THE PENNSYLVANIA STATE UNIVERSITY
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DEPARTMENTS OF FINANCE AND JOURNALISM

# FINANCING THE FRONT PAGE: PROFITABLE MODELS FOR JOURNALISM

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## ABSTRACT

Traditional journalism has struggled to keep up with the expansion of digital-first platforms. Many outlets find it difficult to convince subscribers to continue paying for news that can often be found for free elsewhere. This study compares the financial performance of 36 media organizations. There are four peer groups: local, state/regional and national nonprofits, as well as public companies such as the New York Times and Gannett Company. The purpose of this thesis is to analyze the performance among these four groups and assess the financial viability of a nonprofit model.

While nonprofit media organizations are not absolved from the difficulties of the industry, this study suggests that such structures offer news outlets a longer leash to devote resources to quality journalism.

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# Chapter 1

## Introduction

Among a host of factors ranging from the financial crisis to changing advertising models and the rise of digital platforms, the newspaper industry is struggling to find firm footing. Over the last decade, daily newspapers have been cutting staff size, moving to online-only editions, and going out of business. The remaining traditional newspapers employ a variety of techniques – with varying degrees of success – to combat falling or stagnant revenues.

In the following literature review, I will provide a background on the current affairs of news organizations, with a focus on key industry trends. Following the analysis of industry trends, I will outline the current literature for and against new business models, including seeking profit by adapting traditional newspapers to a digital world and converting to nonprofit status. It is important to note that within this literature review, the concept of "media outlet" has been limited in scope to digital and print news organizations, not broadcast new institutions.

In the results section of this thesis, I examine 36 different news organizations. Twenty-six of these are nonprofit, and the remaining 10 are publicly traded print media companies. The methodology section contains a more detailed description of these companies.

The purpose of this thesis is to examine if nonprofit models for journalism provide another avenue for media organizations to continue to operate.

# Chapter 2

# Literature Review

## Industry Overview

Emerging technology threatening the newspaper as a news platform is nothing new, but the severity of the threat is at a peak. The advent of the radio coupled with the Great Depression decreased newspaper advertising revenue 45% and it remained 20% below 1928 levels as late as 1941. The rise of television forced the consolidation of many newspapers, also spurring some to go public. Even while cable television became the primary news source for many Americans, newspaper companies remained profitable, providing double-digit returns on equity peaking at 22.7% in 2000 (Kirchhoff).

Before the financial crisis hit in 2007, the newspaper industry was already in a state of disarray. Critics cited newspapers as being behind stuck in old business models and failing to capture digital audiences. The traditional business model for newspapers is that the large bulk of revenue was made by selling advertisements, not necessarily increasing circulation. Certainly, the two are related in that a larger circulation means advertisers are more willing to pay for the service.

Newspaper readership has declined in a time where consumers sought information at rapidly increasing levels (Scott and Gilbert). The problems caused by evolving readership habits and advertising methods were coupled with a financial crisis that spelled disaster for the newspaper industry. In 2008 alone, seven major newspaper chains went out of business, along with many city papers. In addition to tumbling circulation, the quality and content of the news suffered, evidenced by a 34% decrease in the number of newspapers with full-time staffers covering Congress compared to its all-time high (Kirchhoff). This is an indirect metric, but does display a sharp decrease in the quantity and quality of first hand reporting.

The New York Times is perhaps the most successful traditional newspaper. In fall 2015, the Times laid out a series of goals and expectations for the future in a lengthy letter to investors, readers, and the industry titled, “Our Path Forward.” The Times touted statistics like having 64% more subscribers now than the company ever had during the print era. The Times set the lofty goal of doubling digital revenues to $800 million by 2020 (Baquet et al. 2-3). In order to achieve this goal, the Times must achieve a compound annual growth rate of 12.5%, which experts deem an achievable aim (Doctor, “The Thinking (and Dollars) Behind the New York Times’ New Digital Strategy”). PricewaterhouseCoopers’ media outlook projects digital advertising to grow by 12.1% from 2015 to 2019, which falls fairly in line with the New York Times’ requirement (Hobbs). Given the wide readership of the Times, this goal is achievable. In a sea of unsuccessful traditional newspapers, the Times remains afloat.

While traditional newspapers have struggled through tough economic times, new alternative news sources have emerged. Vice News, Mashable, Business Insider, and many others provide instantaneous – and more importantly, free – news on a variety of subjects. These digitally native news sources garnered eight-figure investments from the likes of News Corp’s Rupert Murdoch and Amazon’s Jeff Bezos (Jurkowitz). Bezos also invested in legacy media organizations, as he bought the Washington Post in 2013. However, even the Huffington Post, widely considered the original best model for digitally native news, is only “flirting with profitability” (Doctor, “The Newsonomics of Why Everyone Seems to Be Starting a News Site”).

Currently, literature identifies three major trends in news. First, traditional news organizations are trying to adapt by becoming leaner and more innovative while maintaining for-profit status. Many are going through several series of mergers and acquisitions. Second, several newspapers are turning nonprofit to take advantage of tax benefits. Third, digitally native platforms are filling the void left by the old guard of news providers.

## Adapting Conventional For-Profit Newspapers

### Background

As the vast majority of conventional news outlets have not transitioned to nonprofits, they are struggling to find ways to make money. Many are cutting costs by laying off staff or going digital-only. Furthermore, many news organizations are rapidly acquiring metropolitan and local newspapers in efforts to find synergies (Edmonds).

### The Argument for Adaptation

London’s The Independent ended its print service in March 2016, citing rapidly rising online readership and an expected 50% rise in revenues year over year ("The

Independent Becomes the First National Newspaper to Embrace a Global, Digital-only Future"). Across seven major publicly traded newspaper companies (Gannett, E.W. Scripps, The New York Times Co., A.H. Belo, Journal Communications, McClatchy, and Lee Enterprises), circulation revenue increased 1% as all bolstered moves into the online space (Barthel).

