

MEDIA & MARKETING

ADVERTISING | By Sarah Ellison and Suzanne Vranica

Papers' Web Hopes Dim a Bit

Ad Growth Online Slows as Sources For News Burgeon

Even with all the grim news the newspaper industry has faced in recent years, publishers have consoled themselves that they have a lifeline. If they could switch content away from print and onto the Internet—bringing advertisers with them—they could save their businesses.

Last week, that lifeline began looking frayed. **New York Times Co.** warned Thursday that online advertising growth this year won't be as strong as the 30% it had projected. On the same day, **Tribune Co.** reported that the growth rate for first-quarter interactive revenue was sharply lower than a year earlier. **Gannett Co.** likewise said online revenue growth slowed in the first quarter from a year earlier.

Several other major U.S. newspaper companies have yet to report for the first quarter, including **McClatchy Co.** and **Washington Post Co.**, although on Friday the chief executive of Washington Post's online arm, Caroline Little, said growth was "slowing slightly across the board but is still very healthy."

Dow Jones & Co., publisher of *The Wall Street Journal*, reported 30% growth in online ad revenue in the first quarter, up from 26% a year earlier. Dow Jones's business model is different from that of other publishers, however, because much of the Journal's Web site is subscription-only, which reduces the amount of traffic but allows the Journal to charge higher advertising rates, because paying customers are thought to be more committed.

Analysts agree that the results at the Times and Tribune reflect a broader trend. "We absolutely see slower growth coming," says Kip Cassino, vice president of research at Borrell Associates, a media-research firm. "Generally, newspapers tend to believe things that have been good are going to get better. And that's not always the case." Borrell says the growth rate in

Losing Ground

Share of local online advertising on different Web sites

	Share of local advertising in 2006	Chg. from 2004, in pct. points
Pure play*	37.9%	+22.6
Newspaper	35.8	-8.3
Local magazine	6.1	-13.1
TV	7.1	+5.2
Radio	1.9	+0.8
Yellow pages	11.3	-7.1

*Pure play Web sites are those that aren't related to a traditional media outlet.

Source: Borrell Associates

online ad spending in newspapers will likely fall to a percentage in the low 20s this year from 28% last year.

To be sure, that may reflect a broader deceleration in the growth of Web advertising. EMarketer, a market-research firm, predicts the overall growth of U.S. online-ad revenue will slow to 18.9% this year from 30.8% last year. It predicts newspapers will do slightly better.

But last week's news came as the number of online news outlets proliferates. Rival media such as TV stations and magazines have beefed up their presence, adding to threats posed by Web giants such as **Google** and **Yahoo** and popular sites such as **CNN.com**. Even the social-networking site **MySpace** has added a news feature and is boosting its ad-sales efforts.

Media buyers also indicate marketers are beginning to look beyond traditional journalism sites, realizing many news junkies go elsewhere, too. "Advertisers are getting less scared of blogs and newsgroups and now are beginning to take money away from the traditional newspapers' sites," says Greg Smith, chief operating officer of Neo@Ogilvy, an interactive ad agency owned by WPP Group's Ogilvy & Mather, New York.

One major issue for many newspapers online: Roughly 70% to 80% of their online revenue is tied to a classified ad sold in the print edition—known as an "upsell," says Paul Ginocchio, a newspaper analyst at

Deutsche Bank. And as newspapers see a sharp erosion in classified advertising for real estate and jobs, their Web sites are being hit as well.

Analysts say papers need to find new categories of advertisers. "Newspapers need to move beyond the traditional classified sources they've relied upon," says Borrell's Mr. Cassino.

Underlining this pressure is a shift under way within Internet advertising. The ad formats that have so far proved strongest for newspapers—banner ads, pop-ups and listings—are losing ground to formats such as search marketing. Ad buyers say automotive, entertainment, financial-services and travel companies—all major newspaper advertisers in print and online—are aggressively shifting dollars into search marketing.

"There is a dramatic shift going on," says Eric Bader, senior vice president, director of digital connections at Publicis Groupe's MediaVest. Marketers like search advertising because it leads customers to exactly what they are looking for, and is easy to measure, he says.

The problem for newspapers is that the benefits of search fall disproportionately to the Googles and Yahoos of the world. Newspaper companies are increasingly looking for deals with such portals, and 13 publishers, including **McClatchy**, **MediaNews Group** and **Hearst**, recently signed a comprehensive deal with Yahoo that will require the newspapers to use Yahoo search on their Web sites.

Yahoo and the newspapers would sell ads on each other's sites, and the revenue would be shared. Content from the papers would be featured on Yahoo's channels. But some newspaper executives worry that the deal takes too much power away from the newspapers.

Still, the biggest opportunity may simply be for newspapers and other Web properties to persuade more advertisers to put more money onto the Internet. A survey of 273 U.S. advertisers last year found that 67% of the companies with annual revenue of \$500 million or more will dedicate less than \$1 million to online ads, according to JupiterResearch.