was being developed in England at the time called ViewData or Videotex. He wanted me and this group of three other people that had been chosen to go to England, learn all we could about the videotex service, one that was being developed at

the time called Prestel, and then come back and build a similar system in the U.S.... From 1979 to '83 I worked on the [Viewtron](#) project.... We weren't allowed to talk about what we were doing because we were afraid at the time that Times Mirror and other companies might get a jump on us.

At the time, you may recall back in the late '70s, early '80s, there were already people predicting that at some point newspapers would be replaced by digital technology.... So in '81 there was the APME [Associated Press Media Editors] that invited a number of editors and designers to write an essay and perhaps create some images of what they thought newspapers might be like after the year 2000.

At the time, everyone thought I was totally crazy. This was total science fiction in the minds of the editors I talked to. I remember John Woolley, who at the time was the editor of the Viewtron project, said to me that this was a "nutball idea" that would never happen.

Martin Nisenholtz:

Do you take any lessons from Viewtron?...It was a very bold and costly experiment in the early '80s. But it was shut down. As we all know, it was termed a failure. What lessons did the company, or did you learn from that?

Roger Fidler:

Quite a few. One of the lessons, of course, is when you are developing any new technology, those who are involved in the project believe things will move much more quickly than they actually will. It's just normal human nature for things to take a while before they catch on. [Paul Saffo](#), at the Institute for the Future, talks about his 30-year rule: That usually in the first decade of a new technology as it comes out of the lab...there's not an audience prepared for it. Often that first wave fails. The second decade a newer technology emerges, and people are becoming more aware of it. It starts to take hold, but...there are still a number of failures.

Then it's the third wave, or the third decade, where if it's a successful technology at all, it becomes commonplace. People accept it as part of their everyday lives.

As early as the late '70s, what would become the [MIT Media Lab](#) was beginning to show off functional technology eerily similar to what would become touch screens, interactive graphics

and user-controlled displays in this decade, embodied perhaps best in Apple's iPad, brought to market at scale.

The early trials taught these interactive pioneers other lessons that would be a harbinger of trends to come more than a decade later. As Fidler explains, the newsrooms thought their news was most appealing to users, but it was really the new ways of communicating through networks that excited the customers.

Roger Fidler:

We also made the mistake of assuming that it was going to be the newspaper content that was the most appealing content that would drive the service. Even though our research was showing us the things that were driving the service more in the early days were email, online chat, the auction services we had, games, entertainment.

News was not the top feature that people were looking to, even though when we'd interview people they would say news was what they really wanted. When we were following what they actually did, it was quite different from what they said they were doing.

Had the Viewtron project been more of an ongoing R&D project to deal with digital technology, more as a lab experimenting at a lower cost rather than ramping up quickly to, at one point...close to 250, almost 300 employees...They were putting a lot of money into it to try to go national. So when they couldn't see a large enough revenue stream from it, they shut it down, believing it wasn't going to catch on.

By 1986, most of these interactive services were shuttered, having incurred significant losses at their parent companies, which led to a sustained period of disinvestment in interactive media by legacy media companies. Only one of these services, [Ceefax](#) in the U.K., actually hung on until 2012, and the early failure of the rest led to a feeling of false security across the industry.

Jerry Levin:

Print felt pretty good...these technologies were either so inefficient or so far in the future that we didn't need to worry about them or adapt to them. These were all failures. Teletext was considered a failure...the \$25 million number sticks in my head, but it was a costly thing.... The video group was the darling of Time Inc. at the time, and there was a lot of interest, but then we...shut it down. So when you shut something down at Time Inc. it's a failure. It's not a success.

Martin Nisenholtz:

One of the themes that seems to be true throughout this whole period and well into the '90s and beyond, is that large corporations—maybe because of their culture, maybe because of the point you made that it wasn't a threat—just don't seem to be able to adapt as quickly to some of the digital technologies as the entrepreneurial community that operates on a, in a funny way, slower but faster cycle. At the same time as you're shutting Teletext and Knight Ridder is shutting down Viewtron and Times Mirror is shutting down its service...the Quantum Computing guys are starting up [what becomes] AOL. That must have seemed trivial at the time.

Jerry Levin:

It was always an issue. A large corporation...makes most of its money—and therefore its Wall Street success is based on—its inbred businesses. The threats seem unavailing because you're walled up in your own secure revenue generation, but it was at least clear that we wanted to start something.

## Chapter 2

### AMERICA GOES ONLINE (or, It's the PC, stupid!)

In watching the [video pitches](#) for the early teletext, or videotex, services, it's easy to be amused by their Paleolithic production values: the clunky fonts, the syrupy speed, the awkward remote clicker. And yet, most of the content being hyped is eerily prescient of what was to come for the interactive consumer over the next 25 years: “real time” sports scores and stock quotes, “electronic” games, a directory to find an ethnic restaurant in a particular neighborhood, and of course, “news” (from the local newspaper), scrolling across the TV screen. Once the smug laughter fades, the real takeaway may be that there really aren't any new content ideas, only new technology platforms.

So, by the mid-'80s, when the media giants were folding their costly experiments to marry the telephone with the television, and basically turning their backs on the notion of an interactive future, the real key to that future—the personal computer—was proliferating in offices everywhere, having been introduced in the mid-'70s and then to the mainstream business community by IBM in 1981. Another significant moment came in 1983, when Apple introduced the innovative Macintosh, a more user-friendly device that was clearly meant for more than crunching numbers at work; it was, in fact, the birth of self-publishing, a phenomenon that would later have enormous impact on the news business.

By 1985, two entrepreneurs, Steve Case and Jim Kimsey, had converted a struggling interactive company called Quantum Computer Services, which had begun under previous management as a dial-up interactive Atari gaming company called Control Video Corp., into something called [America Online](#). It—and for a while its competitors, CompuServe, the Source, Delphi, the Well and Prodigy—would launch the “dial-up” era of so-called “walled garden” proprietary online services, which would explode on to the consumer market and pave the way for much of how news and information services would be distributed and consumed for years to come.

AOL took its stock public in 1992 and over the next few years peppered the country with its free software disks, like some Johnny Appleseed of interactivity. The combination of AOL's simple, user-friendly interfaces and rapaciously aggressive marketing skills paid off handsomely. The company eventually gathered an audience of more than 30 million paying customers into its “walled garden”—racing from behind to surpass early mover CompuServe, and having a huge impact on how consumers would behave online for years to come. AOL was where many Americans acquired their first screen names and their first email addresses. They had their first “social media” experiences hanging out in AOL chat rooms; they used instant messaging in ways remarkably similar to the early Twitter experience. They even went to the movies and related as Tom Hanks and Meg Ryan hooked up to the sound of that familiar voice then streaming into



everyone's living room with the not-so-subtle reminder of all the excitement that could await you online: "[You've got mail.](#)" Could it really be Tom or Meg?

For this project, we asked Walter Isaacson, historian, journalist, and president and CEO of the Aspen Institute, to interview Case.

Steve Case, co-founder, AOL:

My interest in the space really started a few years before, when I was still in college. I think it was 1979. I read a book by Alvin Toffler called *The Third Wave*. He was talking about a number of things that were going to happen in the future. But one of them was the idea of an electronic cottage.

Someday, people would be living in this more interactive world, getting information in new ways, communicating with people in new ways. It struck me as an obvious thing that eventually would happen....

Walter Isaacson:

How did you see AOL, originally? What exactly was the mission, in terms of forming community, helping with email, delivering content and news?

Steve Case:

When we started AOL in 1985, only about three percent of people were online [for about an hour a week]. It really was a pretty niche, almost hobbyist kind of market. Our goal was to expand it and make it much more of a mass market, mainstream phenomenon. Everything we did was geared towards that, trying to make it accessible, easy to use, and more affordable—more useful, more fun, things like that.

Our big bet, even back in 1985, was what we called community. Now people refer to it as social media or other kinds of things, but we thought it was the killer app.... People interacting with people they already knew in new ways that were more convenient, but also people interacting with people they didn't yet know, but should know, because they had some kind of shared interest.

Even in 1985 we launched things like People Connection or chat rooms, [and] things like instant messaging, buddy lists, and text messaging came out of that. We really always focused on that. It always accounted for the majority of our use. We had a lot of different things as part of AOL, but those community features were the main event in terms of use.

Also in 1979, two years after graduating from Georgetown University, Ted Leonsis travelled to something called the West Coast Computer Faire, where Commodore, Osborne, and early Apple computers were being hawked from booths. He bought an Apple II computer, consisting of a motherboard, a keyboard, and a separate cathode ray tube. Outside the hall, he paid a sidewalk vendor six dollars for a homemade manual (wrapped in a Baggie) that explained how to put it together. While there, he met digital pioneer [Robert Metcalfe](#) (who co-invented [Ethernet](#) at Xerox PARC and later founded 3Com), and came home convinced that the computer, television, and software were somehow all destined to merge into a new form of media. Leonsis then went on to found a series of ventures that included software directories, buyers' guides to Macs and PCs, a private satellite business, and an interactive shopping business on CDs. By 1993, he was mayor of Vero Beach, Florida, and running a "new media" company called Redgate Communications, where he coined provocative slogans like "New Rules, New Media" and "Digitize or Die." Then he met Steve Case, and the almost overnight shotgun marriage of their two companies would accomplish Steve Case's goal faster than anyone could've imagined.

Ted Leonsis, former AOL executive:

I thought I should hire an investment bank, which I did. My investment banker was Dan Case, who was head of Hambrecht and Quist. Dan worked really closely with us and one day said, "I've got a brother who's just been named head of this little online company, and you talk about stuff the way he's talking about stuff. He's seeing the world from one vantage point, you're seeing it from another, but you're seeing something very similar. Can I introduce you?" And so I had breakfast with Steve, and over coffee he bought my company.

I remember saying to Steve, "Can we kiss first? I mean, can we date?" He's like, "Life's too short to drink bad wine, and this is what we should do. We should merge our companies. You have 150 people. I have 250 people. I'm \$40 million in revenues, you're \$20 million. We'll get scale. There's not that many people out there that get it."

Martin Nisenholtz:

What was the idea? Because Steve didn't like advertising at AOL.

Ted Leonsis:

[AOL was predominantly a B-to-B company.] People forget that AOL started as a private network for Commodore, Q Link, and a private network for Apple-AppleLink—and one for IBM. My experience in the sponsored publishing

business was similar. Steve brought all of those together, and that's how America Online was started.

And I get online at 1,200 [baud], but what do I do? We were talking about content and interactive shopping and communications apps.

We were all young, and it was populist. Our message was ease of use and take the drudgery out of your business day.

You would pay AOL \$1.35 an hour to be online. We went from 1,200 baud to 9,600 baud, and now you could get a photo delivered. It painted (slowly on the screen). We had our own proprietary thing called Rainman. It would fill up the print, and while you're reading the print, this photo would, we'd say, "magically appear!" [laughter]

Walter Isaacson (to Steve Case):

Let me plug the theory that, like Steve Jobs, you believed it had to be really simple, and you had to get people online in an unintimidating way. Those disks and the marketing that would come with Time magazine. You'd say, "Oh, this can't be that hard. I can put it in and it says 'You've Got Mail.'" Which made it, to me, more distinctive than The Well, Prodigy, CompuServe, which always seemed a bit more intimidating to the average user.

Steve Case:

They were more intimidating. We spent a lot of time designing our software and our services to make them as simple as possible. The mantra at the time was, "We want to make this easy enough for my mom to be able to use." My mom always resented that.... She said, "Why don't you pick on your Dad?"

But the idea was that we didn't just want to appeal to technologically sophisticated people. We really wanted everyone to get online. We really wanted to get America online. In order to do that it was going to have to be simple. Some of that was the software. Some of it was things like getting PC manufacturers to bundle the modems in and bundle our software in....

Then we [bundled] our software with magazines and a variety of other products so that no matter where you turned you would see AOL, and it would be coming to you from a trusted, credible endorser, if you will. It might have been IBM bundling us on the computer. It might have been Time magazine bundling our

software with their magazine. It was a way to make it easier, but also a way to basically say: “It’s safe to get in the water. It’s time to get online.”

In the process of building its nationwide service, AOL had established a wide network of local dial-up “nodes,” which saved subscribers from having to make long distance toll calls. At the same time, the fledgling service was hungry for content.

Ted Leonsis:

We had the idea of, “We have this national network, but we have these local nodes. And what we should do is create affiliates with local companies.” The first company we went to was the Tribune in Chicago, and they embraced us totally.

Paul Sagan:

And invested.

Ted Leonsis:

They made an investment that ended up, I think, making them about \$4 billion. It was obviously their best investment, but they wanted to learn about digital. They carved out the Chicago territory, so when you logged on to AOL from Chicago it would come up with AOL News, followed by Chicago Tribune news. Then they programmed Chicago Tribune Online. We did the same thing with the [San Jose] Mercury Center, and The New York Times [embraced us].

Where I believe the first generation of journalist/publisher fell down was that they didn’t internalize that this was the birth of a whole new industry. I remember, we’d have our partner conferences, and I would plead with companies. I’d say, “Rolling Stone magazine didn’t create MTV. The New York Times didn’t create CNN. Don’t let that happen to you. Understand the new medium and build new properties, new brands for it. Just taking Time magazine and making it available online isn’t taking advantage of all the things that online is bringing.”

One of the people who first heard AOL pitch its call to digital arms was Tim Landon, then at the Tribune Company, which not only invested early in AOL and made billions on its stock, but also experimented with putting local news content online under its own brand.

Tim Landon, former Tribune Co. executive:

A guy showed up on our doorstep [in 1991] and essentially he was trying to reposition his service into an online news information service. The guy was Steve

Case. I got involved [because] I had written things...basically saying that these early-stage dial-up proprietary services—Prodigy, CompuServe, Genie—had made a market connection between buyers and sellers, and that that market would displace our classified advertising market. So I was invited into these meetings.

I remember that Steve Case had somehow convinced Apple...to be their proprietary service. I can't tell you if it was Case's Procter & Gamble's marketing skills (or because it was the Apple interface), but my perception, as a young person, was that AOL—which was not AOL at that time but Quantum Computer—was more user friendly than those others. A guy named Mike Silver deserves a lot of credit because we...very quickly invested \$5 million in AOL for 10 percent. We private labeled it in Chicago with Chicago Online. From then on, in different variations of my life, I was very focused on, "How do we take the legacy business and the legacy cash flow and redeploy it and create digital assets?"

Martin Nisenholtz:

As you've just described, Tribune invested very early in AOL. In '93, '94, the web starts going and the Tribune Company, but in particular The Chicago Tribune, is now starting to build websites. Most of what people did in that era was pretty much just simply repurpose the editorial content from the paper and put it online. You guys had the distinct advantage of having a lot of visibility into a service that was succeeding with the consumer. Clearly, they were doing a lot more than publishing newspaper copy into an online service. Did you guys, at that point, think about what AOL was succeeding at doing and triangulate that back to the newspaper?

Tim Landon:

If you recall, AOL was declared dead a number of times....When the open web was launched, there was a real question by the digital intelligentsia whether AOL would survive. The period you're talking about, we were wrestling with a number of things at Tribune. One was, "Is AOL just a passing fancy and were things really moving to the web? There was tremendous energy on the editorial side of Tribune to take control of our destiny and not be captive to an AOL environment, but publish on the open web. That was one factor. Another factor was...Ted Leonsis. Ted is a tremendously charismatic and compelling figure.

He was making the pitch [for us to stick with AOL]. He said, “I know AOL is screwed up. We’re an early-stage company. We’re making all sorts of mistakes.” It’s hard to believe this—it shifted very quickly—but at that time in the history of Tribune we’re by far the stronger company and viewed AOL as needing us. We didn’t need them. Ted was saying, “I know you like your newspaper buddies. I know you like fishing and golfing with them. I know I’m kind of fat. But I’m telling you, we’re going to win, and you should do your classified stuff with us. Build these marketplaces with us.”

Just to give you a little color—and I don’t think Ted would mind about this—we’re in those fancy conference rooms, the Colonel’s former office [at Tribune]. The meeting breaks up for a bathroom break. We go outside. Ted pulls me aside and he says, “Look, I’ll give you \$5 million right now. Just come with us and build it with us.”

I did not feel that was an appropriate thing, in terms of my fiduciary responsibility. We end up saying, “God, we really like these AOL guys, but it’s so disorganized. It’s chaos. Everybody’s saying it’s going to shift away from AOL. Let’s build it outside of AOL. That’s why we started Classified Ventures and CareerBuilder. And I really think, on the news side, it was a similar set of discussions.

Eventually we monetized that five- or ten-million-dollar [investment] into two-and-a-half billion dollars. [Authors’ Note: Leonsis says \$4 billion.] But it was a hedging strategy....In retrospect, we could have cut a deal there. We could have owned and controlled those channels on AOL. As it played out [from ’94 to ’99], to be able to program a national news channel, a local news channel, the employment channel, the auto channel, the real estate channel on AOL, we would have created a lot of value for Tribune Co. Just one man’s opinion.

The drive to persuade local newspaper companies to come online inside AOL would continue, but as Leonsis recalls, it wasn’t always met with the same enthusiasm as in Chicago.

Ted Leonsis:

And then we went to The Washington Post. We said, “It’s such a natural. We’re in D.C.; The Post is in D.C.” At the time there were some people that thought what we were doing was easy. How hard can it be? You buy some computers, you send out some disks, you hire some editors. I remember Steve and I went to a meeting, and it was obvious that they [The Post] couldn’t make that decision. We were driving back and Steve asked me, “So what’s your Plan B?” And I said,

“Well, how hard can it be to do what they do? What do they do? They hire some writers. They get a photographer. Why don’t we make a local media product and try it in D.C.? It would at least get their attention, and we’ll learn something.” So we launched AOL D.C. That was the precursor to Digital Cities.

John Huey:

So you were forced into the news business?

Ted Leonsis:

Oh, totally.

One of the biggest challenges established media companies faced in moving online wasn’t the problem of finding successful business models, it was the difficulty of creating successful online cultures inside legacy publishing companies. Eventually, they suffered a sort of “Revenge of the Nerds” when it became clear that without hiring and empowering computer scientists in roles of real importance, the legacy media companies couldn’t keep pace with the new all-digital entrants. Despite having passed on a deal with AOL—for content or maybe even something grander like a major investment or acquisition—this lesson of engineering wasn’t lost on Washington Post publisher Don Graham (who, as mentioned, finally threw in the towel in August, 2013, selling [The Washington Post](#) to Jeffrey Bezos, no stranger to building and leading engineering cultures).

Donald Graham, chairman & CEO, The Washington Post Co.:

You would have to look at AOL and say, the lesson of this is not the uses it’s being put to. The lesson of this is that it’s being built by a kind of people we do not have in these walls [at the Post Co.] and we’d better go get some. [Bill] Gates, at that time, was going to everybody’s editorial board and saying, “Good technology people won’t go to work for people like you. Good technology people want to work for Microsoft.” He was wrong. He was wrong. Good technology people want to work on hard problems, and news quickly became a very famous hard problem.

## Chapter 3

### THE BIG BANG

While AOL was getting everyone comfortable online in the early '90s, a computer scientist named Tim Berners-Lee had been working at CERN, near Geneva, Switzerland, since 1989 to develop a tool that would enable academics to collaborate through globally linked computers. His idea was to harness the infrastructure of the obscure scientific research and defense communications network that had evolved into the Internet. Berners-Lee would call his baby the “World Wide Web,” and its magic would be precisely the opposite of AOL’s; it too would be a garden, but it would be an infinite garden with no walls in sight.

Tim Berners-Lee, inventor, World Wide Web:

It was universal. One of the things I had noticed about all the systems which had been designed for scientists, or for people working on the mainframe, or for people using PCs in administration or something, is that they made assumptions...which limited availability. It was clear that this thing had to be universal. Every computer had to be able to understand [HTML](#). Every computer had to be able to talk [HTTP](#). You had to be able to make a link to anything. The moment you had a list, or a class of things—these are the things which the web was designed for and these are not—then you end up with an oil/water boundary, and the web itself would cease to be functional. If you can’t link to anything, then what’s the point?

It was designed to work on any computer. It’s what I didn’t put into the design. I didn’t put any constraints that you had to use. You didn’t have to use Microsoft Word. You didn’t have to use a Mac. You didn’t have to use a...mainframe....

An important thing is accessibility. We should try to make the web as much for people who may be listening to it as opposed to reading it, and so on. Certainly it should work for any culture. It works in any language. There are all these different layers that had to be independent of so many different things.

Berners-Lee launched the first website in 1991, and the nascent web began to grow exponentially in scientific and academic circles. But it wasn’t until 1993, when [Marc Andreessen](#), a 22-year-old computer science student at the University of Illinois in Urbana-Champaign, co-authored a web browser called Mosaic that the Internet became widely accessible and began to subsume both the popular imagination and mainstream commerce. Andreessen soon moved to Silicon Valley to co-found Netscape, which launched its phenomenally popular Navigator browser. Microsoft followed with its own Internet Explorer



browser, and the browser wars were on. For the news business and many others, this was the Big Bang. At AOL, management quickly realized that even if the walls of the garden weren't tumbling down right away, the users were coming to expect—and demand—a simple path to the greater web.

Ted Leonsis, former AOL executive:

The launch of Netscape changed everything. When Netscape launched, we knew, "Okay, this is giving software away for free. We know that model." We were giving billions of dollars of software away for free. AOL was the most highly distributed piece of software in the history of the world because you would get those disks everywhere. We were putting in a browser, but now Netscape was out, and they were giving a really high-quality browsing experience away for free. That activated Microsoft, who immediately rushed into the market with IE, and then they came out with their online service, MSN.

Now, all of a sudden the industry was different. You had AOL. We were booming, and we had our taxonomy, software, and network. You had Netscape, which was about a thousand flowers blooming. And then you had Microsoft, which was building its online service and its content right into the operating system.

All of those were trying to recruit journalists, either to work for us or to partner with us. There was an unbelievable amount of confusion in the marketplace.

It became a real tough decision for partners, media companies, journalists. Whose side should they take? A lot of it became who would pay you the most money. Rights fees were created. I once had a \$400 million budget to now write a check upfront. There was no longer revenue sharing. It was: "We're going to write you a check, and you'll be with us, and then we'll charge."

Now all of a sudden for AOL we had to change our model. We had to go from metered pricing to \$19.95 all you can eat. I remember the world saying, "That's it for AOL. You're dead." The exact opposite happened.

Knight Ridder, the second-largest newspaper publisher in America in the '90s and videotex pioneer in the '80s, became one of the first mainstream publishers to take its product online as AOL took off. Tony Ridder, an heir to one of the founding families and an executive on the advertising side of the business, was president of the company, working for (the now deceased) Jim Batten, a journalist who had worked his way up on the Knight side of the business. Ridder made the decision to move headquarters from Miami, Florida, to San Jose, California, and launch, along with editor Bob Ingle, a venture called Mercury Center, one of the very first

online newspapers. When they began, the web wasn't yet available so they signed on with AOL to distribute their product online.

Tony Ridder, former chairman & CEO, Knight Ridder:

I think that we thought it would be the newspaper in live form. Not just putting up the newspaper, but it would be the newspaper in live form, and we would offer these other services that we would have, a retrievable service so that people could access past copies of the Mercury News, and that they could search for other kinds of information.

But then Netscape came along and we could go up on the Internet. We were the first customer of Netscape. It's interesting when you look back on it now. People are always saying, "Well, these newspaper guys never saw this coming." I used to say, "We are not going to be a buggy whip company. We are not going to miss this wave. There's something here, and we're going to be part of it. We're not going to worry about making money for some period of time. We're going to get on top of this thing." But even though we spent all this money....

Of course, in 2009, four years before our interview with him, Tony Ridder had stood before a gathering of employees, reportedly with tears in his eyes, to announce the sale of his namesake company to McClatchy Co. for \$4.5 billion, only a fraction of what Knight Ridder had been worth just a few years before, but considerably more than it would likely be worth today.

But we are getting ahead of our story. Around the same time that AOL and other services were opening up, at least a little, to the web, strategists in the news industry grew excited that the freedom to publish directly onto the web would lead to better business models. Kathy Yates was an executive at the Mercury News and later at Knight Ridder Digital, and she recalls the clear benefits presented by the web over the proprietary walled garden services.