The New York Times crossed the 1 million digital subscriber milestone in October 2015, only five years after initiating its digital subscription offering. While growing its revenue, the Times is continuing to invest in the future. Many experts hinge the future of the Times' success on its ability to cut legacy costs while simultaneously funding innovation. It is especially important that the Times continue finding success with its largest demographic: readers under the age of 35, who make up 40% of the newspapers' digital audience. With a broad – and still growing – user base, the Times is likely to maintain its market lead (Baquet et al. 2-7).

For newspapers smaller than the New York Times, acquisitions are a popular emerging trend. Tronc, formerly known as Tribune Publishing, is a diversified media company that has made several key acquisitions. Tronc sought a southern California monopoly in daily news production. Tronc first acquired the L.A. Times, then the San Diego Union-Tribune, and later the Orange County Register, granting it tremendous synergies in printing, production, distribution, and advertising sales. However, the U.S. Department of Justice filed suit in March to block the $56 million purchase of the Register (Khouri).

Michael Ferro, owner of the Chicago Sun-Times, is also the majority stakeholder of Tronc, which owns the Sun-Times' rival, the Chicago Tribune. As nonexecutive board chairman of Tronc, Ferro orchestrated a deal for the Chicago Tribune to print rival Chicago Sun-Times' daily papers. This synergy has been profitable for both papers (Channick). Finding these cost cutting measures may be essential to the ability of press to be profitable in a digital world.

Gannett, the media company that owns USA Today, the Des Moines Register, the Detroit Free Press, and several other major metropolitan newspapers, acquired the Journal Media Group in 2015. Experts project this acquisition to create $35 million in savings, boost revenue and profit, and increase the quality of the news; Gannett's papers now have access to tools available to USA Today and their other large holdings (Edmonds).

Gannett attempted a hostile takeover of Tronc in April 2016. The original bid of $12.25 per share was upped to $18.50 per share before being terminated on November 1, 2016. (Doctor, "Tronc Considers a Sweetened Purchase Offer from Gannett"). Tronc's shares fell 19% following the announcement that the deal would not go through (Yu). Had the deal been successful, the industry would have been even more consolidated than it already is.

The Boston Globe has had tremendous success adapting to the digital age. The Globe has a price metering system where subscribers pay 99 cents for the first month, then $3.99 per week for a year, then 99 cents per day thereafter. The Globe has discovered that once subscribers make it to the thirteenth month, they are unlikely to unsubscribe. The Globe, to the surprise of critics of the system, now has 65,000 digital-only subscribers (Doctor, "Newsonomics: Can You Get Readers to Pay a Dollar a Day for Digital News?").

**The Argument Against Adaptation**

As detailed several times in the sections preceding this, print revenues are declining. However, many also do not view digital models for traditional newspapers as ever finding success. Critics point to several factors, such as the increases in digital advertising not offsetting the declines in their print counterparts (Nair and Roy). Additionally, the per-view price of digital advertisements is continuing to drop, and advertisers often prefer digitally native outlets to traditional newspapers (Wolff). Furthermore, it is difficult for advertisers to justify spending large amounts of money on ads when many readers will never see them. According to reports, around 200 million people worldwide use ad blockers while browsing the web, resulting in $22 billion in lost revenue in 2015 alone (Greenberg). Additionally, as highly publicized as the decline in print readership has been, the statistics show that 56% of newspaper consumers read it exclusively in print form (Barthel).

The aggressive acquisition methods outlined in the section above also are not guaranteed successes. In order to keep ramping up profitability, many media holding companies are getting closer and closer to oligopolies. This is readily apparent in the case of Ferro, the owner of the Chicago Sun-Times and majority shareholder in the owner of rival Chicago Tribune's parent company, Tribune Publishing. With the Department of Justice threatening some of these acquisitions, it is unclear if this is a sustainable model for the future of journalism (Khouri).

As the power of print journalism is consolidated under fewer and fewer corporations, critics worry that newspapers' integrity is being compromised. Las Vegas casino magnate Sheldon Adelson attempted to hide his purchase of the Las Vegas

Review-Journal; the paper's upper management tasked reporters with following a Las Vegas judge who has ruled unfavorably in cases involving Adelson. With Adelson's influence in the Las Vegas area – including his interest in bringing an NFL team to the city – his ownership is suspect at best (Doctor, "Newsonomics: The Financialization of News is Dimming the Lights of the Local Press.")

Furthermore, critics like Ken Doctor describe the basic acquisition model as follows: "Pay no more than 3x or 4x annual company earnings, consolidate every cost you can, and keep your profit takeout steady by continuing to cut newsroom and other jobs as necessary to make The Number" ("The Financialization of News is Dimming the Lights of the Local Press").

By "The Number," Doctor means profit targets. Companies are gouging news offices to cut costs and pump profits, an unsustainable long-term model.

Lastly, it is very difficult for newspapers to get many subscribers to pay for local news. While the Boston Globe and Star Tribune have found moderate levels of success, they are largely anomalies. Studies show that of all unique visitors to online newspapers, only about 3 to 4% will read enough content to even get the papers' prompt to subscribe in order to read further. Even fewer – 0.5% of unique visitors – will actually pay (Ellis).

## Converting to Nonprofit

### Background

Experts cite two main events in the history of creating nonprofit news organizations: 1) Nelson Poynter's efforts to keep the St. Petersburg Times independent while furthering journalism's education and 2) Bill Kling's profitable business model for public radio.

In the 1970s, Nelson Poynter created the first nonprofit news organizations with the St. Petersburg Times in an effort to shield the paper from corporate raiders (Kirchhoff). He created the Poynter Institute for Media Studies, a nonprofit institution focused on furthering education and innovation in media. A for-profit partner company owns the St. Petersburg Times, which donates all earnings after taxes to the Poynter Institute (Dunlap).

The idea of turning a news organization nonprofit while maintaining a major focus on financial performance began with Bill Kling. Kling created a revolutionary nonprofit structure for Minnesota Public Radio in which he created private partner companies for MPR. One, the Greenspring Company, published magazines that generated hundreds of millions of dollars in subscribers and advertising. Greenspring Company donated the profits to MPR through royalties, charitable donations, and dividends, while MPR also received millions in federal funding while keeping tax-exempt status (Mannix).

The recent trend in America of having nonprofit newspapers is actually lagging behind the global environment. The Scott Trust, a nonprofit foundation, owns The

Guardian, a highly respected and popular British daily newspaper ("History of The Guardian"). France's premier daily publication, Ouest-France, converted to a nonprofit in the early 1990s (Cage).

Now, many newspapers and digitally native platforms are nonprofits or partner with nonprofits. The Huffington Post partnered with Atlantic Philanthropies to create an investigative reporting division. ProPublica started in 2008 as a digitally native nonprofit that has found success (Kirchhoff). In 2016, the owner of the Philadelphia Inquirer donated it to a nonprofit foundation (Barbash). The exact ownership structure of the new organization is explained in further detail in chapter 4.

### The Argument for Nonprofits

The first argument for nonprofit status of news outlets is the tax benefit. Nonprofit status shields entities from taxes on certain income (Cage). Most recently, Gerry Lenfest, former owner of the Philadelphia Inquirer, donated the historic newspaper and its digital operation to a nonprofit foundation in an attempt to save the paper (Barbash). This gives the newspaper tax-exempt status without needing to go through difficult Internal Revenue Service procedures. If the Philadelphia Inquirer does turn a profit, the proceeds must go back into funding the paper or to the parent foundation that owns it (Gammage).

While the conversion of media companies to nonprofit often makes financial sense, some are arguing that it makes sense on a deeper level. Harvard economics professor Julia Cage makes the case that news is a public good. The American Society of News Editors lists the very first principle of the media as to "serve the general welfare" ("Statement of Principles"). Cage says that the public trading of media companies is a direct contradiction to their moral responsibilities. Creating value for stockholders is not always in line with serving the general welfare. Cage argues that this does not make sense, comparing it to a hypothetical scenario in which universities are publicly traded, violating their moral responsibility to educate and research (3).

Nonprofit business models would allow financial benefits without the direct conflict of interest created by government subsidies. Government subsidies would tarnish the reputation of news outlets (Schizer).

**The Argument Against Nonprofits**

Tax-deductible status does not erase the fact that newspapers need to spend and make money. Despite many applauding the decision to donate the Philadelphia Inquirer to a nonprofit foundation, critics point out that the paper still faces a steep uphill battle. The Inquirer holds the industry record for ownership changes in one decade: six. The new plan is simply the latest in a series of decisions by owners (Mathis).

In the fall of 2015, just a few months before the decision to convert, the Inquirer cut 46 newsroom positions, 13 of which were from the digital operations team that supposedly is the paper's future. Owner Gerry Lenfest's donation includes a $20 million endowment that pays out $1.2 million per year in money that the paper can use. Experts estimate that the fall 2015 staff cuts amounted to approximately $3 million. Even with Lenfest's donation, the paper could not have avoided layoffs. Employment is less than half what it was in the 1990s, so even the fall 2015 staff is paltry compared to what it once was (Doctor, "Newsonomics: The Hard Realities of Philly's Hail Mary Nonprofit Reorganization").

Furthermore, while some argue that for-profit models adversely affect newspapers (in terms of bias, content, advertisers, and editorial and business decisions), one can make the same argument about nonprofits. Individuals may donate to newspapers, creating – at the very least – an appearance of bias (Schizer).

With the varying factors at play, it is difficult to assess the future of the printed word. While nonprofits offer tax incentives, it is not a foolproof escape route for failing newspapers. As Terry Egger, publisher of the parent company of the Philadelphia Inquirer, put it, "[Donations] allow us to have a new revenue stream that helps us with our cost base. It doesn't get us off the hook to try to run profitable businesses, but it may help us find partners to stay in business" (Doctor, "Newsonomics: The Hard Realities of Philly's Hail Mary Nonprofit Reorganization").

# Chapter 3
# Methodology

In this report, I created four peer groups for comparison. Three of these peer groups are nonprofit news media companies. These peer groups are divided by geographic focus of the news organization: local, state/regional, and national. The fourth peer group is publicly traded newspaper/digital news outlets. They are most closely related to the national nonprofit newspapers. Nonprofit is defined as an organization meeting the requirements of a 501(c)(3) organization, as determined by the Internal Revenue Service after the filing and approval of Form 1023. See Tables 1 and 2 below for the peer groups.

The nonprofit entities were largely assembled to mimic the Knight Foundation's 2015 report, "Gaining Ground: How Nonprofit News Ventures Seek Sustainability." This report examined 20 nonprofit news ventures from 2011 to 2013. My report comprises a larger sample (36), a longer time period (2009-2015), and also includes for-profit entities for comparison.

**Table 1 – Nonprofit Entities**

| NONPROFIT ENTITIES | | |
|---|---|---|
| Local | State/Regional | National |
| Center for Media Change | Connecticut News Project | Center for Public Integrity |
| Charlottesville Tomorrow | FCIR | Center for Responsive Politics |
| City Limits | Institute For Nonprofit News | CIJ |
| Grand Rapids Cable Access Center | InvestigateWest | CIR |
| Investigative Newsource | Iowa Center for Public Affairs Journalism | Mother Jones |
| New Haven Independent | Midwest Center for Investigative Reporting | Sunlight Foundation |
| The Lens | MinnPost | |
| Voice of San Diego | Southern Investigative Reporting Foundation | |
| Voice of OC | Texas Tribune | |
| | Vermont Journalism Trust | |
| | WYOFile | |

The criteria compiled are the revenue, expenses, net income, and the highest paid executive of each firm.