Kathy Yates, former Knight Ridder executive:

I just didn't see that there was much of a future in a limited, walled garden online approach. It was just too difficult. The penetration was too thin; there was nothing about it that said to me that it would ever be a successful enterprise. The staff knew I was fairly skeptical.... One day the chief marketing officer for Mercury Center called me into the boardroom and sat me down. He said, "I've got to show you something." What he showed me was, it was a beta version of Mosaic. I just...I said, "Game over. That, I believe in."

I think what really was so striking to me about the Internet was the removal of boundaries. The newspaper business, as I experienced it, was always full of boundaries. It was very limited in so many ways. The manufacturing process. The distribution process. The limitations on how you package the news and the advertising always seemed to be putting up constraints that we were bumping into, even though we were an extremely profitable business. I think at the time the Mercury News was number one in terms of classified lineage in the country. We were always vying back and forth with The Dallas Morning News, but I think at that point we were on top.

The Internet was just so gloriously, really free, of those constraints. That's what convinced me: "OK, this is a game changer." From that point on I really dedicated everything to it. I signed on to become one of the founders of Knight Ridder Digital... Tony was looking to see if the experiment could be extended throughout Knight Ridder as an entire company.... That's really how I spent the remainder of my career with Knight Ridder.

In virtually every media company, early adopters emerged, and they jumped on the prospects of the Internet with enthusiasm. One was Steve Newhouse, part of the media conglomerate that carried his family's name, and he helped to push the business to experiment with digital technology, inspired in large part by work he saw at the MIT Media Lab.

Steve Newhouse, chairman, Advance.Net:

I first became aware in the early '90s when there wasn't an Internet yet. It was called "new media." No one quite knew what that was, but everyone was afraid of what it could be and wanted to be more familiar with it. I was editor of the Jersey Journal in Jersey City, New Jersey, and in the third generation of a family business. And so because no one else in the business really cared or wanted to pursue new media, I elected myself.

I joined a consortium at MIT, "News In the Future," which was a really pioneering effort by Nick Negroponte, who ran the Media Lab, to investigate the changing landscape and [was] remarkably accurate in its focus and prediction. I remember sitting with the grad students in the Media Lab and hearing a view of news that was digital, that was interactive, and was community based. I actually saw the Internet for the first time in the Media Lab. It was before Netscape. It was text-based. It looked like the early computer programs where you typed in equations and got an answer.

The leader of that lab was Nicholas Negroponte, who helped many established media executives get an early view of the coming digital revolution even before their companies could legally register Internet domains.

Nicholas Negroponte, founder, MIT Media Lab:

The Internet, or ARPANET, as it was called, and DARPA NET, as it was called after that, wasn't available to companies until the mid '80s. In fact, I think it was '87. It wasn't legal for companies to use it. The reason I know that is that when we opened our doors for business at the Media Lab, which was October, 1985, we were fronting for companies to have email addresses because we, as an academic institution, could have them. It wasn't quite laundering, but it allowed companies to have Internet access. We started...I believe in '87...something called "News and the Future."

Paul Sagan:

Why did you do that? What did you see?

Nicholas Negroponte:

We did that because we saw the nature of news changing very quickly. We had something called "Television of Tomorrow" that predates it by about two or three years, but that was really the technology about high definition and delivering television over telephone lines. It was very tech oriented. The "News in the Future," we thought, would be more content oriented. We basically went to media companies and said, "You better hedge against the future and fund us." I believe that at our peak we must have had 50 or 60 [sponsor companies]."

We had every single one of those [big media] companies as a member of "News in the Future." The only one that was a holdout that I don't think was ever a part of it was The New York Times. I remember in 1981 or '82 going down to The New York Times with Jerry Wiesner [president of MIT] to see [Times executive] Sydney Gruson. Sydney and Jerry have this story they're chatting away about. Then Sydney Gruson looks at me and says, "Young man, what is the future of newspapers?" I said, "Sir, it's to wrap dead fish." Jerry Wiesner never forgave me for that comment. When we did our first electronic newspaper here at the Media Lab, that was really the first web application. They named it Fish Wrap, sort of in honor of that remark.

AOL founder Case remembered that in the pre-web days, even AOL was prohibited from exchanging data with the Internet because it was still not commercialized.

Steve Case, co-founder, AOL:

What's interesting to me is that when we started in 1985, it was illegal to connect a commercial online service to the Internet. The Internet, I believe it was [until] 1991, was only for government use and university non-commercial use. Businesses could not operate on the Internet. A company like AOL could not connect to the Internet.

Our positioning in that early- to mid-1990s was AOL certainly got you access to the Internet and a whole lot more that was exclusive to AOL. That drove a lot of the growth in that 1990s period, when people were beginning to learn about the Internet. The World Wide Web was just beginning to emerge and come of age, and the way you could access that through AOL gave you a better Internet experience, plus some things that were only available if you were an AOL subscriber.

Even today, Ted Leonsis questions the conventional wisdom that the walled gardens failed because they were closed as compared to the web and the greater Internet.

Ted Leonsis, former AOL executive:

We saw this other world emerging, and we were being sneered at. Remember? "You're a walled garden. You live in the Walled Garden." I laugh now because Apple's the most valuable company in the world. They're the ultimate walled garden.

And in spite of the burgeoning digerati's condescension toward AOL as the "Internet on training wheels," the online giant thrived in the early years when the web took the world by storm.

Steve Case:

We started the company in 1985. We went public in 1992. It was seven years later, and we only had 200,000 customers after seven years. Seven years after that, when we were looking at, and did merge with, Time Warner, the number had gone to 20 million. But it was only the second decade when it really took off and everybody woke up to the idea of the Internet. Thankfully, at our peak, a majority of Internet usage in the U.S. flowed through the AOL systems.

Still some legacy publishers, such as Newhouse Communications, proceeded from Day One without help from the likes of AOL.

Steve Newhouse:

Over time, at the Media Lab, I became convinced that the Internet was the way of the future, [and we] decided to embrace it as our publishing platform. We never did a deal with CompuServe, or Prodigy, or AOL. At the same time [Nick steered us to] an unknown magazine called Wired, which had been founded in Amsterdam by Louis Rossetto and Jane Metcalfe. We made an investment in Wired.

...I became the Advance representative to Wired and would go out there [to their office in San Francisco] every couple of months and sit with Louis and Jane, and they were really pioneering people. So in the early '90s we decided to start Internet sites. It was really based on the first [media company] Internet site that ever existed, which was at Wired magazine. It was called "Hotwired."

Steve Newhouse hired New York Daily News president Jim Willse as Advance Communications' first new media executive, and he in turn, hired Jeff Jarvis, who began planning the site that would become NJ.com—one of the first major local or regional online news efforts—as part of their effort to navigate the digital currents running across the industry.

Steve Newhouse:

As a sense of how early we were, we were able to sign up URLs like NJ.com, Cleveland.com, Syracuse.com because no one was doing websites with those names. Now, if I had been really smart, I would have bought a thousand of the best URLs and made hundreds of millions of dollars. But so be it. We just bought city names.

On the national side, we tried to think of how we could apply what we were seeing at Hotwired to magazines, and we decided to start a food site and build a Hotwired-like site for food because we thought looking for recipes would be a good application, which it turned out to be. That's when we started [Epicurious](#).

We felt that we needed to give the new medium new brands and experiment with new things. Epicurious was both a site that combined content from the two food magazines at the time, Gourmet and Bon Appetit, with a searchable recipe database and all sorts of other enhancements...that made it to the Internet. Most importantly, we believed early on in interactivity, and we allowed our users

to comment on recipes, so the recipes became annotated with the comments of people who actually used them, and that became very popular.

Certainly, the newspaper companies like Knight Ridder and Newhouse weren't the only publishers taking an active interest in moving content online. At Time Inc., the largest magazine publisher in the country, interest in digitizing the titles actually arose from the journalism ranks. Walter Isaacson, soon joined by Paul Sagan from Time Warner's cable division, worked with a small team to bring news from titles as diverse as [Time](#), [Fortune](#), [People](#), and [Sports Illustrated](#) initially to the proprietary services and soon after to the web.

John Huey:

Walter, can you conjure for us your first time? When the light bulb went off over your head and you said, "Ah, this digital technology in journalism is going to really change the way this all works?"

Walter Isaacson, president & CEO, Aspen Institute, former chairman & CEO, CNN, and former managing editor, Time magazine:

Yeah. It was on a New Year's Eve [1992], after we'd come back from a party, and Phil Elmer DeWitt had been pitching a story called "Cyberspace," what's happening online, digital media. I was back-of-the-book editor at Time, and late that night I went online to the Well, which was one of the early bulletin board systems that Phil had told me to go on. Totally dial-up. It was complicated because we didn't even have dial-up modems. I had to borrow a dial-up modem. It was like 2,400 baud or whatever.

I noticed hundreds of people in these bulletin boards and sort of chat rooms. They weren't live chat, but it was close, talking about New Year's Eve and talking about the year, and [I was] thinking, "Whoa, there's this whole cyber community."

We ended up three or four weeks later using the people from Mondo 2000—which was an early pre-Wired magazine...about the digital age—[to produce a cover for Time]. We even had hypertext, which was...the web had not flowered. There were no Mosaic browsers yet. But hypertext was still being used. And so we ran the story and some words were underlined, or in red, and they would point to things in the margin that would explain it.

After that we said, "Why don't we put our own magazines online," and I asked Phil. We started playing off AOL, CompuServe, and Prodigy because this is before

Mosaic had made the web very accessible. If you put it up with AOL or CompuServe it had to be their subscribers. They would get revenue by the fact that the longer somebody stayed online with them the more they would pay those companies, and we would get a cut of those revenues with approximately a million dollar guarantee [from AOL].

At that magazine conference in 1993 I remember being with [Louis Rossetto](#), who had just launched Wired magazine [and we talked about this]. But then Louis and I talked a year or so later, and we said, “Why don’t we put it directly on the Internet?” as opposed to one of these online services that were walled gardens. We made those deals with AOL, Prodigy, and CompuServe without much corporate knowledge or interference until it got to be about a million dollars of revenue a year, at which point they were paying attention. Then we had to pitch them, “Can we cut out these online services?” which wasn’t a good idea because the online services were giving us money, but it was an inevitable idea.

Every now and then we’d go up to Reg Brack, who was then president of Time Inc. He would say, “Well, who owns the Internet?” and things like that.

For an early adopter of digital technology, like Time Warner CEO Jerry Levin, the advent of the web seemed to offer a promising way to bring together a unified strategy for creating content, distributing it, and making money.

Jerry Levin, former chairman & CEO, Time Warner:

[Walter] came into my office and said, “There’s something called the World Wide Web. You ought to take a look at it.” It showed that somebody had finally figured out a unification strategy.... Somebody brought an agreed-upon standard so that all parties could have access to signing on and getting something back. That there was a universal code. I thought that was transformative.

John Huey:

When you go back and look at the development of all this, you look at all the decisions that were made and all the coming together you described, of trying to juggle technological development with content development...Is where we are today pretty much where we would’ve ended up, inevitably, no matter what, or were there things...I’m not just talking about Time Warner, I’m talking about the whole landscape. Is there another path that, had it been taken, things would be profoundly different today? In other words, is the march of this technological disruption inevitable to all the business models, or were there other ways to



have ridden the disruption that would have ended up in a profoundly different place?

Jerry Levin:

I think we're where we were meant to end up. The disruption was simply the notion of a network that has no central control that can deliver near infinite capacity. And everybody tries to figure out how to make money and what to deliver over that network. That's where we've ended up. Everything pointed to that. No one owns it. I think it's a beautiful thing.

Paul Sagan:

There have been disruptive technologies in the past. Print, movies, radio, and TV. But they all accommodated each other. They didn't kill each other. Then something happened with interactivity when we got to a public standard, or the web standard. It really started to not just make room at the table but really hurt the old distribution. Was this disaggregation or digitization? What was it that made it disruptive, as opposed to incremental?

Jerry Levin:

Because it made the old form of distribution totally irrelevant. There was zero need. At least I can still go to a movie theater. There's some socialization. Popcorn. Booze. But music, the fact that you had to buy music on a disk or listen to it on the radio...And now you can get any piece of music at all, anytime, anywhere. Why do I need anything else? This is why it's slowly going to take the networks down. I can get online and get anything I want.

Paul Sagan:

Same for journalism?

Jerry Levin:

Yeah.

As a result of this early online experimentation at Time Warner, and with Levin's support and encouragement, Isaacson and Sagan began working on two new media projects. One was a narrowband web service that pulled magazine content and other features together in a sort of digital newsstand they called [Pathfinder](#). At one time it was one of the most visited sites on the web. Today it's a single page that points from [pathfinder.com](#) to the homepages of the company's magazine sites. The other sought to combine the broadband potential of the

modern cable TV plant with direct connectivity to the public and now-commercialized Internet in a service that would come to be known as Roadrunner, named for the speedy cartoon character from the Warner Bros. stable.

Walter Isaacson:

It worked pretty well. We created something called Pathfinder in '94. It was like some of the aggregators, like The Huffington Post, in a way. But it was Time magazine, Sports Illustrated, and People. It was all on a homepage. Once people got on the web, [though], they didn't need people to package things for them. They'd do whatever they wanted.

Paul Sagan:

That's right. We arguably created the first portal. We looked at the ones that developed around search, which were really guides. We were wrong. We kept saying, "We could build a guide, too." We looked at Yahoo! and said, "We could do that, too."

Walter Isaacson:

But even before Yahoo! was a dream, there was some kid somewhere who started doing "my favorite websites." It would be sports. It would be art museums or whatever. We said, "That's how it's going to work." It's going to be a directory service. That's how you'll find things on the web. You'll go to a directory and find it. We did not think that kids at Stanford like Larry Page and Sergey Brin or Yahoo! or whatever would create an ability to search the web well. There was a phrase back then that "content is king." And we actually believed it.

Pathfinder was good for what it was, which was a portal. It was a place you landed on if you went right to it. We had always believed that what we were going to do was bring people into this portal. Then, when they got the content, they would subscribe to it. They would pay for it, just as you paid for any other service or magazine or subscription you had. We had an elaborate scheme for charging people, almost like The New York Times is doing now. You got a little bit for free, but then at a certain point a paywall hit.

But I remember vividly the day in mid-1994 or so when Bruce Judson (who worked on the business side of Pathfinder) came up with the concept of a

banner ad. Yeah, Wired did it as well, but it was like the microchip being invented in two places at once.

Paul Sagan:

It was literally one day apart.

Walter Isaacson:

It wasn't the hardest concept in the world, which is, "Let's put a banner ad on top," ...but it drove a lot of the whole shape of the business for a long time.

It really transformed everything. Immediately, Madison Avenue decided, "Oh my God, we've got to understand this. We have to hire a lot of young people. They would send us money. It was almost like you could look out of the Time Life Building to Madison Avenue and watch people walking with bags of money to dump it on our desk, or Bruce Judson's desk, to buy banner ads because they all wanted to be in on this thing. What this does is, it taught us we shouldn't charge for content. We should just get as many eyeballs as possible. That's the way we're going to make money. By aggregating eyeballs.

## Chapter 4

### THE ORIGINAL SIN

Around this same time, Mike Moritz, a former Time magazine reporter who had become a venture investor at Sequoia Capital, encountered two Stanford students, Jerry Yang and David Filo, and made his first Internet software investment in their fledgling company: Yahoo!. This was a *new* media company that would give its content away for free and make money on advertising, like the sites built by many of the mainstream media companies, but this one had its roots in Silicon Valley.

Mike Moritz, chairman, Sequoia Capital:

When we encountered Yahoo! the only real differentiated insight that we may have had at Sequoia was that we believed in the notion that if a substantial audience is built for a site on the Internet, then with time, it should be possible to attract advertisers.

People in the investment world, in the venture world and elsewhere, got all tangled up in the conundrum of whether or not it was possible to have a business that on the surface gave itself away for free to consumers. Our assumption all along was that Internet sites were no freer for consumers than network television or broadcast radio, which, in retrospect, seems straightforward, very evident, [and] extremely apparent. But for whatever reason, it perplexed a lot of people. Don't forget, there was no history in Silicon Valley—perhaps outside of AOL, which was not really considered a Silicon Valley company because its center of gravity was in the East....

Martin Nisenholtz:

One of the things that comes up as a theme in our interviews is [this notion of Original Sin] that Yahoo! managed to get access to Reuters and the AP pretty early. They packaged content that had been coming to the consumer indirectly through broadcast and print channels and brought it directly to the user in a very updated way and created, in a sense, a superior free service to the legacy services that thought they should be paid for their content. Yahoo! News, in a sense, set the stage. It became very large very quickly because of the size of the portal. It set the stage for the rest of journalism to go free. Do you disagree with that?

Michael Moritz:

Best as I recall, at the beginning there wasn't a purposeful desire to get into the news business. I think it was very much the result of the fact that Reuters at that point had a corporate venture that was quite active, run by a thoughtful person. They had identified Yahoo!, and I think also [the portal site] Excite, and had made small investments in both. We had said to them, "As a result of the investment, there's got to be something more than money. We need some sort of relationship. Can we package and distribute the news and information that you provide on the Reuters wire?"

That was what led to the beginning of the news business. The news business, in and of itself on the Internet, has not been a great business. It's been a very useful service for consumers, but there are many other ways far more profitable for companies like Yahoo! and Google and others to build large sales volumes than trying to sell advertisements around news and information.

I think to some extent it was a little accidental that we got into the news business. When Jerry and David were first talking about the site, news—certainly current news—was never on the road map. It came about like so many things on the Internet, accidentally and opportunistically.

One of the earliest investors and board members at Yahoo! was Art Kern, a former broadcast executive who had sold his radio stations and was looking for something new in Silicon Valley.

Art Kern, former Yahoo! board member:

Mike [Moritz] called me up and said, "I'd like you to meet these guys." I said, "What's the business?" He said, "I can't really tell you that much, other than it's a directory for this new thing, the web. You'll just have to come down and see these guys." So I drove to the Valley and met [Tim Koogle](#) [CEO], Jerry Yang and David Filo. And [Jeff Mallett](#) [an early employee and the president and chief operating officer], actually. I came away from that meeting feeling like, "This is very different in every respect."

But while the roots of Yahoo! may have been far from the media establishment on the East Coast, it developed important connections back there that would prove critical to its success in building an audience. David Graves was an executive at Reuters in New York. Reuters, based in England, was a wire service whose main competitors were financial news companies like Dow Jones and Bloomberg. It had relatively few clients among U.S. newspapers, many of whom were members of the Associated Press.

Graves, along with two other executives—John Taysom and Andrew Nibley, first spearheaded an investment in Yahoo! by Reuters in the 1990s. After that, Reuters started [putting its news on Yahoo!](#), and did it in part for an entirely novel reason—to help protect its investment in the fledgling technology company even as Reuters hoped to build significant new licensing revenue streams. Later, Graves would move to the Bay Area to become head of media at Yahoo!.

David Graves, former Reuters & Yahoo! executive:

We had just reached agreement to put a couple of million dollars into a little company called Yahoo!, pre IPO. As a concession for us doing this really risky investment, they agreed that Reuters would have exclusive rights to provide content to Yahoo! for five years, in terms of what content we had. If Yahoo! wanted a news product or a financial news product, they had to come first to Reuters and say, “Do you have this?” Then if we didn’t, they could go buy it from someone else.

Of course, every time they came and asked for something, if we didn’t have it, we figured out how to make it. “Oh yeah, we have that.” We created things that we didn’t have before. U.S. sports and a lot of other things like that....

So we sold these online reports, which were 10 stories that updated themselves. It was a kludgy, black-tape system. But it worked. We had our normal wire stories, and then an online editor would pick 10 of them and put them in order. Then we would send out a file with the code numbers of those 10 stories, called a link file. So if we put in a new lead story—a big important story—it instantly, within seconds, became the lead story on Yahoo!....

There were only two news employees at Yahoo!: One was a producer, and one was a feed handler, a technician guy.

There was never any question of charging users for content because Yahoo! wanted to increase its audience as quickly as possible.

David Graves:

We were very successful in terms of page views, but not money. Because the Yahoo! deal was a rev[enue] share. What I later learned, when I went to Yahoo!...is that you do rev shares until there’s actually rev, and then you change it to a license....

John Huey:

Explain the business rationale for Reuters doing this on a rev share?

David Graves:

The strategy was that Yahoo! didn't have any money. We did own part of it. We wanted to see more value. But it was really more, Yahoo! did all their deals that way for content.

Paul Sagan:

So clearly the consumer was voting to say, "I like the most updated news" from the outset. You were a part of that. I'm just wondering. The consumer says, "I like this product." But Yahoo! is saying, "Great, we're going to make it for free." I assume to get advertising?

David Graves:

Let's take it in stages. For the first part of the Internet, your stock valuation was driven by your audience size because nobody was making any rational decisions about what things were worth. So for some number of years all you cared about was how many millions of people were clicking on Yahoo! in a given month.

Fifty thousand a day kept getting added. So Yahoo! wasn't going to do anything that was going to interfere with the metric that was driving their stock, which at that point was audience. Certainly any kind of pay situation would've interfered with that thing. At one point I proposed [when I was at Yahoo!]...that we offer a version of Yahoo! for a buck a month that had no banners. "Let them put their money where their mouth is." Here's what I was told: Yahoo!'s audience was skewed toward heavy users. Ten percent of our users did 90 percent of our clicks at one point. The person who explained this to me said, "If any significant portion of them decides to opt for the one dollar, it will take so many page views out of our ad inventory...."

Remember, the company's really a financial news company. Their biggest businesses were foreign currency trading. Media's a small part of that...

And Reuters didn't have any real U.S. revenue. Didn't have any U.S. retail revenue. We had 20, 30 newspapers who were rich enough to have both wire services. We had NBC was our biggest partner. We sold all the TV companies at the time. CNN was a big customer, obviously...

We had nothing to lose, at that point. It was a chance for Reuters to expand. We did end up generating substantial revenues, globally, with the online news reports because our strategy for sales was called "Yahoo! envy." We would create a product, put it on Yahoo! and immediately someone would call us from Excite saying, "How come we don't have that?"

Martin Nisenholtz:

This is a hypothetical, but had you not taken the quick money from Yahoo! and built Reuters.com in 1993 or 1994, could it have become Yahoo! Finance? Or didn't you have the culture inside Reuters to do that?

David Graves:

There were those who wanted to do that. In fact, I was more in that camp because I came from the retail world. I was from broadcasting. I was consumer facing. But remember, Reuters was a wholesale operation in the media business....They'd always sold their pictures to newspapers and magazines. They'd sold their wire services to newspapers. Their television was uplinks and reports. We sent raw footage that NBC and others edited into pieces with their own reporters in front of it. So they were most comfortable with the wholesale approach, even to new media.

Paul Sagan:

It was The Reverse [Innovator's Dilemma]. It's what freed you, I think, at Reuters to do these deals no one else would because you never saw yourself as a retailer.

David Graves:

Right. We didn't see us as competing against ourselves.

Reuters did well with its Internet investment precisely because it was not competing for American consumers in its main business. Because of that lack of conflict, the company was able to pursue free content online without threatening its protected revenue stream from its financial news. As we see shall see, CNN was in a similar position: Its main business was fueled by cable fees, which allowed the cable giant to find a new audience online without the threat of cannibalizing itself. Newspaper subscription revenues were disrupted by news organizations that had no stake in the consumer paying for news; on the contrary, the prevailing market incentives motivated companies like Yahoo! to go free, to build the largest possible base of users.



Around this same time, Matt Drudge was developing another form of free news service with his [Drudge Report](#), which would later become a model for other “branded” bloggers who wanted to aggregate content from a number of other news sources—think Arianna Huffington and Andrew Sullivan.

Drudge used the essential power of HTML to "link out" to the rest of the web. His effort began as a subscription email newsletter in 1996 and later became a popular website. Today, it is fashionable among news providers to talk about "curation" or the idea of editing the web. Matt Drudge was, arguably, the original curator.

## Chapter 5

### THEN CAME CABLE

Even before Yahoo! unleashed the floodgates of free news, in Atlanta, at Ted Turner's CNN, people on both the business side and the journalistic side were intrigued with the idea of taking their news brands online. The cable channel had launched its revolutionary 24-hour news concept in 1980, and then slowly developed it for a decade before hitting it big in 1990 when its ubiquitous coverage of Operation Desert Storm suddenly assured the future of the all-news network. Using their newfound clout, Turner's business development people had begun spreading the news by launching such ancillary brands as the Checkout Channel and the Airport Channel, which repurposed CNN's video content and aimed it at captive audiences. The path to online news, though, was less clear because video wasn't a practical option in either the proprietary online services period or, for that matter, long into the dial-up web era, dominated by the early portals. Even so, former CNN journalist Scott Woelfel recalls his first flirtation with digital news at the beginning of 1991.

Scott Woelfel, co-founder and former editor-in-chief, CNN.com:

Someone came to visit CNN from Apple. QuickTime had just come out, and they were looking to do a news magazine on CD-ROM to challenge Time and Newsweek and approached us about it. I got into this totally by chance, literally walking down the hall, when someone asked me, "What can you do for this guy?"

This was my, and really CNN's, first exposure to digital technology when it comes to interpreting news in some way. We put together a prototype of a disk.... It turned out great. It took maybe two months to do it with some resources that Apple gave us.

We [took the prototype] to management at CNN, and they looked at it and said, "This is interesting, but it's really not our business. Thanks for the disk. Go back to your day job," which...was executive producer for the prime-time newscast. Again, this is spring of 1991, and at this point it really got me interested in what the digital technology could do to expand the audience at CNN.

So Woelfel began collaborating with a few other people at CNN, including Harry Motro, a former Coopers & Lybrand auditor who was then working in business development, to see where it might lead.

Harry Motro, former head of CNN.com and former president & CEO, Infoseek Corp.:

Our first deal was with CompuServe. They were aggressive. They were much bigger than AOL to start with. I think we initially spoke to CompuServe and Prodigy. We didn't get to AOL 'til later, although I do remember meeting with Steve Case in a little conference room.... Maybe it was in '93. Steve was telling us how this [AOL] was going to be much more creative, much more colorful, much more interesting.

Paul Sagan:

It was dial-up, so you were repurposing or creating text or stills, with no video. It was still not a TV experience like CNN was, correct?

Harry Motro:

It was really tough for us because we didn't have content. It forced us to do some work, but on the other hand we had the right brand because the CNN brand meant instant news.

We had the right mentality of going after a new opportunity, I think. The bad news is that all the text that sat inside of CNN was scripts. It was people writing stuff for someone to read over, which didn't fit if you didn't have a video. What we had to do was figure out how to get rights to Reuters and AP. This is where Burt Reinhardt (a longtime CNN top executive) single-handedly enabled the creation of CNN Interactive.

I think he used to work at Reuters. He knew them forever. He was a trusted figure in the industry. CNN negotiated massive deals with Reuters for content. Otherwise, we [would've been] paying them a lot of money.

[But to get back to the dial-up services...] Early in CompuServe, the value that they wanted from us was on-air promotion because they were trying to advertise on the cheap. We wanted to really experiment with the integration of television and online. We had people creating news, basically rewriting Reuters and [later] AP.... But we also had a staff of people who were monitoring the [online] forums. That was actually the more interesting part because you could see usage spikes around shows.

There was a show that was done in the center of the CNN Center in the floor in the [shopping] mall [there]. It was a live show in the afternoon. It was sort of our

feature integration show. It was actually a great learning experience. It was probably one of the most heavily integrated early shows that was done, especially around news.

Martin Nisenholtz (to Scott Woelfel):

Talk about the process of getting a new media division started. This was a cable television network company taking a step into a new space. Can you talk about how easy or hard it was to get funded and [how was it structured? In the newsroom, or separately?]

Scott Woelfel:

It was surprisingly easy, I think, because what we were doing was so unknown to the television industry. It wasn't seen as a threat to anything else. We put together the plan—Harry Motro was actually the one who did it—but we eventually got referred to Ted, who is still not that digital today. He understood there was some potential there, referred him to John Petrovich, who was running Headline News at the time, and basically we were funded and actually operated under him at the beginning of CNN Interactive. Harry really handled the funding part. My job was to put together the team and make a product out of it.

To work with the wire copy, Woelfel began hiring an early staff of writers and editors with wire service backgrounds, as well as a few newspaper reporters and editors.

Paul Sagan:

That was a pretty controversial time because the newspapers were trying to keep AP from doing it, but Reuters did it with Yahoo! and kind of set wire stories free into the “Great Free Internet” at the same time. Do you remember that and how that related to what you were doing and what you thought the competition was doing?

Scott Woelfel:

Very much. It was an ongoing “frenemy” struggle with both Reuters and AP, but more with AP, over my entire tenure at CNN.com. They clearly wanted to be the fuel that powered this revolution in news, but, as you say, they were beholden to their members and were never really comfortable with the degree of how much was being used...especially as we grew so quickly and generated revenue so quickly.

Martin Nisenholtz:

I want to go back to the rationale for your developing this. The newspaper folks—Tony Ridder, others—really were focused on classified advertising and the disruptive potential of this technology....There was no existential threat at CNN. It neither threatened the television advertising business nor, at that time, the cable MSO subsidy. As I recall, Ted Turner didn't even like it. Why did you even do this?

Harry Motro:

I'm not going to take that much credit for it. It was actually the Turner entrepreneurial culture. That's what I really think it was, that "Hey, here's a new business. Let's go explore it." It was not heavily funded. It was really self-funded through CompuServe. We got a million from LexisNexis. We got a million from CompuServe.

Martin Nisenholtz:

Right. They paid you. That's the key. They paid you for the content.

Harry Motro:

We had started our offices under a stairwell. It was the most unattractive space in the entire CNN Center. The windows were papered off because you weren't supposed to look in. Wires in the ceiling. It was a little hellhole.

We started there, but as we gained momentum we finally moved to a marquee spot because they were starting to show it off, because it started to be cool. That was the first time I got Ted to come down and look at our webpage.

I was nervous. What's Ted going to think about it?...This was on a T1 [line] in CNN center. For some reason it was slower than usual and it was a slow load, and after about two seconds Ted was, like, just didn't get it. Big thumbs down. And walked away. I'm thinking, "My God, good thing he didn't see it on dial-up the way most people did."

I have to give Ted's brilliance full credit. Even though he didn't get it, his entrepreneurial gut said, go, do it, [he] supported it, was interested in it.

The other thing I think: Ted had a fascination with what was going on in [Silicon] Valley. He closely followed the net worth of [Bill] Gates and Larry Ellison. That got his attention.

Whatever the rationale behind its founding, CNN.com very quickly became part of the “it” crowd in digital news.

Harry Motro:

I can't remember if it was [CNN technologist] Scott [Teissler] or Sam [Gassel] who showed me for the first time what a hyperlink was. I said, “That’s really cool.” I was in my young 30s. I still hadn’t really made my career, so I said, “This is great. Let’s go do this.” We were doing the content anyway, and getting paid for it by CompuServe and LexisNexis, so let’s get some incremental revenue here.

Scott Woelfel:

Early on, we said we wanted to take that essence of what we think CNN is to the web, and that is breaking news and coverage of live events and things like that...We thought breaking news would be our bread and butter. We found almost immediately that was the case.

We had a very sharp uptake, and if you looked at our traffic patterns, what you would see is a stair [step]...pattern where we would gain audience around a news event, and we would lose very little of it. Then the next news event, we would gain more audience, and we’d lose very little. That stair step continued for I would say at least the first two years to be very significant, without a lot of drop-off, which was in great contrast to what you would see on CNN television, which would get those huge spikes of ratings, but then it would drop back down to a baseline that grew very little.

Martin Nisenholtz:

Who did you think the competition was every morning? Was it Yahoo! News, or other sites? Was it simply [an] early...green field [opportunity] and therefore [you] just keep building an audience and don’t look backward?

Harry Motro:

There was competition that arose every time. Like the portals, and obviously the news organizations, very few of which were 24 hours a day. We really did give that sense of being there. We were able to grow on that, and establish that reputation early. Clearly then we did get a lot of competitors over time, but I think we were able to stake out a pretty interesting space early on.

John Huey (to Scott Woelfel):

Scott, do I remember this correctly? Wasn't there a period in there where Microsoft tried to do a deal with CNN.com instead of NBC?

Scott Woelfel:

Yeah, before we started CNN.com—so it was in 1994—and Harry Motro and myself and John Petrovich, might have been just us three. There might have been one more, I don't remember. We went to Redmond and met with the people there.... Harry took the deal back, and Ted looked at it, and turned it down. For a good reason, I'm sure. Harry can share. I wasn't privy to that meeting. That was their first choice before they went to NBC.

Harry Motro:

They tried to do a CNN-Microsoft deal before the MSNBC deal. Nathan Myhrvold (a senior Microsoft executive) came. We all sat in a big conference room. A lot of meetings. They wanted half of CNN in perpetuity digitally. A lot of people talked about it, and they were going to throw a lot of money at it to create it, and Ted said no. At the end of the day, he was not going to give away half of CNN for any amount of money. He knew the intrinsic value of the CNN brand and so he said no.

Meanwhile at NBC, CEO Bob Wright was well schooled in both cable and Turner Broadcasting from his stint living in Atlanta trying to close an eventually aborted acquisition of Cox Cable by NBC owner GE. Perhaps hearing Ted Turner's footsteps just a bit, he had gotten far out in front of the other broadcast networks with aggressive investments in cable channels. And now NBC was eager to leverage its combined news and cable assets by striking a deal with Microsoft for a dot-com news play. Tom Rogers, an attorney by training, was head of NBC Cable at the time.

Tom Rogers, former president, NBC Cable:

We put together an approach to Microsoft. I remember that Andy Lack, then president of NBC News, and myself sat down with Bill Gates, and basically pitched him on the assets and strengths of NBC and how a partnership between Microsoft and NBC might be put together. Obviously, we were successful in getting him to think that we were a better way to go than CNN.

Martin Nisenholtz:

Why did you want to work with Microsoft?

Tom Rogers:

There were two things that drove that. One was, it was clear that we needed to have a broader catalyst for driving into new media.... We looked at Microsoft as a partner with a substantial amount of Internet traffic, a substantial amount of financial resource, and a substantial ambition to move forward in media in some way. Two, we were very much looking to take a cable channel asset we had, which had been started as America's Talking,.... It certainly gave us a vehicle around which we could have a discussion about creating a more full-fledged news channel. We had created CNBC and a business news channel, but had not had a general news [cable] platform. We knew that Microsoft was interested in that very platform because of the discussions they had had with CNN. We put this forward as a way they could have it and own 50 percent of it, and we would bring the full resources of NBC News to it. We were also looking for a partner that could help us fund and develop a broad news channel.

The third piece of this was that we were very interested in how traditional news and Internet news could [be] fused into a single franchise where the two could [be] strengthened by some joint undertaking. The brand would stand for both forms of news. A viewer or user would be able to benefit by going back and forth and understanding how the two pieces fit together. That was the most revolutionary part. That was the part that...was the rockiest. But that was the formative thinking around it.

To help execute the joint venture, NBC enlisted journalist Merrill Brown, first as a consultant, and then in 1996, as the man to move from the East Coast to Seattle and run MSNBC.com.

Martin Nisenholtz:

So, talk about the founding of MSNBC.com in Seattle. It's one of the more interesting ventures because it combines a significant journalistic institution, NBC News, with a huge technology company.

Merrill Brown, founding editor, MSNBC:

There were technology challenges around that. There were cultural challenges around that. There were journalistic challenges around that. It was a very intense period of time. Doing anything in real-time news on the web in that period was challenging. The mere act of publishing was tricky.

Paul Sagan:



And you mean that from a technical point of view.

Merrill Brown:

From a technical point of view, the content management systems were in their infancy. For NBC, trying to deliver real-time news on this very, very fragile platform caused a lot of friction because they didn't understand that when a plane went down, or something happened, the turnaround time on that wasn't the same as breaking into a cable network or a broadcast network. At the time it involved a variety of steps that we today take for granted in the content management world, but then it was rocky.

Paul Sagan:

Talk about where the content is coming from.

Merrill Brown:

Multiple ways. First of all, we had probably at the time 30 people in New York, under Lynn Povich, who was a key hire, who was charged with integrating NBC News. We had people in D.C. The principle function of those people in New York and D.C. was to attempt to extract words from television people, which was no small challenge, in part because they didn't have desktop computers. They had only television news computing systems [closed systems].

Microsoft could not understand it. There actually was an information company that didn't operate on some Windows system from which we could actually get words. There was actually enormous resentment about the fact that they weren't all racing toward Windows.

We had to literally go and sit down with them, interview Andrea Mitchell and Pete Williams and other NBC correspondents. Take down their stuff, sometimes transcribed on the phone, sometimes on notepads or laptops, and literally pull content from them so we could rationalize the expenditure of effort and money on NBC in the short run, where they had very, very few natural assets.

Martin Nisenholtz:

The only people that I remember who were doing a great job of really being on top of breaking news were the folks at Yahoo! News [who had] access to the Reuters wire. And CNN.com, who somehow mastered this, despite the fact that they had a television operation.

Merrill Brown:

[CNN] was a television operation that had 20 years, or 15 years, whatever it was, of breaking news experience. They knew how to go after [and] cover [a] story in real time, which NBC didn't know how to do. NBC didn't have any years of doing that.

The only solution to the problem was to build significant, original journalistic capability, largely in Seattle, where people could produce stories, cover stories, do reporting. I sent them on the road. I sent people to the war in Bosnia. I sent people to the Middle East. In some cases, to facilitate NBC News producing content for the web, but in some cases just to get stuff.

John Huey:

But what that really means, "to facilitate NBC" is to make sure you got something out of there because they weren't giving it to you.

Merrill Brown:

Precisely.

Paul Sagan:

Was there a business model besides the fact that there were two rich parents at the time?

Merrill Brown:

Nothing but weak efforts at ad dollars, which Microsoft was terrible at for years—really, really terrible at it. We had lots of conflict about the fact that we couldn't get their attention, in part because our inventory was worth 50 cents on a dollar to them, and Expedia's was worth a dollar on a dollar [because of the ownership structure].

Paul Sagan:

Were there specific stories that changed the perception of the parents or made the JV [joint venture] stand on its own?

Merrill Brown:

Among the really important things we did was aggressively and quickly integrate with [NBC News programs] Dateline, Today, and Nightly News. We did this

incredible thing of getting our URL on their screen. In '96 and '97 the act of creating [an on-screen graphic] that had an Internet address on it and actually might have a reason to send people to the Internet, was revolutionary in many ways. In prime-time television, we were the first people to do that.

Paul Sagan:

So, effectively, your promotion, or at least your impressions, were far greater than what CNN could drive to their own site?

Merrill Brown:

We had two brand and audience strategic advantages that nobody had: A broadcast network that was willing to integrate with us, and a [web] portal that was fully integrated with us. Big, important advantages.

Martin Nisenholtz (to Tom Rogers):

Let's talk about the business model for just a moment. Did you ever think about at the time the idea that it might be a good idea to charge for the service given that there were no cable subsidies? In other words, you were committing to a one revenue stream business. As a cable guy, you must have thought: "I don't like this as much as cable," to be blunt.

Tom Rogers:

It was clear by the mid-'90s that [the model of charging cable systems for retransmission of programming] was a really powerful business model. It's only become more so.

Our view was that it was going to take a much longer period of time for the business model around Internet news to develop. Microsoft had a much more aggressive vision of how quickly that would come about.

No, we didn't really consider charging a subscription fee.... Our view of the deal was that it was clearly driven off of our optimistic view of cable, and a very long-term view of what it would take for the Internet. Microsoft had a very bullish, near-term view of the Internet. They were not as enraptured by what the cable economics might look like. Those disappointed expectations had something to do with the souring of the relationship with MSNBC. Ultimately, years later, that partnership dissolved.

For all the fits and starts of these early online news efforts at CNN, Yahoo!, MSNBC, and AOL, these four sites were destined to enjoy huge success in the traffic-chasing, banner ad-selling days that dominated the second half of the '90s and on into the early 21<sup>st</sup> century. Even today, all of them remain—along with Google News, The New York Times, and the upstart Huffington Post—at or near the top of audience usage rankings for U.S.-based news sites.

## Chapter 6

### RETURN OF NEWSPAPERS

While all these new entrants had entered the online information era, the newspapers weren't sleeping through it. By the early '90s, the broadsheet publishers had quit licking their wounds over the painful teletext and videotex experiments of a decade before, and had established a presence on the proprietary online services. Knight Ridder, Tribune, and The New York Times were all providing content on AOL. The Washington Post and Minneapolis Star Tribune established outposts on AT&T Interchange. The Wall Street Journal created its own proprietary service called "Personal Journal" using Microsoft technology. The newspapers were giving electronic publishing another go, but this time they had let the online services in the middle, between the newspapers and their readers.

Then, the web hit. When Hypertext Markup Language (HTML) arrived, it was nothing short of a revelation to publishers, and it quickly became the method by which most webpages were created. Gordon Crovitz, later the publisher of The Wall Street Journal, remembers the first time he saw a webpage written in HTML:

Gordon Crovitz, former publisher, The Wall Street Journal:

I was back in New York and Neil Budde, who was later the founding editor of The Wall Street Journal's website, showed a group of us this unbelievable product, which was the first iteration of The Wall Street Journal's website built on HTML.

He explained how he had done it, and he explained this HTML. It was the most amazing thing I'd ever heard. We saw the demo, and I asked him at the end of the meeting, I said, "That was fantastic but how many months is it going to take to produce that?"

He replied, "Time to produce it?"...He looked at me and said, "I don't think you understand. It's live now."

The contrast between electronic publishing in the old days, the pre-Internet days, and the Internet couldn't have been more stark to me.

That contrast wasn't just in the magic of the creation tools and the previously unthought-of speed-to-market; it was also transformational to the business model. Suddenly, the web made it possible for publishers to easily bypass the proprietary services; to own their customers; and to avoid any notion that an intermediary could determine whether, and what, would be published. This was the biggest, freest printing press the world had ever seen. Honestly, not since Gutenberg. Of course, as it turned out, that knife cut both ways.

Tim Berners-Lee, inventor, World Wide Web:

For a lot of people, you were interested in the First Amendment idea, that right to publish. In the early days of the Internet, people felt, “We have a distributed system. That means something which is not controlled by government or anybody else.”

That was driving a lot of people. That drove a lot of the excitement. Certainly, the early geeks were excited to be able to work together without asking anybody’s permission. Some of the initial publishers who realized, “Oh my goodness, I can start a newspaper just like that.”

One of the newspaper executives who sensed that power early on was Alan Spoon, who was president of the Washington Post Company. Spoon was a “geek” from MIT with a law degree from Harvard, and he was familiar with the Internet well before Berners-Lee invented the World Wide Web.

Alan Spoon, former president, Washington Post Co.:

Don Graham and I were making a sales call in Chicago to a major client. We were going to the airport in Chicago. I was talking about the web and how it was coming on. Don and I always put our heads together in these things. We decided, “You know what? We’ve got to get to the web.”

So, forced march. Cellphone call from the back of the cab: “Changing strategy. We need to move off of the proprietary system.” Because as I always put it, “We are winning the county track meet but the Olympics lay ahead.” We have to have a hell of a lot more subscriptions than that [referring to their 30,000 AT&T Interchange users]. We shifted the model from pay to advertiser-supported.

By now, of course, a number of free news services already existed on the web. Yahoo! News and CNN.com were giving it away to one and all. And Knight Ridder had changed its strategy from a paid service on AOL to a free one on the web:

Tony Ridder, former chairman & CEO, Knight Ridder:

I don’t think that was a bad decision because we had to build up a big enough audience so we had something to sell [to advertisers], and I don’t know if we would have built up that audience absent that.

Meanwhile, at The Wall Street Journal, the plan was to launch a pay site:

Gordon Crovitz:

There was never really much of a debate. The debate was really, “How much do we charge?” It was never, “Is this going to be free?” I think one reason for that is that unlike most newspaper companies, Dow Jones, since its very beginning, since even before The Wall Street Journal, was selling news electronically to subscribers. The whole revenue base was subscriptions for what’s now the Dow Jones Newswire and other services.

In early 1996, The New York Times came onto the web with [nytimes.com](http://nytimes.com). It was a free service for users in the United States (paid elsewhere and this ended in July 1997), but with mandatory user registration for the purpose of developing a segmented advertising model. Martin Nisenholtz, who made the recommendation to offer the site free of charge, spoke to Times publisher Arthur Sulzberger, Jr. about the decision:

Martin Nisenholtz:

We made a recommendation that was somewhat controversial at the time, although we made it in the context of other folks having made the same decision, to offer [The Times] website for free. Many people have said that this was a good decision. Many people have said this was a terrible decision.

There are people, in fact, who we’ve interviewed, that are on both sides of that. I just wanted to get your thoughts in retrospect. Do you think it was the right decision to offer The Times on the web for free at that time?

Arthur Sulzberger, Jr., chairman, The New York Times Co., and publisher, The New York Times:

The answer is, absolutely, I do. I do for a couple of different reasons: The first is, we didn’t know what the business model was going to be. It was so early in that system; to see what kind of audience we could build; what kind of tools we needed; at a time when this was a highly profitable newspaper company....

Two, I think by offering it free, we found it easier to engage our journalists in building the digital muscles that we needed to make this really work because, as you recall, the newsroom embraced it in theory but not really in their heart.

Newsrooms, as you know, are mission-driven organizations. They saw this in the early stage as getting in the way of the mission. The mission was getting the best quality information into the hands, literally, of people who were holding paper. But once they started to see what kind of reach they could get, once they started to get feedback from people living outside of the United States who had read

their stories on this thing called the web, they started to say, “Wait, this is core to the mission.”

I think it would have been a harder sale had there been an element of charging for it, in making that transition.

By 1996, virtually every mainstream news organization, from national to local, broadcast, cable, and print, had some kind of news presence on the web. Most were free, and in most cases, the website “brands” reflected the idea that the web was seen primarily as a way to “repurpose” existing editorial (and wire) content. This was certainly true at the dominant papers—The Times, The Journal, USA Today and The Washington Post—all of whom created brand extensions on the web. Some local organizations, however, went another way. A [team at The Boston Globe created a local portal](#) called [Boston.com](#). The Newhouse newspaper organization, as noted above, created [NJ.com](#) and hired Jeff Jarvis to run it.

Jeff Jarvis, founder, Advance Interactive:

There was much debate about that—I think there still is today—about the brand question, everywhere. But the belief was this is something entirely new. It was going to combine multiple newspapers in some of the Newhouse markets. In Michigan we had eight papers; in Alabama, we had three papers. So you could have a statewide service.

In fact, it started as “New Jersey Online” at NJ.com. One lesson we learned was that your brand and URL had to be the same. It was rebranded again to, simply, NJ.com. They’ve stuck with that.

While the newspapers wrestled with issues of branding and business model, “native” web journalism organizations bloomed across the Internet. Two recent college graduates, Steven Johnson and Stefanie Syman, created FeedMag, one of the first and best online “zines.” Joey Anuff and Carl Steadman created Suck.com. Their tagline: “A fish, a barrel, and a smoking gun.” In 1994, Cool Site of the Day was launched by Glenn Davis to celebrate this great flowering of Internet content, broadcast to an emerging generation of online enthusiasts. Suddenly, everyone was a publisher.

Tim Berners-Lee:

Early on there were some things which I think people noticed. There were some firsts from my point of view. When I followed a link at Franz Herzl's Vatican, he had an online hypertext exhibit of Vatican Renaissance artwork that had been scanned by the Library of Congress.



He found the stuff on the FTP [file transfer protocol] server and had made webpages out of it. I went through his museum and clicked on a little thumbnail and I found this beautiful—I've got it on my computer still—beautiful illuminated manuscript. It had a nice color screen. That was just great because this was showing how you could really see great art on it.

Then Steve Putz was the first person to make [a map server](#). You could click and you would move to a slightly different part of the world, and it would draw you a map every time. I think it was done with the U.S. census data, the [TIGER](#) data. That was another trigger.

The moment Steve puts up that very crude map server, everybody realized, "Oh my goodness! Every webpage is just a virtual idea. I have to write a program, which will draw, or paint the right version of that idea when somebody clicks on the link, and I can make links to other ones." So they realize with just a few lines of code, Steve had produced this world of maps of the U.S. at any scale.