For the nonprofit organizations, data was obtained from IRS Form 990. All nonreligious and apolitical nonprofit organizations must file Form 990 to give the IRS financial information as well as justify its nonprofit status. Form 990 contains the balance sheet, income statement, statement of cash flows, and employee compensation information. For several of the organizations, data was not fully available. This is because either organizations have not uploaded their more recent financial data, or the organizations were not in operation for certain years during the 2009-2015 timeframe. These exceptions are noted throughout the results section, when applicable. Total revenue matches Part VIII, Column A, line 12. Total expenses are taken from Part IX Column A, Line 25. Net income is taken from the difference of revenue and expenses. Executive compensation was included from Part VIII, Section A, Column D. This is reportable compensation (W-2) from the organization. I elected not to include the estimated amount of other compensation from the organization and related organizations (Part VIII, Section A, Column F) due to lack of transparency surrounding this figure.

The source for the IRS Form 990 is ProPublica's Nonprofit Explorer, a database which allows users to see nonprofits' financial data as far back as 2001, depending on availability. In cases where data was not available via ProPublica, I used GuideStar and in some cases, the websites of the organizations themselves. If none of the options proved successful, I emailed the point of contact for the organization. This was successful in a few cases, leading to a more robust dataset than available online.

For the publicly traded companies, I selected all companies that were primarily based on print and digital journalism. The peer group – 10 companies – is in table 2 below. The financial information was obtained from company's 10-K and DEF-14A statements. The 10-K is an annual report of a company's financial performance, and is required by the U.S. Securities and Exchange Commission. Revenue, expenses, and net income were drawn from 10-K reports' selected financial data. The executive salaries come from the Summary Compensation Table required in the DEF-14A, also known as proxy statements. Executive salaries were selected from the Summary Compensation Table of DEF-14A using total compensation (Column J).

**Table 2 – Publicly Traded Entities**

| FOR-PROFIT ENTITIES |
|---|
| Publicly Traded |
| A.H. Belo Corporation (AHC) |
| Daily Journal Corp. (DJCO) |
| Gannett (GCI) |
| Lee Enterprises (LEE) |
| McClatchy Company (MNI) |
| New Media Investment Group (NEWM) |
| News Corp (NWS) |
| New York Times Co. (NYT) |
| Time Inc. (TIME) |
| Tronc, Inc. (TRNC) |

Forms 10-K and DEF-14A were obtained from the SEC's website. As with the nonprofit companies, certain companies did not provide all data.

In computing the compensation of the highest paid employee of each firm, I used executives' total compensation (salary, stock and option awards, non-equity incentive plan compensation, changes in pension accounts, and any other compensation indicated in the DEF-14A's summary compensation table. The highest paid executive at each firm is not necessarily the same person (or same position) from year to year.

I recorded the above data in a spreadsheet for analysis. Charts in the appendices included summaries of year-over-year changes in the four criteria examined: revenue, expenses, net income and executive compensation. There are also summary charts for industry average across the years.

I used median, because average results could be extremely skewed. For instance, Vermont Journalism Trust's 2010 net income was a loss of $17. In 2011, the trust produced net income of $48,000. This increase is nearly a 300,000% increase, which is not worth examining for results. Median gave more accurate, though not entirely robust, insight.

In one case, I also excluded a year from examination. At the local level, only one organization provided executive compensation data for 2009. Thus, the median 2010 percentage increase in executive compensation was the equivalent of the only data point in the set.

In constructing charts to show results, I also excluded certain outliers to better show differentials between the organizations for the same reason I chose medians rather than averages. In the cases in which these charts are used, it is noted directly beneath the chart which organizations are excluded.

I also constructed ratios for comparison. These ratios include executive compensation to revenue and executive compensation to expenses.

I also conducted interviews for qualitative information in my thesis. The first interview was with Bill Marimow, editor of the Philadelphia Inquirer. Mr. Marimow has been an executive vice president and editor of the Inquirer from 2006 to March 27, 2017. Now, Mr. Marimow is editor at large and vice president at Philadelphia Media Network.

The interview took place while Mr. Marimow was still executive vice president and editor.  Mr. Marimow gave me insight into the newsroom side of the Inquirer's transition to a nonprofit.

The second interview was with John Curley, Distinguished Professional in Residence at Penn State University, former head of Gannett News Service, and first editor of USA Today. Mr. Curley spoke about the history of for-profit newsroom investor relations. Mr. Curley served on Gannett's Board of Directors from 1983-2000.

# Chapter 4

## Why Nonprofit?

As stated in the above methodology section, nonprofit organizations must submit Form 1023 to receive nonprofit status from the IRS. To be a nonprofit, the mission of the group must include “charitable, religious, educational, scientific, or literary” endeavors.