Around that time, others were thinking about how this might apply to a variety of emerging online publishing and advertising opportunities. One was [Jeff Taylor](#), whose 1994 startup, the Monster Board, would become the largest job search site for many years, severely disrupting newspaper help wanted advertising, one of the industry's largest and most profitable advertising categories. Another was a young journalist and entrepreneur named Larry Kramer, who was thinking about how to craft a new business model for online business information:

Larry Kramer, founder, MarketWatch:

Now, it's '94, '95, and I'm going, "Something big is happening." A lot of people are starting to trade stocks at home and are getting very disillusioned with brokers. I'm thinking everybody's getting these IPOs. Netscape happened, a few things started to happen, and I can do that. My broker isn't getting me anything. The brokerages started coming online with discount brokerages. Schwab and E\*TRADE and things were all popping up.

A whole new community of people was coming up who wanted financial data at home and were trading stocks. It looked to me like the Internet could replicate a Bloomberg terminal pretty closely. Not everything, obviously, or a Reuters terminal at a home, [but] for much less money if you have real time. There's no way of getting around the fact that the exchanges would charge you for real-time data. You'd have whatever that charge, but it was in hundreds, low hundreds, not thousands.

The rest of it was on this thing, the Internet. If I could build a news service that could even approach some of what they wanted.... My strategy was, most of these home traders were trading a basket of stocks—the Internet stocks at the time, which were starting to get very volatile.

If I started a news organization that covered the most-traded stocks by volume, I would be attracting a large audience.

Kramer wanted to align with a major media partner to get the credibility of their brand and promotion. One of the companies he approached was CBS. His initial contact was a young business development manager named Derrick Ricefield.

Larry Kramer:

Derrick saw it right away. He went back and talked to [CBS News president] Andrew Heyward, and my next meeting was with Andrew Heyward. I flew to New York, and I knew this could go either way. Andrew and I are contemporaries. We didn't know each other, but we had a lot of mutual friends. He had been a Harvard undergraduate when I was at the [Harvard] Business School.

We had a lot of things in common. He knew that I'd been at The Washington Post. At that point, I was a respected editor in his mind. I said, "I don't know how you're going to react to this," because in my days at The Washington Post if somebody came in and said, "We'll cover financial news for you," the window wouldn't have been big enough to throw them out of. It's like, who do you think you are?

He took the exact opposite approach. He said, "No. We really need help covering business." He was totally open to the discussion.

[CBS MarketWatch](#) was born and quickly became one of the largest business news sites on the web. It competed with other early attempts at financial news, including Jim Cramer's [TheStreet.com](#), and Quote.com, an early news aggregator. Brothers David and Tom Gardner launched the [Motley Fool](#) on AOL in 1994. TheStreet.com created a paywall, like The Wall Street Journal. MarketWatch remained free.

Martin Nisenholtz:

Now, you've decided that it's free, right?

Larry Kramer:

Free and ad supported. I had already started to build an ad team at that point. I was trying to hire Scot McLernon, who was the ad director of Quote.com. He kept saying, “No. I think Quote.com is too good a brand.” I said, “I think I can solve that problem for you.” I couldn’t tell him how, so he was very skeptical. Then the day we announced it, I sent him a note with just an eye [the CBS logo] on it, and he joined shortly thereafter. We were off to the races.

Martin Nisenholtz:

If WSJ.com had decided to go free like The Times did, would you have had any hope of making this work?

Larry Kramer:

Much less. I don’t know. I really don’t know if I could have made it. I thank my lucky stars for the fact that the three big news organizations were all tied up on very expensive terminals....

In 2005, Dow Jones would pay \$519 million to acquire MarketWatch and its huge audience.

Gordon Crovitz:

One of the reasons I approached Larry to ask him—when CBS MarketWatch was an independent company—to ask him what the future of CBS MarketWatch might be, and would he be interested in being purchased by Dow Jones? One of the reasons for that discussion was, and this is going to be very hard to believe now, but at this time...The Wall Street Journal’s website was sold out in terms of online advertising at very high [rates].

## Chapter 7

### THE NERDS & THE NEWSIES

The very core of the revolution that was now underway was technological, with every new advance being driven by innovations in computer engineering. And yet, for the most part newspaper and magazine companies didn't initially make significant engineering investments in their digital businesses. They viewed engineering as a means to an end—plumbing—a way to enable their core journalism to travel around the world through this magical new distribution channel called the World Wide Web. Engineers were expensive to hire and engineering just wasn't in the DNA of most publishers; these companies had run for decades on delicate balances of power among advertising sales, consumer marketing (circulation), finance, and editorial departments.

Looking back now, though, it seems clear to many that this oversight severely hampered the ability of the publishing industry to—in the metaphor coined by ice hockey's Wayne Gretzky—skate to where the puck was going to be. The failure to embrace the value of engineering led to an inability to sufficiently innovate in the field. Google chairman Eric Schmidt was particularly blunt on this topic.

Martin Nisenholtz:

Do you think that the industry hasn't innovated enough, in terms of the actual construction of the story? If so, why do you think that has happened?

Eric Schmidt, executive chairman, Google:

I think there's a very simple explanation. The industry has no engineers....I am just laying out the facts. You cannot innovate and build new products without engineers in your field. If you don't have them, you have to find somebody who does and partner with them in a clever way.

Schmidt isn't alone in this view. Will Hearst, a graduate of Harvard with a degree in mathematics, has been a newspaper writer, editor, and publisher, but also a successful venture capitalist at Silicon Valley's Kleiner Perkins Caufield Byers, where he has backed many engineering-led companies. Today, he is Chairman of the Hearst Corporation, the media giant founded by his grandfather, which has major interests in everything from newspapers and magazines, to TV stations, to a big chunk of cash cow and sports news leader ESPN.

John Huey:

You have a lot of people, Eric Schmidt is one of them, who said to us one of the big failings of the publishing industry was that it never really valued the engineer.

Will Hearst, chairman, Hearst Corp.:

I agree with Eric on that.

John Huey:

[Nicholas] Negroponte said the same thing.

Will Hearst:

I agree thoroughly. There was a long stretch of time when some of us were telling the traditional media companies, "Look back on your own recent history." There was a time when the people who were in the art department were not considered very valuable. Then when Al Neuharth and USA Today came in, all of a sudden, the guy from the art department that did the charts and the graphs got to sit in at the news meeting. Those people were taken seriously as part of the senior council, but you've never brought the engineers into that meeting. They were always replaceable, hireable, outsource-able, unimportant people.

The modern media value proposition is being made out of technology, and so the people that do that aren't even in the meeting. They don't even get to vote. That was a big thing....

I agree with Nick and with Eric. You needed to celebrate engineering as a creative craft, as a journalistic, creative profession, like photography, like illustration, like editing. These skills don't grow on trees.

Former investor and board member Art Kern made a similar observation about the founders of Yahoo!.

Art Kern, former Yahoo! board member:

Literally, as a matter of fact, Jerry [Yang] and David [Filo] were rocket scientists. They did some work at NASA Ames [Research Center in Silicon Valley] and they were [Stanford University] PhD candidates.

Mike Moritz, who in addition to his early role in financing the launch of Yahoo! was an early investor in Google, reads from the same script.

Mike Moritz, chairman, Sequoia Capital:

Best as I can remember, at the helm of America's largest 50 media companies in the mid-'90s, there were no programmers, there were no software engineers anywhere near the top of the company. You could probably have let 100,000 of yesterday's media employees through the door without spotting one software engineer.

Sir Martin Sorrell, founder and CEO of ad giant WPP described his hesitancy to invest in the skills so necessary to compete in a digital age:

Sir Martin Sorrell, founder and CEO, WPP:

You asked could we have done anything, could news organizations have done anything about the digital revolution? The fact is can you ride the waves? You think you can roll back the sea and you can't.

If you said to me, "What do you regret about WPP over, say, the last 13 years?" It's that we haven't done more faster-growth markets and we haven't done more digital. Because [with] the benefit of 20/20 hindsight: If you had done those deals that you thought were marginal; if you had taken-on those people who you thought were not fundamental and not core, and were marginal, you would have invested in more human capital in the digital area and you would have invested in more companies.

Of course, the one company that did attempt to bridge this gap was Microsoft, which cast hungry eyes on the Internet media business not only with its MSNBC joint venture, but with the launching of Slate, the ambitious online magazine that the company also based in Seattle. The software giant hired as its founding editor Michael Kinsley, a highly respected print journalist as well as one of the first cable TV political personalities (from CNN's Crossfire).

John Huey:

It's been suggested to us by a number of people that one of the big failings of the traditional legacy media business is it never had any real affinity for engineers.

Michael Kinsley, founding editor, Slate magazine:

Right.

John Huey:

How did it feel to be a journalist in a land completely dominated by engineers?  
Did that work?

Michael Kinsley:

On the one hand, there was no tension about that. On the other hand, we didn't take advantage of it the way we should have.

John Huey:

Is it fair to say, as a journalist, you probably didn't have that much appreciation for the possibilities of engineering?

Michael Kinsley:

I found the engineers who worked for Slate very nice people, but just like writers, in fact, very like writers, they were spoiled rotten. You could never get what you wanted from them. They got very angry at me when I would say, "Why can't we do X?" This was after I realized that we had to reinvent the form to some extent.

In the end, Microsoft exited the news business, first selling Slate to the Washington Post Co. in 2004, and, more recently, offloading its stake in MSNBC to NBC owner Comcast.

Arguably, one exception to the rule that mainstream media companies didn't appreciate or empower engineers was at CNN, where they brought in not one but three technologists with academic computing roots from the University of Chicago—led by Scott Teissler, today the chief technology officer at Turner Broadcasting, along with Sam Gassel and Monte Mullig. According to both Motro and Woelfel, this helped contribute significantly to the early success of CNN Interactive.

Furthermore, Negroponte argues that the notion of needing to merge engineers with "creatives" was the founding principle of the Media Lab at MIT.

Nicholas Negroponte, founder, MIT Media Lab:

The people who formed the original Media Lab did so in a frictionless fashion, and the statement, the mission statement if you want to call it that, was that the inventors and the creative users of media should be in one place.

The example where that didn't happen was in television. Engineers invented it then threw it over the fence, and people used it. The example of where that did happen is photography. If you think of the history of photography, the people

who invented it were the creative users, and when you wanted to do something else, you invented more. My argument—had you been in the room and I was trying to persuade you in 1985—was that the computers would be the same thing; that the future of computers would be driven by the creative users, not the computer scientists. That was the basis for the Media Lab.

Some of today's newspaper executives seem finally to recognize the necessity for adopting the collaboration that Negroponte was promoting almost 30 years ago.

Donald Graham, chairman & CEO, The Washington Post Co.:

We have to present the best that we have to offer in a way, in a format, that readers like to use. The only way to do it is having people like Shailesh Prakash, who is the most valuable player at The Washington Post. Shailesh is the [vice president] of technology at The Post, and I would say is a peer of [executive editor] Marty Baron. He and Baron will create The Post digital content in the future jointly.



## Chapter 8

### THE INNOVATOR'S DILEMMA

The failure to embrace engineering is, in some ways, merely a symptom of the larger issue that faced virtually all legacy media players of substantial size over the past three decades: “The Innovator’s Dilemma,” the strategic theory first articulated in a classic business book by Harvard Business School’s Clayton Christensen. In almost every interview, some example of the dilemma surfaced.

Simply put, the theory suggests that even the brightest managers with the best of intentions struggle when they face disruptive innovation because at first the disruptor seems vastly inferior to the current product, both in terms of quality and pricing. Consequently, the incumbent typically abandons the low end of the market, improving margins in the process. Over time, however, as the disruptor improves product and gains pricing power, the incumbent gradually loses the whole market.

Christensen’s theory identifies three types of innovation:

1. **Sustaining Innovation**, in which an incumbent makes good products better.
2. **Efficiency Innovation**, in which a company delivers a legacy product, but at a better price.
3. **Disruptive Innovation**, in which an interloper arrives in the market and, ultimately, destroys the incumbent’s existing revenue streams.

As his work was brought up in nearly every one of our 60-plus interviews, we invited the person who coined the phrase “The Innovator’s Dilemma” to walk across the Harvard campus and give us his take on what happened to the news business when the digital riptide hit.

Clayton Christensen, professor, Harvard Business School:

In finance, we teach our students this paradigm that you should always ignore sunk costs and fixed costs and only look at marginal costs and marginal revenue.... [But] when you’re a manager and you look [at only] the marginal cost of using what [you] have versus the full cost of creating something new, always the marginal cost [analysis] trumps [meaning, sticking with the business you have wins out over investing in a new venture].

You might try to send it out [create a separate division to try out the new thing]...but the marginal cost thinking every day causes the accountants to want to pull it back in [to merge the new operation into the core business]. That’s one

problem...that many of those [ideas] that could be...the next generation of business just gets brought in and killed....

For a long time, the news industry was fairly adept at the first two types of ongoing innovation. Dow Jones and Gannett, for example, used the satellite to build and extend national distribution for The Wall Street Journal and USA Today, respectively, thus sustaining the franchises for their newspapers. Earlier, the transformation of newspaper production from hot to cold type made the entire industry far more efficient over time.

When digital technology first arrived on the scene, however, news industry managers understandably—but mistakenly—viewed it as an opportunity for sustaining innovation. The early videotex and teletext experiments were meant to create new uses for journalism and find new pools of subscription and advertising revenue. When the services didn't immediately take off, publishers quickly abandoned them.

Clayton Christensen:

[So] it's true that if you're in the layer that's getting disrupted you might go to the beach at low tide and stand out and hold your arms up and command that the tide not come in, [but] the tide actually doesn't care. Commoditization just happens if you just sit there.

A decade later, as the web era dawned, many of the industry leaders began to recognize that digital technology might destroy their most lucrative revenue streams. Soon after he became CEO of Knight Ridder in 1995, Tony Ridder was asked by a group of editors what kept him up at night.

Martin Nisenholtz:

We've read, and I assume it's true, that when you took over the company, one of the people in the newsroom asked you what kept you up at night. You talked about classified advertising, which was very prescient at the time, but it was looked at in the newsroom as, "Why would that keep him up?"

Tony Ridder, former chairman & CEO, Knight Ridder:

As you know...from being in the business, newsrooms get criticized for being liberal. But newsrooms are the most conservative organizations anywhere. They are so hidebound.... I would always talk to the editors and ask for all their questions. That was one of the questions. It was like 1994 or 1995. "What keeps you up?" I said, "Electronic classifieds. I think it could really make a big difference

to our business.” What they really wanted me to say, I guess, was that we don’t spend enough money on journalism or something.

But it was clear to me that people were going to figure out how to deliver classifieds in an electronic form. We were going to do it, too. But that was going to eat away at this great business that the newspaper industry had, with classified advertising in print form.

We always said from the start—even though this really kind of created a lot of internal tension—I always said, “Don’t worry about eating our seed corn. We’re going to build the best Internet company we can, and it’s going to mean we’re going to take business away from the print.” But that was very difficult to do. And publishers would say, “All right, Tony, that’s easy for you to say, but you’re putting pressure on me to perform, and I’ve got more revenue from the print.” That was always the tension in our business. We were trying to run a public company where we were being compared to Gannett and Tribune and The New York Times, and we had profit pressure.

One of Christensen’s prescriptions for The Innovator’s Dilemma is for companies faced with such disruption to form separate units that are empowered to compete with the core business, creating the new disruptive force from within. Somewhere along the way, most news companies tried this approach, but it usually lead to cultural clash and internal tension. Crovitz, who managed such a unit at The Wall Street Journal, recounts a story typical of the era:

Gordon Crovitz, former publisher, The Wall Street Journal:

There was a meeting in the early 2000s where the tensions between the analog part of the company and the digital part of the company were made very clear. It was a proposal from folks on the print side of The Wall Street Journal to offer access to The Wall Street Journal website for free.

On the digital side, we were highly offended by this notion because we had spent years trying to establish value for the digital part. You couldn’t get access without being a paying subscriber. But from the point of view of the print folks, they were trying to keep their ABC [audited subscription] number at a level that they were told it needed to be to support advertising.

There was a meeting scheduled.... I had a prop for the meeting: ...I put in the middle of the table a toaster. At that time, banks would give toasters to people if they opened an account. I said at that meeting, “What am I doing here? You want my product to be your toaster.”

News companies also attempted to create consortia among the various players to achieve the scale necessary to compete in the marketplace. From the [New Century Network](#) formed by a group of newspaper publishers, to the current [Next Issue Media](#) in magazines, these ventures have often been mired in strategic disagreements and ungovernable board structures.

Donald Graham, chairman & CEO, The Washington Post Co.:

We sat successively on the boards of three companies, one of which is still in existence. One called New Century Network, which consisted of the very smart representatives of eight or nine companies, each probably the smartest person within that company, sitting around a table, I think all eight of them under the impression that they were going to run the business or that their ideas were so much better than anybody else's that they should prevail. Then they would go back, and they would review the plans with the CEOs being asked to put all kinds of money to fund these investments, and the CEO would say, "I don't want to do this. I want to do that," or "Is this guy running the place any good? Let's put in this better person I know."

Moreover, as Christensen points out, managing a separate digital business unit necessitates accepting a *higher* cost structure than combining efforts in one newsroom.

Many of the people who were working on the digital side of traditional news organizations became frustrated with cultures seemingly unable to adjust to change. Betsy Morgan, who managed CBSNews.com before leaving to become CEO of The Huffington Post, recounted how that played out:

Betsy Morgan, former CEO, Huffington Post:

I wanted to show them something very early on that was called Google Trends. It was in Google Labs at the time [2006].

We took these [Google] engineers around to meet various senior producers and executive producers. I said, "This is fantastic." You could change your lineups for the evening news based on what's trending that day on Google if we had current data. Won't this be fantastic for some of the investigative reporters at 60 Minutes or 48 Hours? You're going to see connections to things you never would have seen before.

These Google engineers were fabulous and smart and articulate. I got shut down. I was told that, had I not learned anything at the time I had been at CBS News? Had I not learned that this was not the way journalism was done, and that these

funny, skinny kids from Google had nothing to say about the business, about the creation of journalism?

I have to say, that was sort of a breaking point for me.

Perhaps the most aggressive and innovative traditional newspaper company through this period of disruption was Tribune. From the outset, they understood The Innovator's Dilemma, set up separate digital operations and led in the creation of two successful industry initiatives, CareerBuilder and Classified Ventures. Still, the company failed to make the transition. The short version of the story is that in 2000 Tribune paid the now astonishing sum of \$8 billion to acquire Times Mirror (and the background was explored in detail by [AJR](#)). At roughly the same time, of course, AOL managed to leverage its enormous market value (of more than \$150 billion) to buy the earnings-rich media conglomerate Time Warner.

Both deals would end up in the history books as historic disasters for all kinds of reasons, but one of the major side effects was that they severely disrupted much of digital progress that had been underway at the legacy media companies.

Knight Ridder was Tribune's partner in CareerBuilder. It had experimented with every interactive technology since videotex. Its lab in Boulder, Colorado, had envisioned the iPad 15 years before Apple introduced it. The company was the first journalism company to partner with AOL, the first to work with Netscape at the Mercury Center, the first to follow Christensen's prescript to break out a separate digital operation. Yet, in the end, the company failed. Sitting in his living room, with its majestic view of the Pacific Coast and the ocean waves breaking over the shore on the Cypress Point Golf Club in Pebble Beach, we asked Tony Ridder about the central metaphor of our oral history project: the swimmers and the tide.

Martin Nisenholtz:

The tide is basically the march of technology and innovation. The swimmers are the folks making the decisions, people like you, throughout this history.... No matter what decisions anybody made, the technology (the tide) was just going to overwhelm.... Is that true, do you think?

Tony Ridder, former chairman & CEO, Knight Ridder:

I do think it's true.

## Chapter 9

### BIRTHING THE BLOGOSPHERE

As we've seen, traditional news companies approached the web in one of two ways. Companies that were producing articles for newspapers would "repurpose" those articles for distribution online. Television and cable companies saw the web as an opportunity to extend their breaking-news DNA into a new medium. Either way, the legacy media companies were mainly engaged in the one-way distribution of information, filtered through traditional editorial processes. To them, the web was mostly a broadcast medium, a new form of distribution for what they'd always produced. We asked Tim Berners-Lee if that was a mistake.

Tim Berners-Lee, inventor, World Wide Web:

No, I think the media companies are in that business. They have content, and they move it out. You'd be doing that with physical paper, or you'd be doing that with TV. Then you look at the web, and obviously, it's reasonable to use the web for doing that. I don't think that was a mistake. I think that in the future we may see new genres.

The broadcast-only [model] went on for ages, and then somebody invented the blog, which was an easy way of making it so anybody could write an article. Wikis came out, and blogs came out. It was pretty easy to set up a wiki and pretty easy to set up a blog within particular areas, so you'd find all the bird watchers would get into the bird-watching blog, which would then become a wonderful resource.

For them that was a collaborative resource. [Wiki](#) was one of the things that allowed collaboration. [Blogs](#) were another genre. We've seen those two genres become fairly well known, but I feel that those are just two ideas.

The "somebods" who [invented the blog](#) were software developers like Dave Winer, [Meg Hourihan](#), [Evan Williams](#), and others who started early blogging platforms.

A few places we suggest visiting in the blogosphere:

<http://scripting.com/>

<http://blogs.law.harvard.edu/doc/>

<http://ma.tt/>

<http://gigaom.com/author/om/>

<http://dish.andrewsullivan.com>

<http://www.huffingtonpost.com/>

Dave Winer, software developer and blogging pioneer:

The big thing that happened in the '80s was desktop publishing. Desktop publishing dropped the cost of publishing. When I started [a company] in 1980, [we] got venture capital money and...bought this enormous laser printer. It was a very impressive capital investment. It was like half a million dollars. "We're going to do our own typesetting and layout. We're going to save a lot of money with this." It was a bargain. But by the time the '80s were over, that same laser printer now cost \$1,500. That was the process. The process of driving the cost of publishing down. Until the point where the web comes along in '93, '94. The cost of publishing goes almost to zero. When did I figure that out? I figured it out when PageMaker [a software program for the Mac made by Aldus, later acquired by Adobe] came out, and I saw what people were doing with it.

In 1985, a small-time radio personality in North Carolina named Doc Searls found himself out of work and moved to Palo Alto to open a small ad agency. Taking root in Silicon Valley, it would go on to represent many of the top companies of the time—Sun Microsystems, Apple, Logitech, Symantec, Hitachi Semiconductor—and eventually become one of the biggest agencies serving the tech industry. Searls himself was an early adopter to the power of the Internet and became a legendary early blogger, as well as co-author of [The Cluetrain Manifesto](#), one of the seminal books about the effects of digital technology on markets.

Doc Searls, writer and marketing consultant:

I date the Internet that we know now and that I think will exist for the fullness of time to 1995. [That] was when the perfect storm of ISPs [Internet Service Providers]; dial-up access; the graphical browser especially, that was the biggest thing; domain names for sale.... All of those things together made it possible for anybody to publish, for anybody to run their own radio station, for anybody to run their own TV station, for anybody to do what the hell they pleased in a space that we'd never seen before—that put all of us at zero distance from everybody else. It didn't matter where we were in the world. At something close to no cost at all, anybody could communicate with anybody. Anybody could run their own printing press, as it were. To me that was just fundamental.

Seeing this "self-publishing" phenomenon as a tremendous liberator of information, Winer and others went hard at work on programs that would quickly enable anyone interested in anything to start creating and reaching communities around an infinite variety of subjects. So while the legacy media businesses grappled with their own Internet challenges, on the other end of the spectrum—from the bottom up—the blogosphere was born. We asked Winer, essentially, what it was about these platforms that made them catch on so dramatically.

Dave Winer:

It's ease of use. It's because we hacked at lowering the barrier to entry. We really hacked at it. Before we did Manila [an early content management system], I made a list of all the steps I had to go through to update a piece of writing on my website, and it was like 20-odd steps. They were all really frightfully complicated. I said, "We just need to get that list shorter," so we hacked at it.

A teenager in Texas named Matt Mullenweg, who was interested in economics, started blogging after meeting some people from the tech industry at Austin's South by Southwest festival, and ultimately created [WordPress](#), today the world's dominant blogging platform.

Martin Nisenholtz:

What brought you to WordPress?

Matt Mullenweg, creator, WordPress:

Sure, so Movable Type [an early blogging platform]—I wasn't crazy about the software. So I switched to something called b2. b2 was open source. I started hacking on it, contributing some code, which was a great way to learn how to code, because I really didn't know.... b2 sort of was abandoned as an open source project. Myself and a fellow over in the U.K., Mike Little, picked it up and continued it, and that became WordPress.

In 2003, Mullenweg joined CNET, an early publisher of technology news on the web.

Matt Mullenweg:

I remember a meeting I was in at CNET...a lot of early web folks were there. There's this meeting and they were [demonstrating] their publishing system at the time that was called Comet or Ajax or something like that, and then they had a screen with WordPress on it.

I said, "Alright. Here's a finished thing ready to publish. We'll set a timer and let's publish it live to the web on both," and started the timer. Of course, on WordPress it took 15 seconds. I copy and pasted the article, pressed publish, and it's live instantly. In their system—and this was probably the most uncomfortable meeting I've ever been in in my life—it was maybe 15 or 20 minutes. It had to rebuild things. It was excruciating, and all these engineers with gray beards were just glaring at me; glaring at me really angry.

Doc Searls:



For a lot of us who are writers, we could all become Benjamin Franklin. To me, he was the first blogger. Maybe Samuel Pepys was, but it was really Franklin with *Poor Richard's Almanack*. He was kind of the first blogger, in a way. It was this self-published good, and the best blogs are really good and became worthy publications on their own.

John Huey (to Dave Winer):

Your definition of a blog is that it's non-institutional and it's the unedited voice of the individual?

Dave Winer:

No, the first part I wouldn't include because it can be institutional. I was blogging as CEO of Userland Software for many, many years. That was very much a blog. There's a buck-stops-here thing going on. There's nobody else that's responsible for this. It's just me.

John Huey:

You're unedited and you're unaccountable.

Dave Winer:

I'm totally accountable.

John Huey:

To the—?

Dave Winer:

To the readers. I'm more accountable than any of the writers at The Times are.

John Huey:

Unaccountable to an editor.

Dave Winer:

I see. That's what you mean. Yeah, but I'm so accountable because I can't spread it out. I wrote the whole thing. Every word in here is my word.

Matt Mullenweg:

I feel, on the whole, blogs are probably more accurate, particularly in the long term. When I publish a blog post it's not edited beforehand, it's not fact-checked beforehand. But it's my words, my name's on it, I feel personally attached to it and if there's anything wrong in it I get a comment within five minutes telling me about it. That was the beauty of blogs: That conversation would be transparent under the blog post.

Now that it was easy and fast to publish on the web, journalists began to use these new tools to circumvent their traditional intermediaries: legacy media companies. Some became "brands" on their own and attracted large audiences.

Nick Denton, founder, Gawker Media:

I started Gawker as a side project. My most successful ventures have tended to be side projects.

When I was in Silicon Valley, we reached out to people like David Winer. I wouldn't say we were friends, but I knew David Winer. I did become quite friendly with the founders of Blogger, with Evan Williams and Meg Hourihan: Meg Hourihan, who I ended [up] working with later; Evan Williams, who I was going to partner with before he was acquired by Google. I was entranced by Blogger.

Blogging was a new form of publishing, but it was more than that. It was the essence of interactive engagement, and so it captured something that the interactive pioneers had known all along: that the web was fundamentally social. Jeff Jarvis recounts that moment for him:

Jeff Jarvis, founder, Advance Interactive:

I'd been around blogs. The confession here is that Nick Denton, now head of Gawker, was then heading up a startup called Moreover.

He showed me blogger. "Look!" He types something. He hits a button and there it is. I said, "BFD." I didn't get it. I didn't understand the importance of blogs. I will fully confess. He showed this to me and I said, "So you published a page."

After September 11<sup>th</sup>, I had more to say about the experience. I thought I would do it for a few weeks. I started blogging on Blogger.

The ding moment for me...maybe I put too much importance on it, but Nick knew some guys in L.A. named Ken Lane and Matt Welch, who were earlier bloggers. He said, "Hey, my friend was at the World Trade Center. Look what he

wrote.” They wrote something about it and linked to it, to me. I linked back to them. I remember Nick lecturing me about the permalink; that I had just linked to the top of their site. No, you link right to their post.

The ding moment there was that I saw a conversation had occurred, in different places at different times. But it was a conversation. That was a lightening bolt of what the link enabled, and how the link changed the very structure of media from a product, a lecture, into a conversation. It really was a changing moment for me.

Tech journalist Om Malik was a rising star in Silicon Valley, having worked for Forbes.com, Red Herring, and Business 2.0, when he decided to launch his own company around his blog in 2006.

Om Malik, founder, GigaOm:

Not every publication can have 10 people working on a single story. Not every publication can hire Malcolm Gladwell. Not every publication can afford to pay David Carr.

My view is that, that is one way of doing things, then there is the blogger way of doing things, which is one man trying to obsessively cover an industry, or a topic, or a subject, and finding all sorts of information about that topic, subject or person, and then aggregating it on their blog.

Andrew Sullivan was a legendary political journalist and commentator—and the former editor of The New Republic—who established himself as a high-traffic blogger for Time.com, and later Atlantic.com and The Daily Beast. A substantially compensated, popular blogger for establishment publishers, he made the decision to set up shop on his own in 2013 with a unique and bold proposition. He would decline both investor and advertiser dollars, attempting to survive entirely by charging his readers to subscribe. We caught up with him in the tiny Greenwich Village apartment from which he works alongside two aging dogs and a handful of smart, eager collaborators and interns.

John Huey:

Andrew, when was the first time that you realized that this thing called the Internet was going to transform either journalism or transform your life as a journalist?

Andrew Sullivan, blogger and founder, The Dish:

I knew it in an intellectual sense by the end of the '90s. You just saw it.... I suddenly realized, when I put the first post up, I could put stuff up here that I hadn't published elsewhere. This was the light bulb moment....

I slowly developed these little features that seemed like fun at the time.... One day I was like, I'd like the readers to see what I see every day,...which is a simply amazing litany and variety of people from every place on earth telling me stuff, communicating instantly. Not only instantly, but incredibly erudite, interesting people who were experts in their fields, obviously, and had things to tell me.

How do I get them to see each other? All they're seeing is me. As an experiment I said, "Why don't you take a picture on your digital camera of what you see when you look out your window every day? We'll do it for a week."

John Huey:

You're still doing it.

Andrew Sullivan:

I can point to the post where I'm like, "Please stop!" I was deluged with hundreds and hundreds. It's just me sitting in my room.

John Huey:

They talked back.

Andrew Sullivan:

Yeah, exactly! Now, some journalists aren't likely to take to that very well. We won't mention any names, but you can imagine. You're thrown into this melee of conversation. Increasingly, I wanted their voices to be a part of it, so they also became part of it. I did that for six years by myself....

...This great thing means I can write anything. No one can stop me anymore. This is a writer's dream: for a writer to reach his or her readership directly without any publisher, editor, colleague, advertiser, having to pass those hurdles, let alone the fact checker and the copy editor....

John Huey:

You're still a blogger, basically.

Andrew Sullivan:

Fuck, yeah. Yes! That spirit, the original spirit of, “I’m a blogger and I’m doing it because of freedom,” is still, I would say, my primary objective. I don’t want to become a Huffington Post.

There was, however, one person who did want to become The Huffington Post: Arianna Huffington, also an early blogger, who built a site that aggregated content from across the web, a company she and her partners sold to AOL for more than \$300 million in 2011 after it had attracted more than 25 million unique visitors per month.

Arianna Huffington, co-founder, Huffington Post:

I don’t remember the first thing that got my attention [online]. But what fascinated me was the engagement, the fact that writers who are no longer just writing and leaving the scene, but staying there to engage with readers, and that readers had a voice. Whether it was in chat rooms or forums or the early version of what was happening online, something new was happening.

## Chapter 10

### THE RISING TIDE LIFTS ALL BOATS

Because of their first-mover advantages and considerable investments, the big four—AOL, Yahoo!, CNN.com, and MSNBC.com—were all well on their way to dominating the early days of the digital news "space," as it came to be known. But the exploding popularity of the web seemed to be good news for almost all in the journalism business. Everyone—The New York Times, The Washington Post, The Wall Street Journal, and all the major magazines and metro newspapers—had their own sites, and the traffic on those sites grew exponentially. What's more, as Walter Isaacson vividly recalled from his Pathfinder days, advertisers were more than eager to shower money on exploiting this new medium.

In retrospect, though, during the mid-1990s the old-line publishers were mostly repurposing their print products and not investing much in real innovation. Times were good, and the core products were pumping out cash.

Martin Nisenholtz:

The fact is—hindsight is 20-20—it was a small effort [at the outset], a small experiment, with a very small impact. For most people in the organization, it really didn't touch them very much. It's not that people were hostile, or that they didn't want to do it. They just didn't care very much, to be perfectly honest.

The legacy companies were racking up digital revenues all right. Total Internet advertising revenues exceeded an estimated \$10 billion industry wide in 2000, according to MagnaGlobal, part of the Interpublic Group. But the companies realizing these online ad sales were also waking up to the fact that the margins for digital advertising, even in those early years, weren't really adding up to the underlying profitability models they had come to expect from print or broadcasting. The digital businesses just weren't contributing much, if anything, to the bottom line. Amid all the hype and frenzy, occasionally a doubter would emerge.

In late 1995, for example, The New York Times quoted Time Inc. CEO Don Logan's memorable response when asked how much his company had spent in the past year to develop the Pathfinder portal: "It's given new meaning to me of the scientific term 'black hole.'"

Despite that he had once been a computer programmer at NASA and a PhD candidate in mathematics, Logan was immediately denounced as a Luddite. The real issue, of course, was that the "new media" companies weren't chasing profits at all, but rather "valuation" by Wall Street. Even with precious little to show on the earnings or asset sides of their ledgers, many of these companies came to be valued with market caps exceeding those of their "old media"

competitors. This phenomenon created a generation of instant dot-com billionaires and turned Silicon Valley into an object of media fascination that garnered as much ink as Hollywood, Washington, or Wall Street.

By far the most spectacular—and somewhat bizarre—event of this whole period came in January of 2000, when Jerry Levin and Steve Case stunned the business world by announcing that AOL, valued by the market at \$163 billion, would pay \$182 billion in stock and debt to acquire media titan Time Warner, valued before the deal at \$83 billion. The creator of “You’ve got mail” suddenly owned Warner Brothers, Turner Broadcasting (including CNN), HBO, Time Inc., and Time Warner Cable to boot.

Jerry Levin, former chairman & CEO, Time Warner:

It wasn’t until AOL started to become the leader that I thought, “That’s going to change every part of our business. We better get on the bandwagon....” At first we thought we could develop all of this internally....

You [couldn’t] turn this battleship [Time Warner] around, much as I would’ve liked. So we went to the next strategy, which is you acquire it. We thought, “Yahoo! would make a lot of sense.” [But] Jerry Yang was not interested.... [Then I was at a dinner with] a group of CEOs.... Here I’m Time Warner. Biggest company in the country. I’m media. This other guy, Steve Case, is there. All everybody wanted to do was talk to Steve Case, wanted to hear about AOL. What’s AOL doing? I thought, “Pretty interesting.” So we started to talk. [He] had a very good board. Was actually making money. My assumption was, based on all this history, that you couldn’t take journalism and turn it around.

By this time, we had CNN. I had my ideal of a video news service. But it was all going to change and somehow was going to affect all of the businesses. We better get part of it, or it’s going to disrupt or eat our lunch. A lot of this is the reason why we put AOL and Time Warner together.

Of course, the deal is now generally regarded as the worst disaster in the history of corporate acquisitions. Current Time Warner CEO [Jeffrey Bewkes](#), who, as HBO CEO at the time, was hostile to the deal, has since called the deal “the biggest mistake in corporate history.” But while it ultimately resulted in a loss of around \$200 billion in market value for Time Warner shareholders, it did nevertheless turn out to be a great financial windfall for Steve Case and his AOL shareholders who, had they held on to their digital-only company for the market collapse that was soon to come, would have suffered precipitous losses.

There are as many versions of this story as there were AOL/Time Warner employees. At least three books have been devoted to the subject (including *Fools Rush In* by [Nina Munk](#), *Stealing Time* by [Alec Klein](#), and *There Must Be a Pony in Here Somewhere* by [Kara Swisher](#)).

Walter Isaacson:

Why did the merger fail? Why did this notion of combining AOL with the broadband access with the greatest content brands fail?

Steve Case, co-founder, AOL:

I think it's a lot of things, but the core of it is around execution. I think the idea of that merger, from AOL's perspective and from Time Warner's perspective in terms of the strategic drivers of what's happening with these markets, what's happening with technology, I think it made sense for both companies....

Walter Isaacson:

How would the execution have been different?

Steve Case:

I think it's all about people. Thomas Edison famously said a century ago, "Vision without execution is hallucination." I think that was part of the problem. In retrospect, because Time Warner itself was a company that was essentially built through a variety of different acquisitions and mergers and AOL came into that world, we saw the world converging. We saw operating this as one company to try to be the leader in this new and digital world....

I think it ultimately came down to people and cultures.... If the top 50 executives of the combined AOL and Time Warner companies had all been fired, and you called a central casting to replace them, and 50 new people that were not focused on the past but rather on the future were in charge, I think it would have worked out better.

This colossal deal didn't just have negative financial consequences for the merged companies, it also contributed to a grinding halt to most digital strategy development at the Time Warner legacy divisions.

Scott Woelfel, co-founder and former editor-in-chief, CNN.com:

There was a thought that there would be this synergy, not just between AOL and CNN, but among all—Time Inc. and Time Warner and AOL...Netscape, and some



other things like that. CompuServe, which they had a piece of at that point. That whole year of 2000 there were all these attempts: “Let’s have about 100 meetings a month to try to figure out what these synergies are.”

We would place some links into some AOL property, but we didn’t have that really direct pipeline that MSNBC had from MSN. AOL was a little bit on the decline user-wise at that point, too, because of the rise of broadband, so you could argue that the quality of traffic they were driving probably wasn’t as good as what MSN was driving.

As far as I can remember, we [CNN.com] never overtook MSNBC in unique users while I was there.

As much as anything, that [merger] led to my departure.... Upper management went through a lot. My boss changed about five times in five weeks, and there was the whole Time Warner corporate level...which gave yet another layer of management. So it was difficult.

The valuation madness of the era had other effects across the news industry.

Martin Nisenholtz:

The dot-com boom starts, and all of a sudden we’re seeing people leave the [New York Times Digital] organization. We can’t hire people because people are expecting stock options. By 1998, I would say it was clear that something much more—let’s just say interesting—was going on than a small-bore experiment.

At that point, Russ [New York Times CEO Russ Lewis] decided we needed to break out [digital] into a totally separate operation. I believe he had read *The Innovator’s Dilemma* by Christensen, and sort of believed that in order for us to truly get some kind of scale here we needed to have our own separate operation.

John Huey:

Tell us about that. What happens?

Martin Nisenholtz:

There was, let’s just say, a very vigorous debate in the company as to whether we should be broken out or not. Obviously, the folks at the newspaper were not happy about losing control of their website, which in many ways I don’t blame them. But it was determined that we would become a separate digital

operation.... In addition, we would pursue a public offering of the stock, which...other operations were doing at the time.... Barnes and Noble, for example, had a separate company with its own stock. That was the seminal moment.

I would say the other thing that happened at that point is that we decided...that we really did need to ramp up the engineering side, and we acquired a company called Abuzz, which had been started at MIT. It was a precursor to businesses like [“Yahoo! Answers”](#) and [Quora](#) today. [At the time,] it was called a knowledge management platform, where people would put questions into the system, and the system would find in this vast network of users the five or six best people to answer those questions, send them the questions, and then the answers would come via email. We acquired that business, acquired the engineering team, and began to integrate that capability into The Times on the web. That was in '99.

John Huey:

Tell us how the public offering comes to an end.

Martin Nisenholtz:

It came to an end in a very strange way. We were working with Goldman Sachs.

We worked through much to the latter half of 1999, and now into 2000. AOL had just acquired Time Warner. We were sitting in a room with our bankers, the Goldman folks. I believe it was April of 2000. Taking a company public, you work very closely with your bankers. You've created this thing. It was actually a tracking stock. We created this document called an S-3, which is like an S-1 except for a tracker [stock].

We were rehearsing the road show at that point.... I think people were still carrying beepers. Remember those little beepers? They started to go off all in unison. The Goldman folks basically said there's some issue...I think the market was actually diving hundreds of points that day. They went back to Goldman, but they said, “We'll be back tomorrow to rehearse again.”

We never saw them again. Because the dot-com boom was over, so there was no IPO.

Other than the obvious irrational exuberance, pundits and others have speculated over the years about exactly how and why the bubble burst in 2000. Some have suggested that AOL's acquisition of Time Warner signaled a top so irrational, so cockeyed, that the market simply

collapsed in disbelief. But whatever the reasons, the pullback of April, 2000, was the harbinger of what Nisenholtz now calls the “Web Winter,” which began in earnest in January of 2001.

By then, the whole country was beginning to feel the effects of the dot-com bust and attendant market selloff. Most Internet news organizations endured steep budget cuts in an attempt to rebalance the lost revenue from the disappearance of banner ads and the lofty valuations that were now a part of history.

Martin Nisenholtz:

Like many big media companies, The Times needed to retrench some. I was told, "Look, you got to find a way to get this thing profitable. We've invested a lot of money in it." [Then] 2001 dawns, and in January we had our first series of layoffs, and then in April it became clear that the recession was going to be even deeper. We had a second series of layoffs. We did manage to at least get the business to cash-flow profitability by the end of 2001.

Paul Sagan:

How big a business is it? How many people are in it?

Martin Nisenholtz:

I'm going to guess, at that point across the company, maybe 140 people. But we probably lost 40 percent of them in 2001. It was really taken down. I'd say that the revenues at that point were maybe \$25 or \$30 million. Remember we also had this B2B [business-to-business] entity embedded in the overall business that included our LexisNexis deals and others. I almost don't count that money because it wasn't dot-com money.

Paul Sagan:

The consumer business, the dot-com business, was very small?

Martin Nisenholtz:

Well, yes. Once the dot-com bust happened, it got very small, very fast.... Now I do want to say that from a usage perspective, the dot-com bust didn't do a thing to our usage curve. Our usage curve was a straight-line growth.

John Huey:

This was all about advertising. Right? ...The economic model had eroded?

Martin Nisenholtz:

The economic model had collapsed. It hadn't eroded. It just collapsed. It was very, very difficult to sell Internet advertising. In fact, [we] started the OPA [Online Publishers Association] in 2002 because the buzz on Internet advertising was so bad that I felt the industry needed to come together and put a fact base out there that at least said, "Look, there are these users who are actually using these services, and they actually see these ads, and they respond to them in these ways."

Ironically, many strategists in the legacy media companies breathed big sighs of relief. All the anxiety and irrational exuberance of the dot-com boom were now fading into what appeared to have been just a bad dream. Mainstream operators could go back to making money the old-fashioned way, doing what they knew best—publishing newspapers and magazines, or running network and broadcast television companies—and selling ads at comfortable, high margins. The very word "dot-com" became a joke, a symbol of nothing more than an over-hyped future foisted on an honest industry by a group of Silicon Valley hucksters and their bankers.

Sign of the times: A young blogger named Philip J. "Pud" Kaplan launched a site in 2000 called [fuckedcompany.com](http://fuckedcompany.com) to catalog the disaster. For a brief moment he became a minor star and even published a book of the same name. The site was [shuttered](#) in 2007.

## Chapter 11

### FROM THE ASHES

Paul Sagan:

Web 1.0 happened with too much hype, much too publicly. In many ways, Web 2.0 happened much more out of view, but much more as a reality.

The dot-com crash and ensuing Web Winter hit the Bay Area start-up scene, not to mention the rest of the web business world, like a neutron bomb. But, to reiterate, that was all about the collapse of advertising and, with it, business models and valuations. The consumer never even blinked, and web usage continued to grow sharply. It was, in fact, an exponentially growing beast, far from the passing fancy that many traditional media executives had hoped it would be. At the same time, users were moving rapidly from slow, dial-up connections—the kind that propelled AOL to early dominance—to fast, always-on connections at home as well as work, the first place most users got a taste for what the Internet could be like if it was always available and speedy. Years later that shift is starkly apparent in the crossover between the decline of AOL’s subscriber base and the ascent of subscribers to Netflix movie services.

Riding this wave of user growth and improvements in connectivity, developers were evolving websites into something new. Early sites, including the portals like Yahoo! that came to dominate initial usage before the dot-com bust, were comprised mostly of so-called static pages, with content that was fixed from page to page, that didn’t change from user to user, or at best changed very little based on the identity or interests of a user, and it relied primarily on material gathered by a site’s producers, housed on their servers, and coughed up over and over again until someone made a new page.

That fixed nature of websites was changing right around the time of the bust, and the term Web 2.0 was coined (in 1999) to describe sites that were embracing technology that allowed for increasingly dynamic experiences for visitors. Web 2.0 was not about a fundamentally different web, but rather referred to a critical evolution in the software that developers could use to build ever-more compelling sites. As described in Wikipedia, “A [Web 2.0](#) site may allow users to interact and collaborate with each other in a social media dialogue as creators of user-generated content in a virtual community, in contrast to websites where people are limited to the passive viewing of content. Examples of Web 2.0 including social networking sites, blogs, wikis, video sharing sites, hosted services, web applications, mashups, and folksonomies.”

Then on September 11, 2001, it became abundantly clear to everyone that the web not only wasn’t going away as a source of news, it was becoming a *central* source of news. Since the

inception of digital news, it had always been true that major events spiked web usage, whether at CNN or The New York Times—anywhere. Each major event brought in new audiences, and often a large percentage would stick and become regular users. Because the 9/11 terrorists flew their planes into the World Trade Center at the beginning of the work day, most Americans were in their offices, where they quickly became glued to their computers for real-time news as the tragedy unfolded. News servers were so over-taxed that many crashed or had to temporarily revert to “text-only” status. So, just as the dot-com bust is reaching its nadir, the web becomes the go-to medium for the whole country. Chris Schroeder was managing The Washington Post’s news site on 9/11.

Chris Schroeder, former CEO, Washingtonpost.Newsweek Interactive:

I can remember, as an example, in the couple of hours after September 11<sup>th</sup>, people cared a tremendous amount [about] what was right or what was wrong. So in that instance, as a contextual aspect of breaking news, that mattered a great deal. People, again, weren't thinking—and I don't think [that they] think now—“Would I pay more or less for it?” But they certainly put a value on it. People want to know what's really going on.

Schroeder’s washingtonpost.com was also among the news sites that relied on another web invention on 9/11 to continue serving traffic. That invention, sorely and ironically tested that day, an invention that kept many of these Web 2.0 news sites available under crushing user demand, was Akamai Technologies, the company Paul Sagan ran until the beginning of 2013, when he stepped down as CEO and came to the Shorenstein Center, eventually to work on this project as a Fellow. Akamai’s co-founder and chief scientist, Danny Lewin, was aboard American Flight #11, the first plane hijacked that morning. As Business 2.0 reported in a retrospective article that appeared in 2005: ““Our employees were in shock,”” recalls Sagan, who was at the Cambridge [Massachusetts] offices that morning. ‘But traffic was going crazy.’ Remarkably, Akamai’s network and employees absorbed the stress, so that customers like CNN, which used Akamai to cache and deliver web content, were able to accommodate the extra traffic without a hitch.”

At the same time, 9/11 spawned a new technology movement around news that began to define a new era. Krishna Bharat, who created Google News, talked to us at Google’s Mountain View complex:

Krishna Bharat, research scientist, Google:

I helped start the research group here [at Google]. I worked on web search for a few years. But then in 2001, I sort of got interested in news again, as did a lot of people, because of 9/11. I could talk about that, if you want.

John Huey:

Yes, because it's a recurring theme in our interviews. ...There are several things that everybody agrees on, and everybody agrees that 9/11 was a seminal moment in the history of news and digital news.

Krishna Bharat:

Yes, I will. And so a little bit of personal background here. I was at a text retrieval ...and indexing conference in New Orleans along with lots of other researchers, and we were stuck there after 9/11 happened because the skies were closed. So I spent all my time trying to either find a flight back or follow the news and brainstorm about finding news with a lot of people. So I was stewing in it, in some sense. I came back here, and I found out what happened in that period. A lot of online news sites had kind of melted down, so Google had to host some of that content. They built a resource page. It was abundantly clear that, although we were a premier information company, people came to us and said, "Give us information about what just happened now," and we didn't have a good answer, right? We didn't have a way of telling them....