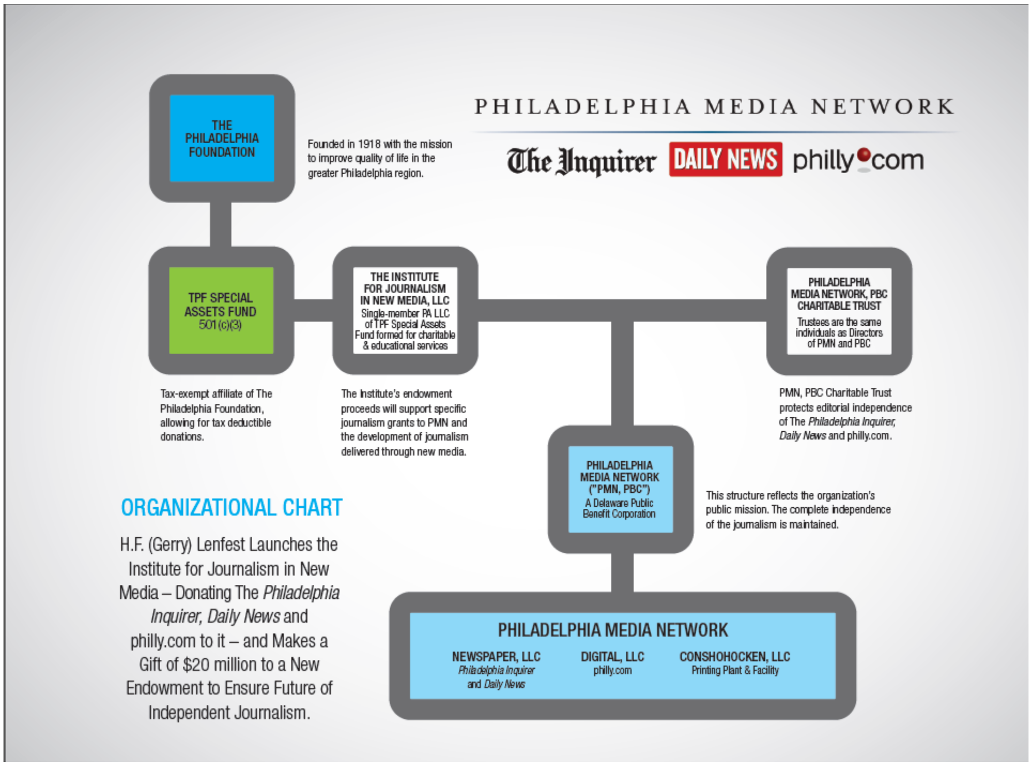
The most obvious benefit to a nonprofit organization is tax-exemption. In addition to federal tax exemption, nonprofits are exempt from paying sales and property taxes. This does not mean that nonprofit organizations are exempt from all taxes. If a group has excessive income not related to the core declared objective, the IRS may tax the organization’s profits related to these activities and potentially revoke its tax-exempt status. Nonprofit organizations must still pay social security and Medicare taxes. Similarly, nonprofits must still abide by federal income tax withholding rules for employees (Morah).

The inherent drawback is that nonprofit organizations cannot distribute profits to board members or shareholders the way a for-profit corporation can. Employees can still make money from a nonprofit organization, but compensation must be reasonable. In many states, such as Pennsylvania, nonprofit organizations must be run by a board of directors, including a president, secretary, and a treasurer.

Some have argued that news organizations have an additional incentive to be nonprofit. Publicly traded for-profit companies have a fiduciary responsibility to shareholders, meaning they must promote shareholder value. The ethics of the newsroom should not focus solely on profits. The media has a crucial role as gatekeeper of society, as well as to provide readers with the truth. If a certain story would drive profits but is unethical to publish and editors elect not to publish, some would argue that management is not doing what is best for shareholders. Being nonprofit eliminates that need, allowing organizations to operate independently from shareholders and advertisers.

Adapting to a nonprofit structure is not as simple as filling out a quick IRS form and switching overnight. The organizations covered in the data analysis of this thesis are typically nonprofit from origination. When a modern, established news organization wants to convert to nonprofit, the process is usually more complicated. The Philadelphia Inquirer, a public benefit corporation under is a good example of a complicated corporate structure.

**Figure 1 – Philadelphia Media Network Structure**



In this case, the Philadelphia Media Network owns the printing, digital component (philly.com), and the city's two marquee newspapers, the Philadelphia Inquirer and Daily News.

The Philadelphia Media Network is a public benefit corporation, which is not the same as a nonprofit (see below). The Philadelphia Media Network is funded by two entities: The Philadelphia Media Network Charitable Trust and The Lenfest Institute for Journalism (formerly the Institute for Journalism in New Media). The Lenfest Institute for Journalism is, in turn, funded by the nonprofit organization The Philadelphia Foundation. So in this corporate structure, the only actual nonprofit is The Philadelphia Foundation. The Philadelphia Foundation does not have to pay taxes, and benefactors can make tax-deductible donations to the organization.

The Philadelphia Media Network (owner of the Inquirer and Daily News) is, as stated above, a public benefit corporation. In a nonprofit organization, there are no shareholders. A public benefit corporation does have shareholders or owners of the company. These owners can still receive some of the profits as dividends. In addition to wanting to make a profit, public benefit corporations have a greater purpose beyond the simple fiduciary duty to make shareholders money. The public benefit corporation must dedicate significant resources and funding towards the public benefit, and the commitment may not diminish over time (Bell, Scott and Weiss). Benefit corporations must also publish yearly transparency reports and not take on too much risk. They must still pay taxes (Forester).

The benefit of the new arrangement is that the directors of the Philadelphia Media Network can consider goals in addition to just making money. Furthermore, charitable donations can be used to fund news initiatives and education. Additionally, if the Philadelphia Media Network does make a profit, the organization will use it to fund journalism, or give it back to the Lenfest Institute for Journalism (Gammage).

In an interview with Bill Marimow, editor of the Inquirer, he said that the company's transition has not been difficult.

"The mandate in the newsroom has always been great journalism," said Marimow. "There's still a strong desire to have a viable business. The change has been subtler and nuanced rather than something you can tangibly allude to."

Marimow said the changes he is seeing are more theoretical, as the Inquirer is still in the early stages of the new corporate structure. He described the new structure as a way to "modify the trauma," in that organizations still need to meet budgetary requirements, but the penalty for falling short is less severe.

In the case of already established organizations like the Philadelphia Inquirer, it is likely easier to arrange a deal with an existing nonprofit like The Philadelphia Foundation. Applying for nonprofit status involves not only the arduous application process, but also avoid the divestiture of ownership shares of the company. By remaining a benefit corporation, the Inquirer can get many of the rewards of nonprofit status, while also retaining the rights of the owners.

# Chapter 5

## Results

In the following chapter, I will break down my results by subgroup comparison as well as examine differences within each subgroup.

Results will begin with comparisons between the four peer groups – local, state/regional and national nonprofits as well as publicly traded media organizations – containing graphs showing year-over-year changes in revenue, expenses, net income, and executive compensation. Beneath each graph, there will be a table displaying correlations for each.

Following the overall comparisons, I will explore notable observations within each peer group.