A month and a half later [after September 11<sup>th</sup>] I had my first prototype: 150 sources. Either top international sources or top national sources crawled every 15 minutes or so and indexed, and presented in the form of a pretty ugly UI [user interface]. Here's the top story and here are the articles with the top story, here's the second story and so forth.

We [Google] were a pretty small company at that time. I sent the demo out. I would say everybody in the company looked at it and played with it, and some people got very excited about it because news was on everybody's minds, and they went to a couple of sources habitually, and now they were able to expand the range of sources, and they were able to look at sources that had interesting viewpoints that they hadn't encountered before. It was super efficient.

Today, Google News ranks among the top few Internet news sites in traffic. But that's for largely text-based content. The next battlefield may be over video news, where Google has a beachhead with YouTube but not market control. Richard Gingras, one of the digital pioneers going back to the era of teletext, now manages Google News among other areas of responsibility.

Richard Gingras, head of news & social products, Google:

Well, what we were really looking at on the television side was, "What was the future of the television set?" Google has always been quite concerned about the hegemony, for instance, that exists between distribution players and hardware devices. The control of cable over the distribution infrastructure, for instance. The control of carriers in device lock-ins in the cellular [telephone] world. The notion, really, with Google TV was, "How could we enable the full flowering of IP for video, and in a sense, to some extent, bypass the control points of the cable guys?" Thus the notion of saying, "Should there be an operating system for the TV that basically says, 'Connect this TV to the Internet, and you've got the world of the Internet before you'?" Which would be a hard thing for the cable guys to control.

By 2002, the country was beginning to emerge from the recession, which technically lasted just two quarters. But there remained a deep skepticism about Internet business models, particularly those that were advertiser supported. And yet, as the after-shocks of the 9/11 attacks began to recede, a few brave entrepreneurs began to wade back into the water. One of them was Nick Denton, a former international correspondent for The Financial Times.

Nick Denton, founder, Gawker Media:

I was always a geek. When I was based at the FT in Budapest, I used to get on a little train [to go to] Vienna, which was the closest place you could buy Wired magazine and all the Mac enthusiast magazines.

In '96 I switched from the investment banking beat to the tech and Internet beat.... I wanted to go to San Francisco. I'd read Wired magazine. I believed that something was happening there, and was actually a little bit disappointed when I arrived. It wasn't quite what I'd imagined, that South of Market. I'd imagined this digital epicenter where the new web was being born. It actually seemed to be inhabited by a few homeless people, and maybe two or three people who could have conceivably been web designers. But I still believed. I closed my mind to the visual evidence.

...Before leaving the FT, Richard Lambert, who was the editor at the FT at the time, asked me when I was in San Francisco to "tell us what we should be doing." I wrote a memo, which unfortunately I've lost. It said it is pointless for us to report what others had [already] done better. We should be seeking to add value, and where others have done a story better, we should link to them. This was...

Martin Nisenholtz:



Heresy.

Nick Denton:

It was heresy. It was revolutionary. Unfortunately, it was still sort of revolutionary in the newspaper world 10 years later. That was the extraordinary thing. The extraordinary thing was not that it was revolutionary then. The extraordinary thing was that it was still revolutionary and still sort of is now—that newspapers insist on rehashing stories that have been better covered elsewhere, instead of taking and moving the story forward. There's still a huge amount of duplication in the efforts of the news industry.

Denton stayed in San Francisco, where he became friendly with the pioneers of blogging—Dave Winer, Evan Williams, and Meg Hourihan—and started several businesses, including a news search engine called Moreover and something called Newsblogger.

Nick Denton:

The idea of Newsblogger was that you would consume and write about the news at the same time. It was actually very much ahead of its time. It was something like what we're doing now in many ways. The act of reading and writing—in a truly interactive news environment—cannot be separated. They have been separated, but they cannot be usefully separated.

He continued through this period as a serial entrepreneur, attempting to buy Blogger and then resigning from Moreover. He took up personal political blogging after 9/11, and also wrote self-disparagingly about the whole dot-com boom and bust, including his and others' roles in it. He moved to New York in the spring of 2002, and founded Gawker as a side project.

Nick Denton:

There's a certain demographic. It was part of the city, and here was a site that appealed to a very specific group who are very well networked, who would talk amongst themselves. It was a very good place to start in many ways.

The site got buzz almost straightaway. Our launch party was maybe two or three months after we launched. Kurt Andersen came. I didn't know Kurt Andersen. None of us were connected to him in any way. He was a figure. We'd all heard of him. He'd edited Spy magazine. Gawker was, to some extent, the successor...to Spy magazine.

One of the reasons it took off, I think, was because there was nothing else going on at the time. They were all carpetbaggers and had been washed out of the market. There was no Internet advertising. The initial business model, to the extent there was one, was that, "Maybe we can make some money off of licensing fees." That was the extent of it. Or otherwise, "I'll just fund it for as long as it takes." When something takes off like that, you should just plunge straight in. I wouldn't say I plunged straight in. In retrospect, I should have gone more aggressive, sooner.

Now, just as Denton did, all manner of news entrepreneurs could take advantage of the new generation of technology and publishing tools to build businesses at much lower cost than previously. The barriers of entry to publishing were at a historic low. A young journalist named Rafat Ali founded paidcontent.org, in part, to chronicle the post Web Winter. Two entrepreneurs named Jason Calacanis and Brian Alvey founded Weblogs Inc., a network of dozens of blogs, later sold to AOL.

While Nick Denton was steadily building his network of blogging sites, Arianna Huffington and Ken Lerer were creating another kind of news operation. Huffington and Lerer each brought a co-founder to the table. Huffington brought journalist and blogger Andrew Breitbart; Lerer, an ex-teacher and ex-MIT Media Lab graduate student named Jonah Peretti. Peretti describes how Lerer recruited him to be a Huffington Post co-founder:

Jonah Peretti, founder, BuzzFeed:

He knew I was from a very different world with very different interests, and wasn't a creature of the media world. He knew that he needed someone who understood the web and technology. I ended up flying out and meeting Arianna. I remember we had a 7 a.m. meeting which, for me, is incredibly early. She was already in a meeting with another group when I woke up, came out of my room in her house, and she's already at the table having a full breakfast with like some NGO in L.A. that was working on an environmental cause or something. I was like, "What?" I don't know if I was the second breakfast. Maybe it was the third or fourth. But she was definitely starting earlier. Next thing I knew...we were flying to [a] rally in Sacramento, which wasn't planned.

I came back feeling like, if anything, it would be an adventure. Arianna was incredibly charming and tireless and driven. Then we formed a partnership, also with [Andrew Breitbart](#), who used to work for Arianna. The four of us went into business together. We started hiring a founding team. Then, of course, [Roy](#)

[\[Sekoff\]](#), who was working with Arianna previously and continued, became a partner at HuffPost, too.

At the outset, The Huffington Post combined many of the things that had appeared since the inception of web news, but most notably the ideas of aggregating content and blogging:

Arianna Huffington, co-founder, Huffington Post:

It was aggregation. It was Drudge [the news aggregation site founded by Matt Drudge] plus three other elements: The collective blog; the community—because, from the beginning, we made it very easy to comment...; the fourth element was original reporting. It was part of the template, but at the beginning, we didn't have the money yet.

Huffington and her team mastered the distribution environment being built at the time by Google, and did so in a way that allowed for attraction of a large audience at low cost.

Jonah Peretti:

[So we] made a page that Google liked and that consumers liked as this one-stop shop to find out all the things that are happening all around. Now, the question that some people ask is, "If you are a news organization and you have five people on the scene and you're doing tons of original reporting and you're writing these stories and collecting things and it costs much more and HuffPost is getting more traffic than you, is that fair?"

One example of this—I remember some reporter calling me to ask about this a while ago—it was, The New Yorker did a long Scientology story and the HuffPost outranked The New Yorker story in Google. The reporter was like, "Isn't this unfair? Think how much The New Yorker spent on that." But when you think of what a consumer wants—a consumer is in their office. They have a little bit of time between meetings. They heard some buzz about a Scientology piece in The New Yorker, they search for it. They get a page that has some bullet points that explains what's in it, a link to it. Like, "You might want to read it." And three or five percent of people are like, "Oh, I actually do want to read this long piece." And other people are like, "Oh, I'm glad I know what it's about. I don't really want to read this. But I'm glad I know what it's about."

From a purely algorithmic perspective or purely technical perspective, Google is giving people, in that case, a good consumer experience. But from an economics of journalism perspective, there is a problem, which is that The New Yorker is

spending a huge amount of money to produce this long story and they're not getting as much traffic online as Huffington Post, which might have spent two hours on it, or some even shorter amount of time. The time it took for the editor to read it and pull out relevant things.

So one question is, what's good for consumers? Then there's this other question of what's good for journalism and how do you build sustainable models for journalism?

One especially important software tool that had enabled these new media publishers to emerge during this time was RSS, sometimes known as Really Simple Syndication. RSS gave publishers the ability to programmatically syndicate content across the web, in turn allowing them to greatly, and instantly, expand their audiences. Developed in the late '90s in part by Dave Winer, RSS became the syndication standard that would also unleash a whole new generation of products, like Google Reader, built on "content aggregation," a concept that stirred much controversy among traditional content providers as links and articles were freed from their "home" publications and reassembled into new mash-ups.

Winer tells the story of how The New York Times and other major news organizations adopted RSS and helped make it a standard in the early 2000s.

Dave Winer, software developer and blogging pioneer:

RSS didn't really exist yet. I mean, it was sort of nascent, but it wasn't really popular at all.

John Huey:

And what were you planning to do with it?

Dave Winer:

What I did with it is that we had an aggregator that we just plugged in, and we had several news sources: Wired, Red Herring, Motley Fool, a lot of blogging tools. We had a lot of stuff coming through our system. What we didn't have were the major news organizations.

John Huey:

So you get this call from the licensing department at The New York Times?

Dave Winer:

And she says, “You’re a very sweet boy, but you can’t do this.” And I go, “Oh, please?” You know, I felt like...loved and admired, but absolutely prohibited to do this.

John Huey:

But caught.

Dave Winer:

Caught. And I said, “I understand. I won’t do it anymore.”

Ultimately, The Times and other news organizations agreed to adopt RSS, and the standard took off across the news industry, enabling a new class of aggregators called “news readers.” This was the beginning of the inevitable trend of readers assembling much more fluid, more personalized news experiences. News websites would get traffic from these sources, but the tradeoff was the steady erosion of the “front door,” or homepage “brand” that was so dominant during the Web 1.0 era. With these in place, many consumers no longer wanted to go to individual site “homepages”; they wanted a convenient “reader” that would gather all of their favorite web content. RSS made this revolutionary new user experience simple, taking former attempts at aggregation, like My Yahoo!, much farther across a wider range of sources of content. Hundreds of such readers launched, including Google Reader, which eventually shut down in 2013 as Twitter and others reached dominance. But in their time, these readers portended a change of user behavior that would lead to hyper-fragmentation in the news world.

One of the seminal companies started during this period, in late 2003, was Feedburner. Dick Costolo, its founder, is now CEO of Twitter:

Dick Costolo, CEO, Twitter:

It started to become obvious to us, the founders of Feedburner, that there were getting to be too many things you have to check in the morning. Remember, there were these—they called them, I don’t know—My Yahoo!; these half-attempts at, “Assemble your own homepage and we’ll pull in all these widgets; I’ll tell you what’s going on.” But they really weren’t very good, frankly. With the invention, if you will, of syndication, RSS, we realized, “Oh, this is the future. What you’ll do is you’ll subscribe to a bunch of RSS feeds, and they will be brought to you and delivered to you. You’ll only have to go to this one thing to keep track, in real time, of the 50 things you want to be interested in.

The idea behind Feedburner was, in this world where all content will be syndicated, and what you'll catch up with in the morning is a feed instead of your 90 different sources you go to, somebody needs to sit between the publishers and the subscribers and create some sort of frictionless way of making sure this stuff gets shared easily and is trackable and traceable.

The content providers are still going to need to make money, so they'll want to put ads in their feed and on and on and on. That was the idea behind Feedburner, and we were right.

Martin Nisenholtz:

Then Google acquired you, right?

Dick Costolo:

Mm-hmm. In the summer of 2007, they acquired us, again, on the hypothesis that as content is syndicated and more and more people are getting content in syndication instead of going to xyz.com, it's going to be important to be part of that world of syndication. A publisher clearinghouse, if you will.

As the world of content became increasingly fragmented, news companies were now challenged to supplement the traffic coming directly to their homepages with users coming in from the "side doors," that is, from the RSS-enabled news readers and, most importantly, from Google's increasingly dominant search engine.

By 2004, it was clear to some that we were entering a new era of innovation, characterized by a heretofore-unseen focus on cost containment. The dot-com bust had evolved into an era of more seasoned, more disciplined venture capitalists and entrepreneurs, not to mention bean counters at traditional media companies, seeking much leaner business models. This was Web 2.0, and while there is probably much truth to Tim Berners-Lee's characterization of Web 2.0 as just "jargon," the new phrase caught on and began to define the post-dot-com bust era. John Battelle, co-creator of the Web 2.0 conference, and now CEO of Federated Media, told this story in a Google Hangout (Yes, we understand the irony in this):

John Battelle, founder & executive chairman, Federated Media:

I think there was a cultural moment, after the dot-com crash, where there was a lot of sentiment in the air that this Internet thing was certainly important, but it was overhyped, under-delivered, probably over-capitalized, and a lot of people lost a lot of money. In New York, in particular the financial markets, I think, had a very negative view of the web, as did a lot of the large media companies who

had invested heavily in it, and not seen a return. [They] were, quite honestly, I think, driven in part by a concern that their traditional models were going to be disrupted. So that was some schadenfreude.

Web 2.0 really meant that if we take a platform that is open, that has a shared sense that values how we connect to each other, how we share information, how we communicate, we can do some pretty remarkable things.

The open source stack of technologies had become far more stable and, probably most importantly, we had a broadband usage that had crossed 20 or 30 percent in developed markets and was growing at a spike similar to the spike we see now [in 2013] with mobile adoption.

Probably the seminal Web 2.0 company was one that started in 1998, and that was Google. Google was built from the ground up on this idea that the web is about connections between things. In the first instance those things were webpages; in the second instance they were people. Just like what we're doing now on a Google platform [in this Google Hangout].

[Google] gave almost everyone an instant reason to derive value from the Internet, which was, "I can instantly find what I need and go there."

## Chapter 12

### GOOGLE: THE SECOND COMING

As one of the fastest growing, most valuable companies on the planet, millions of words have been spilled on the subject of Google, and we do not intend to reprise that history here, except to advance understanding of what has happened to the news business. But we refer you to three informative books on the subject, including *Googled: The End of the World as We Know It* by Ken Auletta, *The Search: How Google and Its Rivals Rewrote the Rules of Business and Transformed Our Culture* by the very same John Battelle, and [What Would Google Do?](#) by Jeff Jarvis.

Battelle begins his book with the following quote from [Brewster Kahle](#), founder of the [Internet Archive](#): “The library of Alexandria was the first time humanity attempted to bring the sum total of human knowledge together in one place at one time. Our latest attempt? Google.”

Indeed, what turns out to have been the extraordinary ambition of Google—and its ability to deliver on that ambition—ends up coloring much of what happened to the news business between the Web Winter and today. That era can just as easily be called the Age of Google as anything.

There is one fact that is now indisputable in the history of what happened when the news business, and countless others, collided with the Internet. And that fact is simply this: Google changed everything. Like the dawn of every other era in this epic saga, the Google era actually began during the height of the previous era, in this case Web 1.0. It started in 1998, when—yet again—two Stanford graduate students, Sergey Brin and Larry Page, founded their little search engine company with—yet again—another silly name, in the two-bedroom graduate housing apartment they shared with another student.

Google began with a decidedly un-media company idea, creating a search algorithm that would “purify” the quest to find whatever you were looking for on the Internet without applying individual human judgment. Yet Google quickly evolved into the ultimate media company and has proved to be the ultimate disruptive innovator (so far) of a multitude of businesses. But above all else, it completely turned the advertising business on its head, beginning with the notion that Google didn’t want you to come to its site and stay there; it just wanted you to go through it to get everywhere else. And then it wanted to charge marketers for the privilege of following you where you were going, and knowing what you went there for, and then selling them the ability to advertise to you.

“Paid search” is the understated name given to its main business concept, which Google didn’t invent but worked hard to optimize. Then again, that’s a bit like saying that Sam Walton didn’t



invent discount retailing, but merely made the most of it with a modest chain of stores. Google wasn't the first search site to present paid results: that was invented during the dot-com boom by an entrepreneur named [Bill Gross](#), who created a sponsored search engine called goto.com that eventually became Overture and was later bought by Yahoo!. But Yahoo! wasn't able to swim fast enough to catch Google, and Google rapidly gained market dominance after it got started. Google called its service Adwords, which are those small text ads that show up next to the search results you're looking for whenever you type something into a Google search box and click "enter."

Google CEO Eric Schmidt has a pretty simple explanation for what actually makes his fairly complicated company click, and it's the same thing that used to make all those news companies so profitable: a river of advertising dollars.

Eric Schmidt, executive chairman, Google:

Google today is pretty much the same as it has been since I've been here. Since 2001, the majority—97%, 98%—of our revenue comes from ads of one kind or another. These little ads that come along with our search results, which are targeted to what you were looking for, people auction and people click on them, and we make a lot of money from that, and we do it globally, and it works extremely well. That's not changed very much, and I don't think it will change very much in the next while.

Today, with digital advertising revenues in excess of \$40 billion annually, Google's share of the digital advertising market dwarfs all others. Sir Martin Sorrell, CEO of global advertising giant WPP, says that Google has become his firm's number-one spending destination. The search company supplanted leader News Corp. and its global empire of media brands, everything from The Wall Street Journal to Fox News and The New York Post to American Idol. It was Sorrell who first referred to Google as his "frenemy": at once, both friend and enemy. The same word is now often applied in a news context, as Google is a vital provider of traffic and revenue to news sites, while at the same time it systematically and voraciously feeds on their revenue streams. And while Google may be known for its "Don't be evil" credo, Sorrell captured well the business impact of what they really do:

But if you thought about what was their principal operating principle, it would be disintermediation of established business models and providing you and I as consumer with a cheaper alternative, a better-value alternative... In a way, I think this is an industrial revolution that probably, for legacy companies, is very difficult to deal with.

As he had in the early days of Yahoo!, Mike Moritz of Sequoia became an early backer of Google.

Mike Moritz, chairman, Sequoia Capital:

The Google investment wasn't centered around media. It wasn't centered around news and information. It was centered around technology. The obvious point that the power of the search technology that the founders of Google and their close friends had worked on [was] superior to everything else that was around.

John Huey:

But you saw it early on as an advertising play, right? Or not?

Mike Moritz:

Initially, Google was going to be a licensing company to...

Martin Nisenholtz:

It was. It was licensing [search technology] to Yahoo!.

Mike Moritz:

That was part of the way that Sequoia got involved with Google. Google was licensing its search technology to Yahoo! for Yahoo! to distribute.

John Huey:

When and how does the advertising light bulb go off? Is Sequoia involved in that?

Mike Moritz:

The advertising light bulb went off very early in a tiny way at Yahoo!. The first advertisement, I think, was a tiny, inconspicuous Visa advertisement, which provoked all manner of hand wringing within Yahoo!.... There was an enormous fear that we were selling out to the demons, that this service on the Internet was going to be perverted and spiral downhill into the clammy hands of the capitalists. There were all these outraged emails from the devoted that there was this little Visa advertisement.

Of course, it played out that Yahoo! got over its squeamishness about running online ads pretty quickly and became the dominant Internet media company of its moment—but then lost its lead to Google and has been playing from behind ever since.

Art Kern, former Yahoo! board member:

...It's simple mathematics. If you got the best algorithms, you wring most of the cost out of the aggregation business that you're in. Here's Yahoo!, clunking along with all those human beings, trying to aggregate information, and here's Google.

Google's architecture, the way they launched anything new, was stunning. We didn't know it quite at the time, but it didn't take us long to figure it out. They set up the company with a vision that everything we do, we can do, if we press one button here in [Silicon] Valley, it can roll out worldwide, instantaneously. Think of what kind of architecture it would take to do that. Among other things, they had strapped together these very cheap servers by the hundreds of thousands, literally. It's the software that interconnected them that was brilliant. People forget that the architecture...of how the data flows, really matters.

Again, back to the point about speed. Like [at] Yahoo! we'd have a [new product, take, for example] Yahoo! Answers. We'd have a product developed by a small team in Taiwan or Korea.

Martin Nisenholtz:

[A] successful product, by the way.

Art Kern:

Yeah, fine. But first of all, look how long it took just to get headquarters to understand that it was successful, much less roll it out anywhere. Versus Google, who could have taken something like that and rolled it out instantaneously. I remember asking one of our engineers, "When we're doing testing, how many servers do we dedicate to that task?" Proudly, he said, "5,000." I said, "How many does Google use?" He said, "At least 100,000. Maybe 150,000." Think of an exponential curve, and think about our line versus theirs and how long it would take for them to zoom past us. Back to search, everything that they did was architected for speed and simplicity. They made it look simple, but they had the best algorithms, by far. That meant that they would be more accurate, they'd be more timely. In making the advertising case, it's the same for the ads. They would be placed in the best context.

## Chapter 13

### THE ADVERTISING ROLLER COASTER

Paul Sagan:

One problem for the news business is that it has always really been the advertising business. But very few in the news business want to admit that or talk about it from that perspective.

To many, the big question here is: What really happened to the news business? Maybe this is the simplest answer: Somewhere along the way, the advertising business left it in the riptide and made it to the beach. That's not to say that advertisers don't still pour many billions of dollars into publications and networks and websites that deliver news. They do. The New York Times Co. alone sold \$898 million of advertising in 2012. Problem there: They sold more than \$1.3 billion 12 years before. And as digital advertising replaces print and broadcast across the industry, the margins drop off steeply.

In a 2008 interview, NBC's Jeff Zucker (now head of CNN) famously talked about "exchanging analog dollars for digital pennies" (later upgraded to "digital dimes"), and that continues as a problem, especially with the growth of programmatic ad buying and the precipitous decline in average digital display advertising rates.

To step back a bit, though—as the advertising markets returned to health following the 2001 recession, the main event for many traditional printed news companies was the continuing downward spiral of the industry's highest margin earner: classified advertising. Tony Ridder's worries from the early '90s were now becoming stark reality. And even though Tribune and Knight Ridder were making a success of vertically targeted web businesses such as CareerBuilder and cars.com, it ultimately wouldn't prove enough to fight the riptide. Kathy Yates of Knight Ridder (whose Mercury News, you may recall, was the nation's second-largest classified vendor) witnessed the deep internal divides up close.

Kathy Yates, former Knight Ridder executive:

There was a cultural war that went beyond *The Innovator's Dilemma* and compounded the issue. I think that, more than anything, is why there was a lack of passion in myself among others to become the world's best classified advertising vehicle.

It just didn't speak to the higher purpose that so many people were in the industry to try and nurture. That created a disincentive for us to really be doing

the kinds of things that we would need to do—to, say, invest all of our energy in fixing the classified problem.

Had we done that, would we have been able to do it? I don't know. It's pretty hard to compete against free [like on Craigslist], but you can certainly build off of the traffic that comes from having a free classified product, and we should have known that.

We knew that the little liner ads in there attracted a lot of readership, attracted a lot of loyalty, and brought people to the newspaper. There were a lot of people that had subscribed to the paper just for that. But we didn't embrace that, and I think that was a cultural problem that existed in the industry. For all of us.

As local newspapers struggled with the demise of classified advertising, overall display advertising was doing better, though not at the rates typical of a recovery. Total print advertising would come back slightly from its nadir in 2002 of \$139.5 billion to \$152.3 billion by 2005, according to MagnaGlobal. Hardly a robust recovery.

In the online ad arena, however, the revenue picture was starting to look much improved. From its low of \$9.1 billion in 2002, Internet advertising would grow robustly to \$23 billion in 2005. Already, \$9 billion of that would go to paid search. The majority of the rest went to just five sites, led by Yahoo!. Print-based media companies, meanwhile, were rapidly becoming “unbundled,” as Alan Spoon, the former Washington Post executive turned venture capitalist, puts it.