**Year-by-Year Comparisons**

**Revenue**

**Figure 2 - Changes in Revenue**

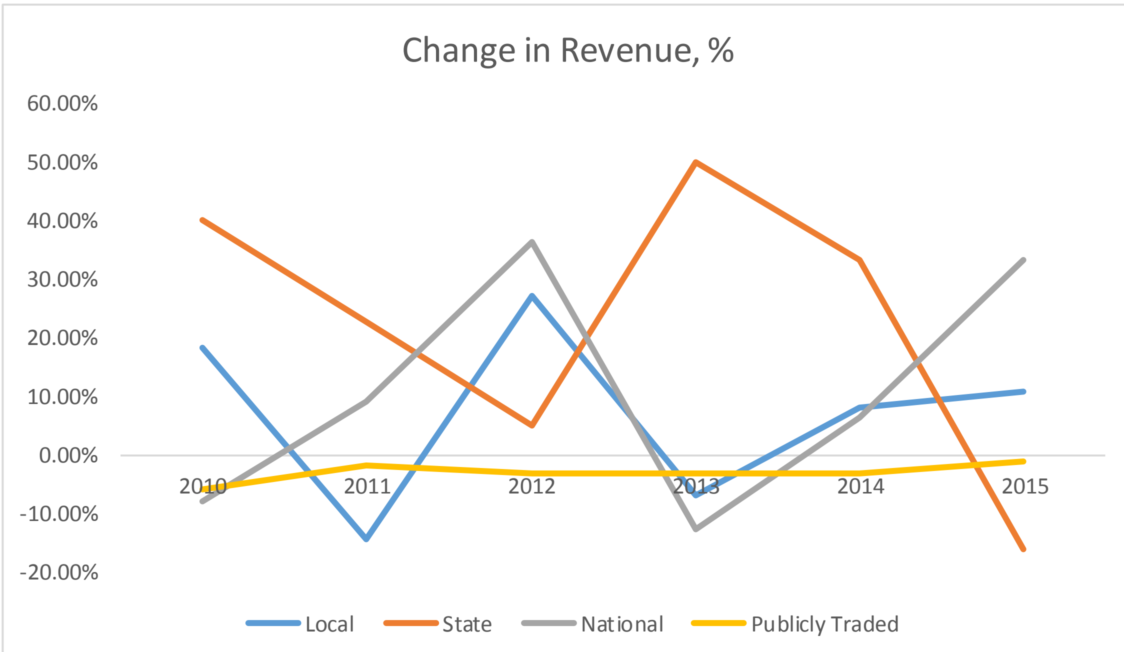



**Table 3 - Correlations of Revenue Changes**

| REVENUE | | | | |
|---|---|---|---|---|
| | Local | State/ Regional | National | Publicly Traded |
| Local | | -0.3602 | 0.4777 | -0.3657 |
| State/Regional | -0.3602 | | -0.9379 | -0.6457 |
| National | 0.4777 | -0.9379 | | 0.5987 |
| Publicly Traded | -0.3657 | -0.6457 | 0.5987 | |

The above graph and correlation chart show the relationship between the four peer groups' median changes in revenue. State/Regional nonprofits have a strong negative correlation, -0.9379, with national nonprofits. This is quite interesting, as local nonprofit and national nonprofit revenue growth are correlated, albeit weakly. I predicted that there would be two fairly strong positive correlations:

1. Local and state/regional nonprofits
2. National nonprofits and publicly traded companies

I anticipated that the first of my predicted correlations would be true because even state/regional nonprofits tend to be small in scale. In fact, some of the local nonprofit organizations have larger revenues than the state and regional ones. However, there was virtually no correlation between these two.

National nonprofits and publicly traded companies have the strongest positive correlation, 0.6987, of any pair.

It is also interesting to note how muted the changes in revenue are of publicly traded corporations. This shows the relative instability of nonprofits, which are heavily dependent on donations for revenue. Donations can fluctuate drastically from year to year. The standard deviation of median revenues for publicly traded companies was 1.63%, while the lowest for any of the nonprofit peer groups – local nonprofits – was 15.61%. See Appendix A for the standard deviations of revenues, expenses, and net income.

**Expenses**

**Figure 3 - Changes in Expenses**

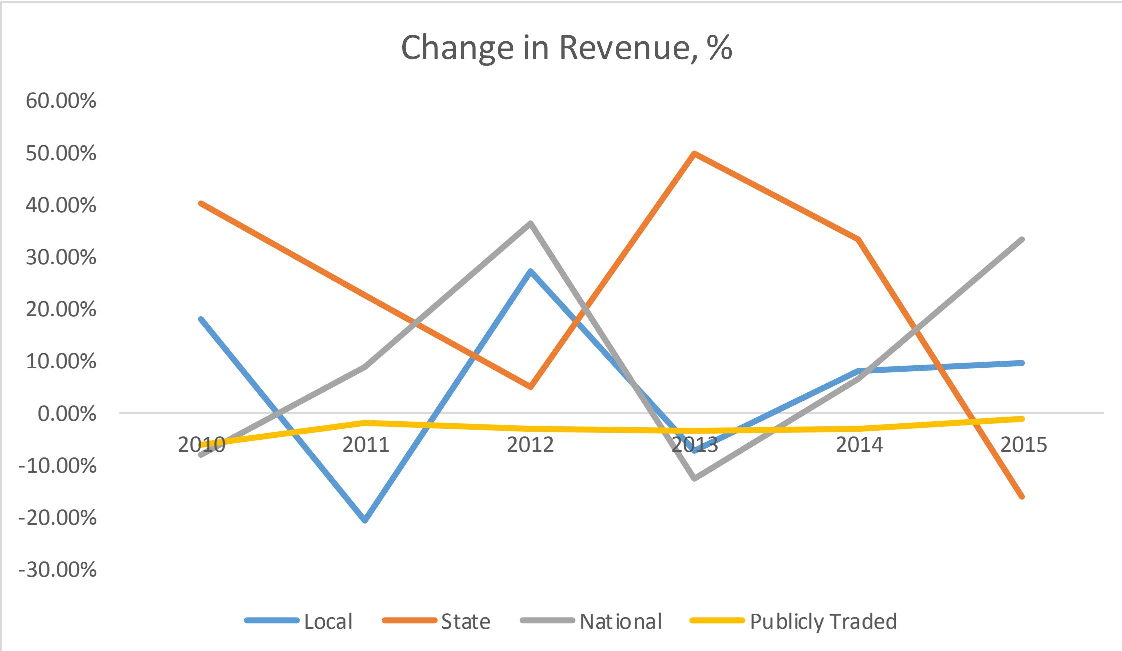



**Table 4 - Correlations of Expense Changes**

| EXPENSES | | | | |
|---|---|---|---|---|
| | Local | State/ Regional | National | Publicly Traded |
| Local | | -0.4400 | -0.1531 | -0.3555 |
| State/Regional | -0.4400 | | 0.3809 | 0.7681 |
| National | -0.1531 | 0.3809 | | -0.0026 |
| Publicly Traded | -0.3555 | 0.7681 | -0.0026 | |

The above graph and chart show the annual median changes in expenses for the four peer groups. There are few correlations of note here. State/regional nonprofits have a strong positive correlation with publicly traded companies, but little else is of note. State/regional and local nonprofits are, as with revenue, surprisingly negatively correlated.

While the revenue changes of national nonprofits and publicly traded corporations were the strongest positive correlation, their expenses bear virtually no resemblance. Publicly traded companies had a strong uptick in expenses in 2011, with a muted rise among national nonprofits. Furthermore, in the 2012-2015 stretch, national nonprofits varied extensively, while public corporations were mostly steady drops. From 2012 to 2014, decreases ranged from 3.76 percent to 6.12 percent in public corporations. National nonprofits' range in the same period was from a 9.11 percent decrease all the way to a 19.78 percent increase. This wide range indicates that the revenue correlation does not mean the two groups are similar in all aspects.

Local nonprofits actually had the smallest standard deviation of expenses over the six-year time frame, with only 7.74 percent. Refer to Appendix A to see all standard deviations.

**Net Income**

**Figure 4 - Changes in Net Income**

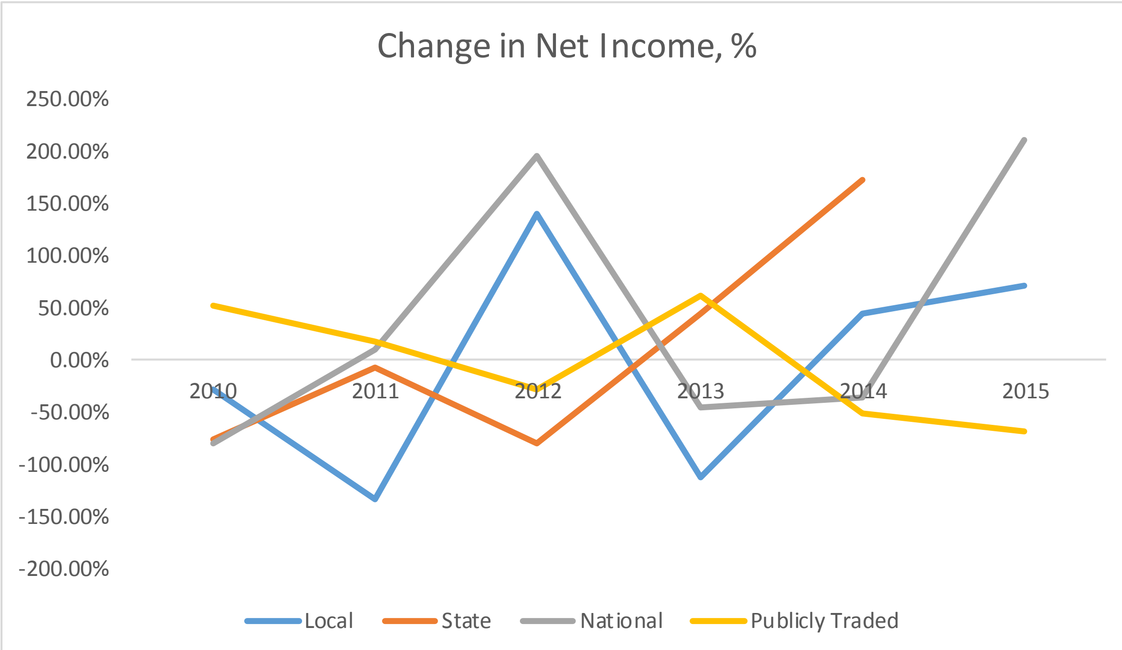



**Table 5 - Correlations of Net Income Changes**

| NET INCOME | | | | |
|---|---|---|---|---|
| | Local | State/ Regional | National | Publicly Traded |
| Local | | -0.1030 | -0.2703 | -0.7484 |
| State/Regional | -0.1030 | | 0.0049 | -0.3033 |
| National | -0.2703 | 0.0049 | | 0.5690 |
| Publicly Traded | -0.7484 | -0.3033 | 0.5690 | |