Alan Spoon, former president, Washington Post Co.:

Think about the bundling of advertising. You knew where to find the tires in the newspaper. Maybe not in The Times, but in any local newspaper, you knew they were going to be in the sports section. You knew where to find the white sales in January. They were in the A section, even if you didn't know where Sudan was. Now if you're thinking about white-sale items at a good price, you're thinking about Amazon. You're probably going to some auto website to think about tires, with price discovery there. I'm talking largely newspapers, but it affects other media, too. Part of the information that people valued was the messaging from the advertisers. That became unbundled, together with ESPN doing what it's doing in sports.

Nick Denton describes how this process played out at Gawker. Soon after he started the site, he took a banner ad off another website and stuck it on Gawker.

Nick Denton, founder, Gawker Media:

I wanted to establish the principle that this is a commercially supported website. Don't come and freak out later if we put banners on this. It was from the beginning.

Martin Nisenholtz:

Then you hired a sales staff?

Nick Denton:

Gabriella [Jackomen] was taking sales orders. We were order taking for a long time. We were order taking right through until Andrew Gorenstein, who came from Conde Nast, joined us about two years ago. He would argue that we were order taking pretty much until he came on. We had hot sites. People wanted to advertise. We had hot sites and hot categories. Consumer electronics—we had the hot gadget site.

Martin Nisenholtz:

That's a nice place to be.

Nick Denton:

It's a nice place to be. We got to choose. We got to take [content ideas from] Wired magazine. We chose the highest value bit of it. That's the big problem the newspapers have had. Start-ups and new ventures come in and pick off the best bits. They leave The New York Times with the Baghdad bureau.

If it wasn't injury enough that a large portion of digital advertising dollars was going to paid search—and of that most, as we've said, went to Google—digital display advertising also started to veer away from the control of the mainstream media outlets. So by 2008, paid search, according to MagnaGlobal, accounted for \$24 billion out of a total Internet advertising market of \$53 billion—or almost half the total spend—with Google taking most of that. Further, the Google methodology of connecting users and marketers was proving so effective, it was often viewed by those marketers as a cost-of-sale expense, rather than an advertising investment. This encouraged people with ad budgets to look for more ways to throw money at Google.

Tim Armstrong, now CEO of AOL, but then Google's first head of ad sales, recalls the company began to expand beyond text advertising to claim a share of display, or banner, ad budgets.

Tim Armstrong, chairman & CEO, AOL, and former president, Google's Americas operations:

They couldn't spend the full amount of money they wanted to spend.... Our original intent was just to do search ads, and then what happened was, two or three years later, we realized customers were coming to us saying, "Hey, it's so efficient to put all my budget into one system and have it run on search in other places. Can I put my display budget in and do that?"

We tried to build our own display system, but we were in ongoing talks with David Rosenblatt from DoubleClick. Essentially, it made sense for us to, instead of building it ourselves, [to] buy DoubleClick because DoubleClick had built all the piping. People don't realize what the ad business is. The ad business isn't about sales on top and selling advertising. What it's really about is putting piping into all the major customers, into their billing side and [the] finance side. DoubleClick had done that. For Google to replicate that would have taken years, so we bought DoubleClick [in 2007 for \$3.1 billion].

We essentially came up with a new strategy chart, which showed on one side of it...we would basically have all the advertisers. In the middle, we'd have a Google system, and on the other side, we would actually be agnostic towards what type of ads and what type of revenue we took.... We launched the Google TV business, the radio business. We actually ran ads in print. We used the Google system to actually buy print ads and put them in magazines and we tested that.

We really thought very big and broad about how do you have one system serve the whole ecosystem of advertising.

Actually, the use of technology to place web ads on different sites was not new. DoubleClick had been founded during the early days of web advertising, and then dozens of advertising networks sprung up during the dot-com boom. Most went out of business in the bust. One that stood out was a 1998 startup called advertising.com, founded in Baltimore by brothers Scott and John Ferber. By 2004, advertising.com had not only survived the Web Winter, but had assembled thousands of websites into a vast network that allowed marketers to target and buy advertising more efficiently. AOL acquired the company that year for \$435 million, precipitating a flood of venture money into so-called "adtech" companies.

With all those companies stirring the pot of the web ad ecosystem, and Google running DoubleClick, news publishers were now faced with another dilemma: Should they remain the sole sellers of their inventory, or give their unsold—or remnant—inventory to ad networks to peddle? Scores of publishers, such as [About.com](http://About.com) and [iVillage](http://iVillage), offloaded their remnant slots to

the networks. Some tried to start their own. But, among others, Gawker Media's Nick Denton refused to play the network game.

Nick Denton:

We never allowed networks in. If you want to buy the [Gizmodo](#) audience, there's one place to buy the Gizmodo audience. The front page would have value. Only one advertiser can be on the front page of Gawker on a particularly hot movie release weekend. We have advertisers who need to lock in those dates.

...You know when people talk about the unlimited supply of inventory on the web? That's the biggest load of bullshit I've ever heard. It's ridiculous. It's like saying there's an unlimited supply of paper in the world. Yes. It's irrelevant. What matters is that you create opportunities that are unique. The front page of a site, on a day, if it has an exclusive sponsor on that day, that's a unique opportunity.

Only one person can have this. Either it's going to be HBO or Showtime. If you want that particular date, you better lock it in soon. There's a limit to how much discount we can give you. That's how we get pricing power. I don't see the web as any different than any other medium that's ever existed.

Martin Nisenholtz:

I'm just going to give you the argument back. The argument back is that, unlike any other medium that ever existed, you've got a player called Google that looks at all the behaviors across the Internet, including in its own search engine, and can give you the best parts of the Gizmodo audience for a third, a half, maybe even a quarter of the price that you charge. Those banners may exist on other sites, but the targetability, the measurability is incredibly precise. That's the other side of the argument.

Nick Denton:

When we don't run the networks, most of the networks can't identify who the best Gizmodo readers are. We've kept those networks out. We've kept them out for a reason. We have a monopoly on the supply of our readers, to advertisers.

From the resurgence in Internet advertising beginning in 2003, to the Great Recession that began at the end of 2008, virtually all the swimmers in the news flow had a swift current at their backs, even if not in equal force and even with Google soaking up so much of the overall ad spend. Most news websites grew ad revenues in double digits year after year during this



phase (albeit off relatively small bases of revenue with problematic margins), and overall newspaper advertising remained steady, growing slightly from \$101 billion in 2003 to \$108 billion in 2008, according to MagnaGlobal. Then, in the fall of 2008, came a fierce reversal in the riptide: the global economic collapse and ensuing financial meltdown.

Premium publishers attempted to hold on to high rates for their web advertising inventory, but it was a mostly futile effort. The average cost to buy online banner ads (so-called CPMs, or the cost for every 1,000 audience impressions) stood at just \$3.50 for desktop inventory and a mere \$0.75 per CPM impressions on mobile sites in 2012, according to KPCB. Effectively, Jeff Zucker's digital dimes were rapidly being devalued back into digital pennies.

As a result, by 2012, some premium publishers began creating their own (so called "native") advertising solutions, moving away from the standard banner units that had defined Internet advertising since the mid-'90s. Often, these publishers were criticized for violating what had been a sacrosanct "church (newsroom)/state (commercial)" divide. Jonah Peretti explains and defends this movement at BuzzFeed:

Jonah Peretti, founder, BuzzFeed:

I don't think banner ads are a solid enough basis for it [the business model.] And just like this shift [toward social distribution of content] has happened on the editorial side, the same shift is happening a little bit later, in advertising, where the leverage you get from massive networks can mean the same piece of creative and the same size media buy can get much more distribution.

The church/state separation is very important. And [editor] Ben Smith is very rigorous about it. I agree wholeheartedly that church and state is really important. The thing I don't like about the church/state division, as someone who sits above the divide, is that it can lead to a two-tiered system where the journalists are seen as the whole purpose and the greatness of everything, and that the people in advertising are seen as a necessary evil that are doing things like, "Well, you kind of have to do it, but it kind of sucks. In an ideal world, there would be no advertising."

Moreover, as publishers witnessed the banner ad becoming a commodity, they moved rapidly into new forms of business development. The Atlantic is just one place where what once was valuable ad placement on premium content has significantly decreased in value.

Justin Smith, former president, Atlantic Media:

On a straight, banner contextual impression, sure, that's probably the case [declining value], and I would concede the argument to you. But when you're talking about going to an advertiser with an idea that is customized to that advertiser, that comes from an organization that understands its brand and its audience extremely well, that idea is actually expressed across a series of live events, a series of video products, a series of print products.

John Huey:

You talked about marketing services. What does that mean?

Justin Smith:

That's the idea. In a sense, that's the creation of the idea. I think it's the media company as agency, which is effectively what has happened to us. Atlantic Media is an idea-based marketing agency, digital marketing agency, is another way of describing our company. That multi-touch, multi-platform, multifaceted, customized, bespoke, ideas-driven initiative that in the past would have come from Ogilvy & Mather or from an ad agency is, in fact, coming from us directly, cutting out the agency, going directly to the client. That's not replicable by programmatic [machine-driven buying]...

...another way and a flippant and maybe humorous way of looking at it is, we look at programmatic and, just entrepreneurially, we say, "What can we do that programmatic can't do that adds value?" It's like your back's against the wall. They're coming at you and you're like, "Okay, [but] I've got to reinvent myself to do something that those machines, those algorithms, can't do that delivers value to the advertiser.

There's a lot of things, if you put your thinking cap on, your innovation cap on.

In general, print newsrooms didn't innovate nearly fast enough to cope with the combination of declining ad values and an economic meltdown. Television outlets fared better, at least economically, continuing to garner the largest share of [total marketing expenditures](#) from advertisers, while holding on to more brand advertising dollars, according to [Nielsen](#). Moving ahead, however, it will certainly take significant innovation to alter the strong current of digital advertising away from print and, as audiences continue to migrate online, eventually away from television as well. As of 2013, the disrupters are winning definitively in this area, and we are only now beginning to see how social media will come into play and alter the flow of things even more.

## Chapter 14

### GOING SOCIAL. AND PAYING TO PLAY

Global advertising crashed—along with everything else—in the 2008 financial collapse. Total media advertising dropped from \$410.6 billion in 2008 to \$365.3 billion the next year. But unlike the previous recession, when Internet advertising collapsed, this time it grew—mostly because paid search advertising continued to lure advertisers even as their businesses weakened. This time, print suffered the steepest losses, with global spending in 2009 plummeting to \$116.9 billion from \$144 billion the year before.

All the separate digital operations that had been set up by the traditional operators were reeled back in to cut costs and now—with real urgency—to transform or die. Mike Perlis, the CEO at Forbes, tells the story of Forbes.com, where he decided to offer previously taboo content offerings—like allowing advertisers to create their own editorial content to run alongside the “real” content previously produced only by editors.

Mike Perlis, president & CEO, Forbes Media:

There was something called the worldwide financial collapse in 2008 which forced a lot of issues. Like everyone, we had to make cuts here, we had to make consolidations. It also happened to be the right time to manage the brand in a consolidated way.

But lest we make you feel that this was a simple and non-confrontational time, and particularly when [chief product officer] Lewis [DVorkin] got here and began to change how we were gathering and distributing and creating content, there was a lot of—I hope you don’t mind me saying—there was a lot of, “Are you in, or are you out? Are you on board with the new way of doing things, or are you going to go somewhere else?”

The financial collapse also affected the startup entrepreneurs, but this time the broader context of the last bust provided a framework for operating successfully in a downturn. They weren’t new at this any more.

Martin Nisenholtz:

How did [Gawker Media] grow?

Nick Denton, founder, Gawker Media:

Consistently. Even after 2008, where I actually cut the costs by 35 percent. Within three weeks of Lehman [Bros.] going down—I’d been so scarred by the

dot-com bust that there was no way it was ever going to happen to us. We were not going to hold on with loss-making ventures. In business terms, that was probably the biggest interruption, except that there was no interruption in sales growth. We rationalized our titles. We'd always been pretty ruthless about getting rid of things that weren't working. Once you fire your first editor-in-chief, once you close down your first unsuccessful site, then subsequent actions become par for the course. If we were to do it now, people wouldn't think, "Gawker's in trouble." They'd think, "That's just Gawker doing what Gawker does. It's a relatively ruthless organization."

But one pattern did repeat itself. Just as consumers continually expanded their use of the web right through the Web Winter of 2001, this time, there was unabated growth in consumer adoption of broadband, and even more so, adoption of powerful mobile devices: initially the Blackberry, but increasingly, Apple's iPhone and Google's Android devices. In large part, the growth of these new technologies enabled an old idea to finally reach critical mass: the social network.

Platforms for individual expression and interaction had come and gone since the advent of the web. Initially, these were static 1.0 services like [Geocities](#) and [Tripod](#) that allowed users to create their own "walled garden" homepages. These businesses were mostly acquired during the dot-com boom by the portals (Geocities by Yahoo! and Tripod by Lycos), in some cases, for billions of dollars.

The next generation of social networks began in 2002 with the launch of Friendster and, the next, year, Tribe. Founded by [Mark Pincus](#) (who would later create the online gaming company [Zynga](#)), Tribe was focused more on the connections among people—groups. Once again, the newspaper industry tried to harness the new technology, this time to save classified advertising. Both the Washington Post Company and Knight Ridder invested in Tribe with the hopes of it becoming a kind of next-generation Craigslist. The theory was that people would tend to buy things from their social circles rather than anonymous Craigslist sellers. It failed, and over the horizon came [Myspace](#)—originally popularized as a place to talk about favorite bands—as the next ascendant social media phenomenon.

In 2005, Rupert Murdoch's NewsCorp acquired Myspace for \$580 million, and was suddenly viewed as having made the most brilliant deal by a legacy media company in Internet history. It was such a great deal that Sumner Redstone fired Tom Freston as CEO of Viacom for not making it. That's how hungry the moguls were to steal a march on this social media phenomenon.

For a while usage of the site boomed. But then aspiring computer engineer Mark Zuckerberg went to Harvard and in his dorm room started a little proprietary network at first just within Harvard, initially to “rate” dating prospects. That, of course, was Facebook, and if you don’t know that story go see the movie [The Social Network](#).

Chris Cox, Facebook’s vice president of product, describes the idea of the “the social graph,” the key underlying concept behind the company. He recounts a part of his 2005 job interview with then vice president of engineering Dustin Moskovitz and chief technology officer Adam D’Angelo.

Chris Cox, vice president, product, Facebook:

They described to me this idea that Facebook was the seed of a collaboratively created directory of people. At that time, Facebook had around five million users, so the idea that it was this seed of something that could grow to actually be really, really big, but that had the property that each member of that network was creating their own projection. So, it was a collaboratively built directory and it was interconnected. Each person was connecting to their real-life friends.

That was a new idea to the extent that the rest of the networks that had existed on the Internet didn't have the property that people tended to be themselves and tended to connect with people that they really knew in life.

But if you had a seed that had that property that was strong and engaged, it was actually growing and could become something really, really exciting, which they were calling "the social graph"—this idea of a collaboratively built directory of everybody in the world, where each person was responsible for their own entry in that directory.

Martin Nisenholtz:

They had that vision in 2005?

Chris Cox:

They did. We weren't sure whether to call it "the social graph" or whether to call it something else. There was a bunch of debate internally around what to call it, but the key thing they did have was the word "the," which was important because it meant that the idea was to reflect something that was a reality that had just never been mapped out. That was a powerful idea, for me, as a [Stanford University engineering] graduate student, once I wrapped my head around it. Then, if you could imagine that existing, there's this directory that

you're in, and your mom is in, and your sister is in, and your brother is in, and your roommate is in, and your college professor, all the way up to Barack Obama and John Boehner, and all of the public figures in the world—Beyoncé and influencers in every different category.

If you could imagine a world where every one of those people had an entry, and every one of those people were connected to the set of people in the world that interested them, you had the underpinnings of a circulatory system that could be a publishing platform, where each person was receiving updates from the set of people that interested them, all the way down to their cousin and all the way up to the president of the United States.

That publishing system they called "Feed," and my job interview was, "How would you come in here and help us build Feed?" Feed was to take the homepage, which at that point told you how many friend requests you had, and turn it into "this living newspaper" and these were the words that they were using.

Now, with more than one billion users globally, Facebook has redefined the whole concept of audience "reach" in which both publishers and even the big portals would proudly tout unique visitors in the 20 to 50 to 150 million-user range.

Around the same time that Mark Zuckerberg and his team were beginning to build "this living newspaper," a group of entrepreneurs, including Blogger founder Evan Williams, created Twitter. The other members of the team, Jack Dorsey, Biz Stone, and Noah Glass, had worked together at Odeo, an early podcasting company. Seven years later, Twitter's 140-character "tweets" are a preferred method for reporting and receiving "news" by both individuals and institutions like The Wall Street Journal, The New York Times, and Time magazine. Twitter, according to CEO Dick Costolo, is the global meeting spot. What's quickly reported in one place and tweeted out may not always be accurate, as CBS newsman [Scott Pelley noted](#) after the tragic school shootings in Newtown, Connecticut, but it's where more and more of us are going first to hear news—as well as gossip.

Dick Costolo, CEO, Twitter:

My perspective is that we're building this global town square. What I mean by that is, if you went back to Ancient Greece, the way that news and information was passed around was, you went to the Agora after lunch in the town square.

There was this unfiltered, multi-directional exchange of information. I might go into the Agora and say to Martin, "Hey, my aunt died." Martin might say, "Euripides' goat passed away." We would exchange some information.

By the way, the politicians were there. The musicians were there, et cetera. There was this multi-directional, unfiltered exchange of information, which was interesting in all sorts of ways.

[The] advent of technologies...made it easier to distribute news, geographically and with less friction in time, starting with the printing press, then radio, broadcast television, cable, on and on. It was always in service to a broader geographic distribution and less delay in time, but at the expense of losing the multi-directional aspect of it. It became more and more one way. And losing the unfiltered aspect of it. It became more and more here's what's going on from the very few of us to the very, very many of you.

In fact, if you go back to the election—talking about the campaign—if you go back to the campaign eight years ago, there would be a debate. Then CNN would say, "Now, we're going to go to Frank Luntz, who's back here in the room with six people, and Frank's going to tell you exactly what to think or what everyone in the room thinks about what happened tonight." But it wasn't. It's Frank telling you what he thought happened tonight and what these six people said.

Along comes Twitter, and it's got all the benefits of broadcast distribution. It's got immediacy. The information is transmitted around the world in absolutely real time. It's got obviously the breadth of geographic distribution but all the benefits of the Agora. It's multi-directional. The president's talking to me, but I'm talking back to the president. CNN is broadcasting the debate, and I'm saying, "I don't think he answered that question."

It's certainly unfiltered. You don't have to go to the broadcaster any more, during the basketball game or after the basketball game. You go to LeBron [James], and LeBron goes to you.

That has been why we're seeing the [political] campaigns unfold on Twitter. There's no more, "Now let's go to Frank Luntz to see what people thought about that question 20 minutes ago," because as the question happens, people are typing into Twitter, "I thought he dodged that question." We already all know what we all thought about the answer.

As Google and the emerging social networks took an ever-increasing part of the advertising pie, news entrepreneurs recognized the dual dilemma of creating something that would both fit into the new distribution reality, and be sized to the realities of the new marketplace. Scott Kurnit, the founder of About.com (which was sold to Primedia in 2000 for \$690 million, to the New York Times Company in 2005 for approximately \$400 million, and then sold again to IAC in 2012 for \$300 million), describes the challenge.

Scott Kurnit, Internet entrepreneur and founder, About.com:

What we haven't seen happen successfully in news is professional journalism matched with crowdsourcing, with proper curation. We see on Twitter, when the plane goes down on the Hudson, it's first reported, and then the conventional news outlets pick that up....We see The Huffington Post has been successful, I think, with a modified model, both in terms of massive amounts of user input from commenting, and also blogging as interesting fodder. But they're not The New York Times. The question is, as we look at the likes of The New York Times and the Time magazines, as they go forward, they can't keep doing what they're doing. The model doesn't work. There's less revenue in digital than there is in the old media and that's not an anomaly. That's real. That's going to continue, so they have to lower cost structure. How do you lower cost structure? Well, you introduce, I think, people with passion who don't do it for the money. They do it because they love it.

I think that the blend of professionalism and passion and curation will become, and is becoming, the new source. I do worry about news that is just incorrect....You never know if a quote's real or not on the Internet, and that's a problem. So how do "We the People" thumb it up or share it appropriately to create enough of a filter so that we know that it's real? I don't think we've achieved that yet. I still think there's...more voices for sure, but the ultimate news product is still in front of us.

One company attempting to create a news service for the social age is BuzzFeed, founded as an experiment by Jonah Peretti when he was still at The Huffington Post. Peretti sees benefits in an increasingly social news environment.

Martin Nisenholtz:

So I guess you think we're at the beginning of something?

Jonah Peretti, founder, BuzzFeed:



I think that you had an era where portals were dominant, an era where search was dominant. Now we're at the beginning of an era where social is dominant. So digital feels old and has been around for a while. But social, to me, seems like it has more potential both to create new, interesting kinds of monetization and also to be a friend of original reporting in journalism. Googlebot is dumb and will aggregate the page that has the most keywords that it seems the most relevant to...but it doesn't know that that's not the original piece, or the authoritative piece. Whereas on Twitter, nobody is going to retweet that piece, no one is going to share that piece....

People will retweet the Ben Smith scoop or the [Michael] Hastings scoop. They're not going to retweet the rewrite of it. I think that actually makes the reporters that we've hired.... They pull their own weight in terms of traffic because of the social web.

Still, to Kurnit's point, there is the tricky problem of cost structure. Many of the news entrepreneurs we spoke with addressed this issue, and most did so by suggesting that some combination of tweeting, blogging, and crowdsourcing would complement a much smaller newsroom. Henry Blodget, for example, makes the case that in a social media age you do not necessarily need reporters on the ground when ordinary citizens are already there.

Marty Baron, executive editor of The Washington Post, offers a different view—with passion.

Marty Baron, executive editor, The Washington Post:

There may be instances where that works. Even if you have a train wreck, you're going to get a lot of tweets from people saying, "I was just on the train and it crashed." Who's going to explain to you why it crashed? What were the circumstances? Nobody's blogging on that. Nobody's blogging on whether the person who was the conductor of the train was on drugs, or drunk, or fell asleep at the wheel, or anything like that.

They don't know. They have no information about any of that. They have no information about whether the tracks were in proper condition. They have no information about whether the train was properly maintained.

They can't tweet about that. There's nobody blogging about it. None of the engineers who worked for the Transportation Authority are blogging that "Hey, guess what? We haven't been maintaining those tracks."

The notion that all information is known, but it's not necessarily available and it's not put together in any coherent way for anybody to possibly understand.

We just did a story here about the governor of Virginia who has a highly unusual relationship with a very unusual company that's putting out a dietary supplement essentially. It's not clear that it has medical benefits, although some are being claimed. This company gave the governor, actually has paid for \$15,000 of the wedding of his daughter. The governor's daughter isn't going to blog on that. The donor isn't going to blog on that. The governor himself doesn't plan to blog on that. The caterer didn't blog on that. Nobody blogged on that. Where did that information come from? Through the efforts of our own reporters.

The Boston Globe just completed a series about the taxi business in Boston, and all the abuses that take place there, how the drivers are exploited essentially. Taxi drivers can't blog on that because they won't get another gig. The owners aren't going to blog on that because they won't get another gig. Nobody's sending out tweets about any of that sort of stuff. The only thing that gets sent out on Twitter about that is if somebody had a bad cab ride. There's a limit to the kind of information that becomes available because of blogs and because of tweets.

We have to be realistic about that.

Yet as the economy emerged from the Great Recession—and all the ascendant forms of distribution and advertising became more and more dominant—simple arithmetic dictated to the traditional news providers that they would have to continue to reduce costs while layering in additional revenue streams. For large general news sites—notably The New York Times—this was a serious change. There was little precedent for readers paying for general news content online. Moreover, at the largest newspaper-owned websites like nytimes.com, there was concern that a pay model would significantly erode the audience and accompanying advertising revenue that had been garnered over the past 15 years.

Ultimately, The Times decided to implement a “metered model” for its suite of digital products in 2011. Martin Nisenholtz, who was on the team that evaluated that decision, explains the basic model.

Martin Nisenholtz:

It's very simple. The idea is that users get up to a certain number of pages per month for free. I think we started at 20. I think the meter is now at 10. That

allows you to provide this massive sampling of content to tens of millions of people each month. It also provides inventory and reach for your advertising business. From the side doors, by that I mean companies like Facebook, Twitter, Google, etc., you can go to a search and get again, an article for free or if somebody wants to share an article, they don't have to send you an article that you're going to hit a wall on. It's a very easy and friendly way of dealing with content on a global web.

Paul Sagan:

If you hit that number, what happens?

Martin Nisenholtz:

Once you hit that number...before you hit that number, you're told by the system that you're about to hit the number and hopefully you'll subscribe at that point. Once you hit the number, then you're unable to see any more content until the first of the next month. You've used your quota. Then you come back and on the first of the month, get a new meter. In essence, the meter is reset.

Paul Sagan:

At least in 2013, what's the result? Some of that's been publicly reported.

Martin Nisenholtz:

A lot of it's been publicly reported. The result has been, I think, stellar. It's certainly exceeded, I think, The Times' expectations of what would happen along essentially three dimensions. Dimension one is the number of subscribers. [As of mid-year 2013, the company reported nearly 700,000 digital subscribers, an increase of 35 percent year over year.] I think by anybody's calculus, the number of subscribers is positive.

Secondly, we thought that it would diminish the advertising inventory more than it has, so more free users are coming than we expected.

Third, there was some thought that there would be a migration out of print and into the web faster because of the price differential, and that hasn't happened. It's actually been additive in some ways to the print side.

I think the model has been a success pretty much along mostly every dimension that you can think of. That's why, I think, you've seen so many other newspapers

take a whack at implementing this model. I think, at last count, there was something like 400 or 450 newspapers in the U.S. pursuing a metered model.

The Times did not invent the metered model. It was pioneered by The Financial Times and has been successful there, as well. It was unlike the original paywall model, adopted by The Wall Street Journal back in the early days of the web, because metered sites allow casual users and aggregators to access a limited number of stories per month without paying. Rob Grimshaw, who manages the FT's digital business, discussed the applicability of today's metered model to general news businesses.

Rob Grimshaw, managing director, FT.com:

It's an interesting debate. I think we do have some unique advantages. We are very niche. I think we have a very clear position in the marketplace and a relatively defensible position in the marketplace. I think we, probably, have an easier job of carving out our position in the marketplace than, say, a general news publisher because there's just more competition for that space. However, what I've seen over time is an evolution of this discussion.

When we first came out and said that we're doing this, and this is going to be the focus of a web business, everyone said that there's no way you'll ever be able to do it, nobody can do [subscriptions] online, forget about it.

When we were successful, the argument changed to, "You can do it, but nobody else could do it. A general news publisher could never do that."

Then, The New York Times comes out and does it. The argument changes, again, to, "The FT and The New York Times can do it, but they're quality publishers, so they can do it but nobody else could ever do it." Now, you've got what, 1,000 publishers across the States, 1,000 titles across the States that are charging?

Martin Nisenholtz:

That begs the following question: Where are you today? Just explain your economics sitting here in April 2013, and then we'll triangulate that with where some of the others might be.

Rob Grimshaw:

If you look at the FT as a whole, about 35 percent of our revenues come from digital now, which is something that we feel is a real achievement. Our thinking is that we need to get to about 50 percent digital revenues in order to be secure

in the long term, to guarantee the future of the brand. But, we can see that on the horizon. We know what steps we need to take to get there. There is also another key aspect that we look at, and that's the balance between advertising revenues and content revenues. In those terms, it's about 50/50 now. This year we expect over 50 percent of the revenue for the organization to come from content as opposed to ads.

Just to give you an illustration of how massive a shift that is, in 2001 over 80 percent of the revenue for the FT came from print advertising. It's a huge transformation. If you look at the digital business right now, FT.com, last year, made more than 50 percent of its revenues from subscriptions.

An almost identical dynamic has taken place at The New York Times in the wake of the metered model.

Arthur Sulzberger, chairman, The New York Times Co., and publisher, The New York Times:

There are going to be a whole variety of different models. Some of them are going to have longer glide paths than others. Bloomberg has one model. ProPublica has another model. Thomson Reuters has a third. We have ours. You're just going to have to keep on testing and learning. When I came here, roughly 80 percent of our revenue was advertising, 20 percent was circulation. Roughly. It's now 50/50. Circulation revenue, print and digital, is clearly the growth area, as we adapt to the new digital advertising environment....

As Sulzberger notes, the news business today is still very much in a state of transition, both in terms of how it gathers and distributes the news, as well as how it preserves a sustainable, profitable business model. If the recounting of the last 35 years proves nothing else beyond a doubt, it is that the march of technological innovation around information is not going to slow or find some comfortable resting place. If anything, it is likely to quicken.

Eric Schmidt, executive chairman, Google:

The core problem that the Internet has [caused for the news business] is that it has attacked, if you will, the union of the distribution and the editorial. There will be a new set of startups...which attempt to do news reading and news aggregation. Maybe some of them will become the dominant players there.

...Most of the arguments that I've heard are based on emotion, not rational analysis. So it's helpful to start doing the math. The fact of the matter is that in

an always-connected world, the audience of three, four, five billion—they're not going to be paywall subscribers. If they're going to see your content, they're going to do it for free. You'll have to come up with an advertising model that supports that. Ideally, working with Google and others. As we develop better advertising models, better targeted, there will be more money in that space. If your goal, as an editorial institution, is to cover everyone it's not going to be paywall based. It's important that this is your decision, not anyone else's. You've got a choice of whether you want to use a paywall or not.

A reasonable prediction is organizations [that] had good subscription models, which include all of the major media institutions, will substitute those for paywalls. It's a reasonable presumption. Why? They have strong subscribers. They understand how to run that business. It's consistent with their model and a good choice.

Which brings us to the present—and beyond.

## Chapter 15

### TIME WILL TELL

When we began constructing this oral history so many words ago, we raised some big questions that we hoped to answer about “what really happened to the news business.” At the time, we each had some preconceived notions—maybe some biases even—about what the answers might be, so we aimed to speak with 20, maybe 25, people along the way to sort out any differences we might have perceived in our points of view, and then lay them out for history ultimately to decide. As we closed in on our 60<sup>th</sup> interview, we realized we were totally sucked in to the exercise by a sense of discovery that we hadn’t expected to glean from rooting around in the past.

As we warned you at the outset, *Riptide* is a Rashomon tale of multiple perspectives, told—we hope not by an idiot—and signifying—we also hope—something important. In the process of examining this 35-year period in the life of the news business, we three authors have virtually merged our perspective into one; we disagree on only the smallest points, not even worth the discussion. In other words, we believe the story we present here to be, in its sum, close to the truth of what happened to the news business. And we believe we answered all the big questions we posed at the beginning—save one. And that is the big one, really: What is going to happen next to the news business, and how is that likely to affect the quality of life in a democratic republic?

We are quite aware of all the various alternative models and futurist scenarios that explain how quality general news media might survive. We have also followed all the current techno-rabbits being chased by the advertising industry—video, mobile, etc. Where will all this lead? And what will it mean for journalism? We don’t know. And we don’t really believe anyone else knows either.

Instead of taking on that thankless and impossible task of gazing into our crystal ball, we decided that—after talking to roughly 60 of the most seasoned, invested, thoughtful, powerful, intelligent, humbled, and philosophical people involved with the news industry in its past, present, and future—we would let our interviewees conclude. What follows is a selection of a handful of them who had particularly strong points of view and expressed them frankly.

We begin, not with a *crie de coeur* from an old-time newsroom hack for salvation, but with a clear articulation of the need for journalism in a digital world from the person whose singular invention did more to enable the collision between news and the Internet than anyone else.

Tim Berners-Lee, inventor, World Wide Web:

...There's a need for journalism. People are desperate for it. People are fed up with spam. They're fed up with just searching, using a web search tool to find a medical article, then realizing only after they have gone to the bottom of the article and followed the advice, and bought the drugs that the whole thing was produced by the same pharmaceutical company, with an extremely slanted view. People are getting so good at presenting stuff which is biased [but appears] as though it is not.

People are fed up with that and journalists have got the skills and the motivation. It's their job to solve that problem. With all these new genres, don't expect everything to look like something on the printed page, just translated. Yes, you can think of a blog as an op-ed, but there's a lot more blogs than there are, were ever, op-ed columns.

The world's changing shape. Some of those things are fragmented into small pieces. Maybe that will equalize and maybe we'll get a pushback. I think people will use tweets to find things which are larger. There will be a balance. I think serious pieces of work will be important. There will be a range of all those things.

It may involve new protocols. We are looking at new payment protocols.

One of the solutions may be to get payment protocols on the web, new payment protocols, so it's easy for me, as I read your blog, or as I read your journal, the output of your journalism, I might be able to tell my browser, "You know what? Whenever I really enjoy an article, I'm going to hit this button, and I want to pay the guy who wrote it, and I want to pay the guy who pointed me at it," because I really appreciate that.

...It's building new systems. There will be new genres, both of works and of journalism. They won't all be paid for by payrolls. They won't all be paid for by advertising. We'll have new types of products, ways of paying for them.

We just have to be creative. You think about how the user, what user interface would you like to have that makes it easy to pay for something, to give credit where credit is due? Let's see how we can implement it.

Without the middleman, without having to cut down the trees and make wood and the paper and so on, then I think maybe we'll be able to solve both of these problems.



We also spoke to Julius Genachowski, who in April of 2013 resigned as Chairman of the Federal Communications Commission, after presiding over a tumultuous period in the government oversight of communications and electronic media industries. He shares a sympathetic concern.

Julius Genachowski, former chairman, Federal Communications Commission:

...I commissioned a report on the information needs of communities in the digital age. By commissioned, I mean we put together a team here at the FCC and brought in a terrific former journalist and former Internet entrepreneur named Steve Waldman to run this effort. And he produced his report, at this point, about two years ago. It's called the "FCC's Report on the Information Needs of Communities."

Paul Sagan:

And it concluded some worrisome things....

Julius Genachowski:

Let me describe the report a little bit.... It found that there were both opportunities and challenges, and then it tried to be concrete about what the challenges are. On the opportunities side—let me start there before we get to the challenges—new communications technologies, the Internet, mobile, are creating new distribution channels for news and information at much lower costs of distribution. You or I could start a news and information business tomorrow on the Internet at a much lower cost than if we wanted to do exactly the same thing 20 years ago and we needed to launch a newspaper or TV station. This is a general fact about the Internet and opportunities for new businesses. The cost to get started and the barriers to entry are a lot lower, particularly in a world where we preserve a free and open Internet.

In fact, there are lots of examples of online entrepreneurs that have started news and information businesses. But the report also found that, when it comes to news in particular, while the distribution costs may be a lot less than they are historically, it still costs money to report the news. Reporters don't work for free, nor should they. The business models to generate revenue to pay for reporters, even on the Internet, are not where they need to be to support a robust reporting operation.

The report found a few different things. I think it tried to be intelligently nuanced. It identified the largest challenge around local news and information as

opposed to national news and information. Local journalism, covering the mayor's office, the governor, state, city, local agencies, that's where we've seen the greatest cutbacks and the hardest economic challenges, as compared to national news. That doesn't mean there aren't issues there, but there continues to be vibrant coverage of Washington.

Local news and information, particularly in the area of accountability journalism, is where the report found the biggest challenge. The report drew a distinction that others have drawn, but it's important to keep in mind, between opinion and journalism. The Internet is great to facilitate the wide distribution of many different opinions. It's much harder when it comes to building a reporting entity, particularly if what you're trying to do is build reporting teams in lots of different local communities.

Paul Sagan:

...I just want to make sure that I'm following you; that I think you would agree that that part of the puzzle's not been figured out. That has to happen and that path is really unclear.

Julius Genachowski:

I completely agree that it hasn't happened and that the challenges are very significant. But I would also argue that there's tremendous value in local accountability journalism. People really want to get local accountability journalism about their communities, about things that really matter to their lives. My hope is that innovators in this realm will continue to mine it. I don't know if they'll be existing companies that figure it out or whether they'll be start ups, but I don't think we're talking about trying to figure out a business model to give people broccoli that they don't want. I believe that people really want local accountability journalism because they care about their home, they care about their kids, they care about their lives and they want to be engaged citizens. Someone will figure out how to provide that and build a business model around it.

And from the person who many now view as the keeper of the last flame, a clear, unvarnished statement of purpose.

Martin Nisenholtz (to Arthur Sulzberger):

But the assumption over time is that people are going to continue to appreciate quality journalism. Without that, there's really no...

Arthur Sulzberger, Jr., chairman, The New York Times Co., and publisher, The New York Times:

If that goes away, then you're right. Our mission is gone, because that is our mission.

Sulzberger isn't the only person in the industry with a surname that's synonymous with the long history of journalism in the U.S. But in this next case, the namesake also has backed some of the savviest new ventures in digital communications.

Will Hearst, chairman, Hearst Corp.:

What has changed in the media equation is the mass media equation. Newspapers in 2013 are not mass media anymore.

The Economist can survive. The New York Times can survive. Newsletters can survive, even have circulation revenue. The idea that the mass market is a newspaper market or even a publishing market, I think, is in great danger.

And from yet another member of a storied news family, a few months before he announced the decision to sell his historic newspaper, a sense of uncertainty that perhaps foretold [his decision to exit the business](#).

Donald Graham, chairman & CEO, The Washington Post Co.:

One of the questions that faces places like The Times and The Post, but I want to come back to local newspapers broadly, is...there any kind of a plus to a news organization in having really high-quality reporting and editing? I'm pretty sure the answer to that is yes, but we have not figured it out.

From a new-generation news entrepreneur, we heard a call for a bit more patience, some time to find new models that work.

Jonah Peretti, founder, BuzzFeed:

One of our goals at BuzzFeed is to build a real, sustainable business that generates profits, to build a media company for the social age. There are all these big media companies that, 10 years ago—Time Inc., The New York Times—all these companies were worth \$10 billion and were seen as really great businesses. But you haven't really seen that with digital yet. You've seen people

build companies that, by old media standards, are fairly modest. I think that's because we're at the beginning of a transitional period and that eventually it should be possible to build much larger, more successful, more profitable companies in the digital space.

To the extent that news remains advertiser-supported, a different kind of church/state relationship may be evolving; one where the boundaries may not be as clear.

Sir Martin Sorrell

Interestingly, talking to newspaper owners currently, if they say to you, "What can we do that would help WPP, or GroupM, or Mindshare or whatever it turns out to be?" It's always that we say, "Greater flexibility." And by the way, this boundary between advertising and content—advertorial, right—is going to get increasingly blurred. I mean, I don't think that consumers should be misled. If it's an advertorial it should clearly say at the top of the page, "This is an advertorial." But content. There's going to be increasing amounts of sponsored content—of content that's developed for specific commercial purposes, just as much as for editorial purposes—and the two things are going to mix.

We also heard advice about where not to be in the future of news from someone who's been in print, some of the earliest web publishing efforts, the heart of the most successful online advertising business, and now leading an effort to reinvigorate an old digital brand.

Tim Armstrong, chairman & CEO, AOL, and former president, Google's Americas operations:

...The overall thing, across the entire Internet right now, regardless of what content space you're in is, don't get caught in the middle. If you go back to the Andy Warhol statement of people care about high-end luxury and they care what happens on the street. Anything else in between comes across as mediocre to consumers. That's where the Internet is on local today. You either should be national, New York Times, Wall Street Journal, Huffington Post, or you should be hyper local and mean something to consumers. Our investment, we call it the bar bell investments, tend to be at both sides of those bar bells.

And we got a strong reminder from another player on the digital side, a reminder for newsrooms not to try to compete with technology on its terms.

Dick Costolo, CEO, Twitter:

The benefit that the journalists have over the technologists is their ability to do these in-depth, content-rich analyses and essays around things. Instead, they've tried to optimize, in many cases, for, "We have to be the fastest and the first and the best distributors." But the technology's always going to be the fastest and the first and the best distributors. The technologists are going to be particularly bad at the in-depth analysis and the content and the thoughtful reporting....There haven't been enough attempts to monetize that as opposed to trying to compete with the technologists at being fast.

And from the journalist-turned-Silicon-Valley-all-star, a reminder that if you're not unique, you're in trouble.

Michael Moritz, chairman, Sequoia Capital:

I think, on the whole, that media and forms of journalism that have something original to say, have their own content, have stuff that's really proprietary and have their own voice, as opposed to distributing the wire services or being warmed-over versions of stuff that you can find all over the place—I actually happen to think that they have a far brighter and better future than they ever did.

...Most of the existing media companies who don't have their own content will go the way of the dodo. No doubt about that. There will be a few that are able to engineer a leap over this gulf. But we all know the industries where the makers of horse carts or locomotives weren't the leaders in the next form of transportation. It's no different in the media business.

And there was plenty of handwringing, especially from people who have had to fight the continuous battle of trying to produce quality journalism with ever-dwindling financial resources—only to have the ultimate product benefit the low-cost competition.

Martin Nisenholtz:

Talk about that context of the [investigation into the Catholic] priest scandal that you led at The [Boston] Globe.

Marty Baron, executive editor, The Washington Post:

Shortly after I got there, we embarked on a series investigating the Catholic Church. The issue there was not just whether a priest had abused children, which there had been cases of that before, but whether there had been a pattern of abuse and that the church knew about that abuse and then reassigned priests to

other parishes where they then abused again, and whether that pattern had taken place over a long period of time. In fact, it had in the case of dozens and dozens of priests over decades.

Now, that was not something that anybody was going to tweet about. The priest abusers weren't going to tweet about it. The victims weren't tweeting about the abuse that had taken place. The Church wasn't tweeting about it. Nobody was tweeting about that. That kind of information would never have been known had it not been for The Boston Globe doing that expose.

But, from the other side—playing a web-only hand—there's a more sanguine view being expressed.

Martin Nisenholtz (to Henry Blodget):

The chest beating...on how do we support serious stuff? ...Does that scale support a Baghdad bureau? Does that support the things that people worry are going to get lost in this transition?

Henry Blodget, founder, Business Insider:

Without question, or it supports what the Baghdad bureau is turning up. Twitter, Facebook, and blogs, just an incredible new mechanism for unlocking information. We see that all the time. You can do things. You do not have to have a reporter on the ground, necessarily, to learn a huge amount about what's going on. Citizens are contributing to global knowledge.

I don't know whether it's going to make sense for The New York Times to have a Baghdad bureau. What I'm very confident about is that the world will continue to be vastly better informed than it ever has been before.

I think even with the pressure on newspapers, the world is vastly better informed than it ever has been. We're going to digital.

...I think the hand wringing is completely misplaced.

Before the digital wave came along, plenty of news businesses were almost as much about conveying social status to their owners as they were about delivering those large profit margins (we said “almost”). Think Bill Paley at CBS or Henry Luce at Time or Kay Graham at The Post. Through the course of our conversations, there were a few who suggested it will fall to the rich and powerful to fund journalism because they think it's important or maybe just for the influence. Not surprisingly, one name that always comes up in that category is Eric Schmidt.

John Huey (to Eric Schmidt):

Can you take off your Google hat for just a moment...? You're a very wealthy, very powerful man who's shown a lot of intellectual interest in politics and journalism. You're close to people like Steve Coll, who's now in a position to do something really good for journalism and journalistic education [as the new dean at the School of Journalism at Columbia University] and bring it into the future. We've seen some non-economic models out there, like the Slanders... [Herb and Marion, who funded the not-for-profit investigative effort] [ProPublica](#). We've seen Mike Bloomberg who, for whatever reason, is willing to have a \$500 million news organization attached to a proprietary data business.... Do you favor, personally, Eric Schmidt, the idea of wealthy, powerful, interested people getting involved in non-economic models to fund quality journalism in the interest of democracy?

Eric Schmidt, executive chairman, Google:

I'm always in favor of more journalism and in particular, more investigative journalism done by the kind of quality that we've been losing. My personal favorite is the situation where you've got a business that throws off enough cash that that cash can then be used to do non-economic things. The reason is that that's an industrially stable structure for a long time. With individuals, the problem is they run out of money or they change their minds.

John Huey:

So that could be a Bloomberg then?

Eric Schmidt:

For example, the Bloomberg model is a very good one. I'm very impressed and proud of Mike for doing that. There should be more of that. If you go back to The Washington Post, The Washington Post is tied to an education company [Kaplan]. (But, of course, with the sale of The Washington Post to Bezos, it is now an education and television station company—no longer a company with a major stake in the news business.)

With no hint that a check to save journalism would be forthcoming from the Googleplex, we turned to another wealthy capitalist who entered the media arena, only to be surprised by his argument that market forces must pertain.

David Bradley, chairman, Atlantic Media:

I think you could make an argument that rich people are a real danger to journalism, maybe not in the moment but over the longer term. To answer your question directly...I meant to say both things. Deeply unsatisfying, to me, to keep putting out something that was failing against any commercial standard. But I also don't think it's a healthy thing for the enterprise. You end up with two bad things going on. One bad thing is that it can never grow. No matter how wealthy the fund is or the person is that's going to subsidize it, there's going to be a finite amount of money in the trust. It's going to produce a finite amount of income. You end up creating an enterprise that operates at that level, and then the next year, when things cost more, it will operate at that level but a little more tightly squeezed and the next year a little more tightly squeezed.

We saw that with The Atlantic, with [owner Mort] Zuckerman. He was genuinely generous with the enterprise, but he had a limit of how much he was going to spend on it, which was about \$4 million in a bad year. The Christmas party had become a potluck supper, where everybody brings his own. They had not been able to afford the high-end writers. They had lost people like...Nick Lemann had moved on when the contract wasn't competitive enough. They were increasingly publishing the works of academics who didn't charge for the pieces or charged at a lower per-word rate.

One thing you end up with is a ceiling on the growth and a meaner and meaner culture. "Meaner" in the sense of tighter, financially. The other thing that happens is, they get whimsical and quirky. Since there's no external standard to which you have to perform, you can publish whatever you want. You can report whatever you want. You can do the indulgences of the aggregate of your talent base.

There's something really good about The New York Times waking up in the morning, going, "We're not breaking the news we used to break. We're being scooped by these people. Furthermore, we're losing this talent. Everybody meet in the conference room at 8:15 because we have to figure out what we're going to do." Those kind of crisis moments which the for-profit sector forces on you relentlessly.

Perhaps surprisingly, one of the most optimistic views of the future of journalism comes from inside Google's own news operation:

Richard Gingras, head of news & social products, Google:



As I've frequently said, I'm very optimistic about the future of news. I'm extraordinarily optimistic about the future of news, but it's going to be a very, very different landscape. The reason I'm optimistic is because we have these huge open systems. The simple fact that in effect, we put a printing press in everyone's hands. That's a hugely powerful thing. You've got a lot more people participating in the dialogue than ever before. Doesn't mean that it's all good content. It's not. Obviously not. Still wheat-to-chaff ratios. But a lot of it is very good. You've got a very open system. You also have opportunities, but it does require, as I said, us, when we look at the future of journalism, to rethink all the models, to rethink what is the right way to build a news product in this realm. How do you build audience in this realm? What are the right uses of the media form? What are the right uses of computational journalism? I think computational journalism has extraordinary potential that has not really been fully explored.

And maybe just to succumb to that natural desire to end on a high note—we turned to one of America's most buoyant multi-media public intellectuals.

Michael Kinsley, founder, Slate magazine:

I think it will be worked out. People are always worrying about something. The Baghdad bureau, well then on the other hand, they'll say there won't be local news. Someone is worrying that the Internet will drive away every part of the current media. There isn't anything that someone doesn't have a theory needs to be subsidized. I think it'll all work out. My friend Nick Lemann, who just retired as dean of the journalism school [at] Columbia [University], says whenever he has these discussions—and in his 10 years there he's had plenty—he says the one thing you're not allowed to say in these discussions is, "It'll all work out somehow." But I believe that.

That sounds a lot like something your mom might tell you right after you didn't get the part in the school play. And maybe we believe that too, really. It might just all work out somehow. But that's for the news, the journalism, the public good. That part might just all work out somehow, eventually. In the mean time, the transition from what's left of the old legacy news business to whatever comes next is likely to be the swiftest undertow yet of the digital riptide. The next full moon, the next hurricane, the next digital media breakthrough—seems bound to take down a lot of familiar swimmers before it all works out somehow.