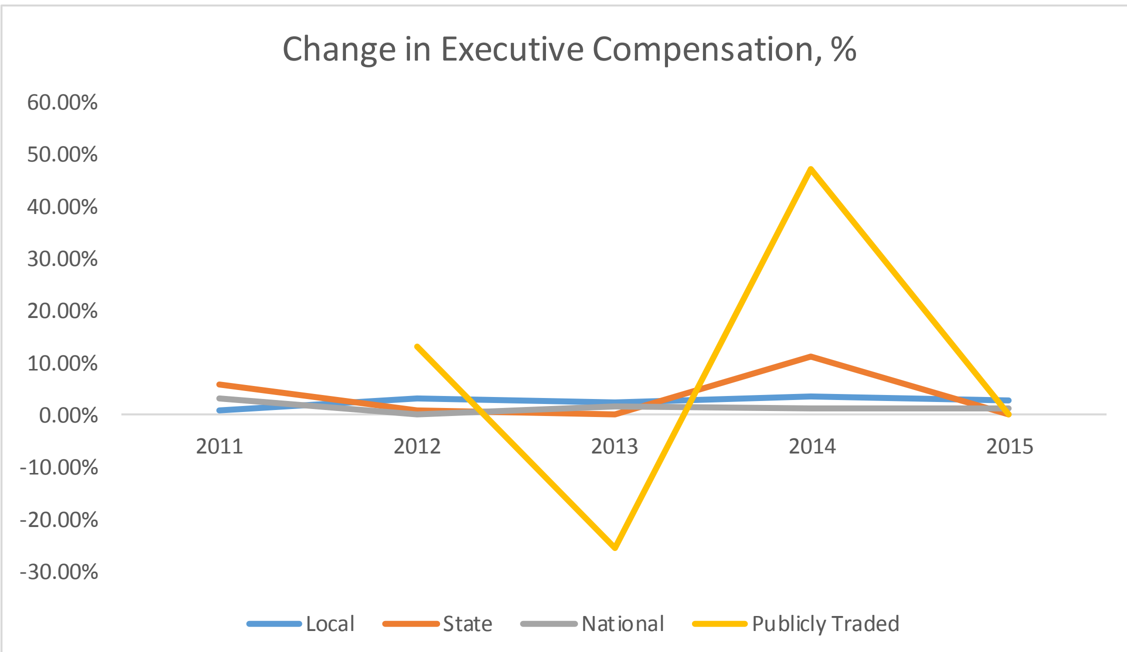
Above charts the yearly changes in net income for the four peer groups. The highest correlated pair for net income are national nonprofits and public corporations. Public corporations and local nonprofits are very negatively correlated.

The major takeaway from examining net income is the variation among all of the groups. While the highest deviation for expenses was only 13.39%, three of the groups were near 100% standard deviation. Local nonprofits had a deviation of 108.08%.

Publicly traded corporations had the lowest deviation in the group, with 54.80%. The next lowest was 98.02%.

## Executive Compensation

Figure 5 - Changes in Executive Compensation




Note: 2010 excluded due to small data set.

Table 6 - Correlations of Executive Compensation Changes

| EXECUTIVE COMPENSATION | | | | |
|---|---|---|---|---|
| | Local | State/ Regional | National | Publicly Traded |
| Local | | 0.2952 | -0.1108 | 0.4397 |
| State/Regional | 0.2952 | | 0.4190 | 0.7889 |
| National | -0.1108 | 0.4190 | | -0.1697 |
| Publicly Traded | 0.4397 | 0.7889 | -0.1697 | |

The above chart and table show changes in – and correlations between – executive compensation. The highest correlation here was interestingly between state/regional and public corporations.  It is important to note that one should not draw too many conclusions from the executive compensation data here. The data set is not as complete as the revenue, expense, and net income data sets.

The state/regional and national executive compensation data do point to a relationship in the nonprofit sector for larger organizations.

The biggest takeaway for executive compensation is the wide variation in executive compensation changes. While public corporations had the lowest standard deviation in revenue and net income (and second lowest in expenses), it is the highest in executive compensation by far. National and local nonprofits had standard deviations below 2%; state/regional nonprofits were just over 5%. Public corporations had 36.46% standard deviation.

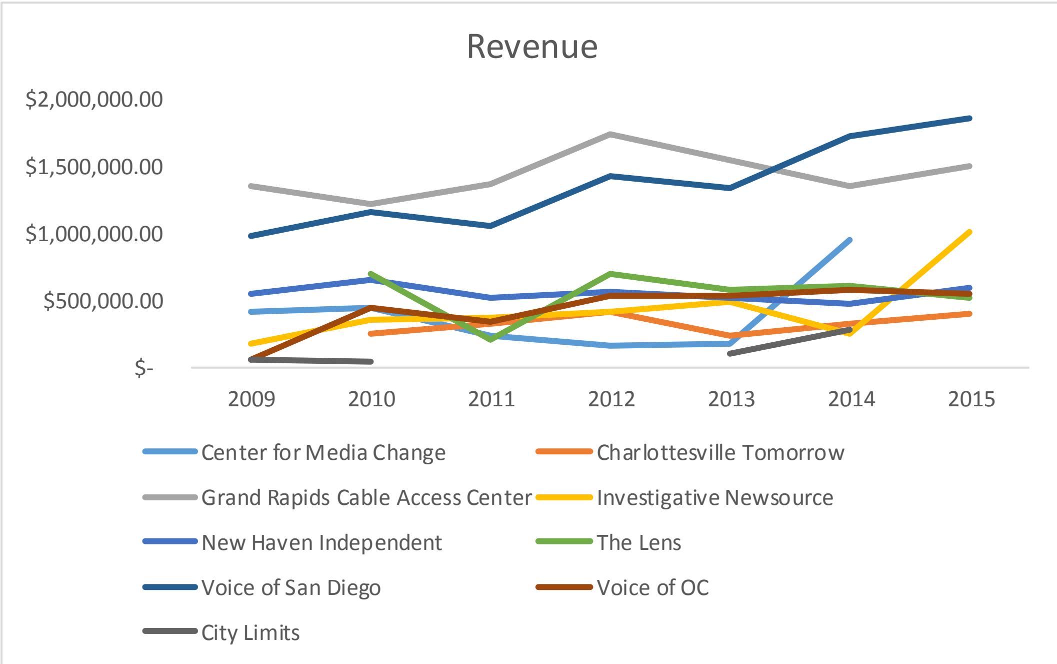
Again, it is important to note that this is the smallest sample size and likely the least reliable of the group.

## Key Findings Among Peer Groups

This subchapter will explore notable findings from each of the four peer groups. Additional charts not described in depth are provided in the appendix.

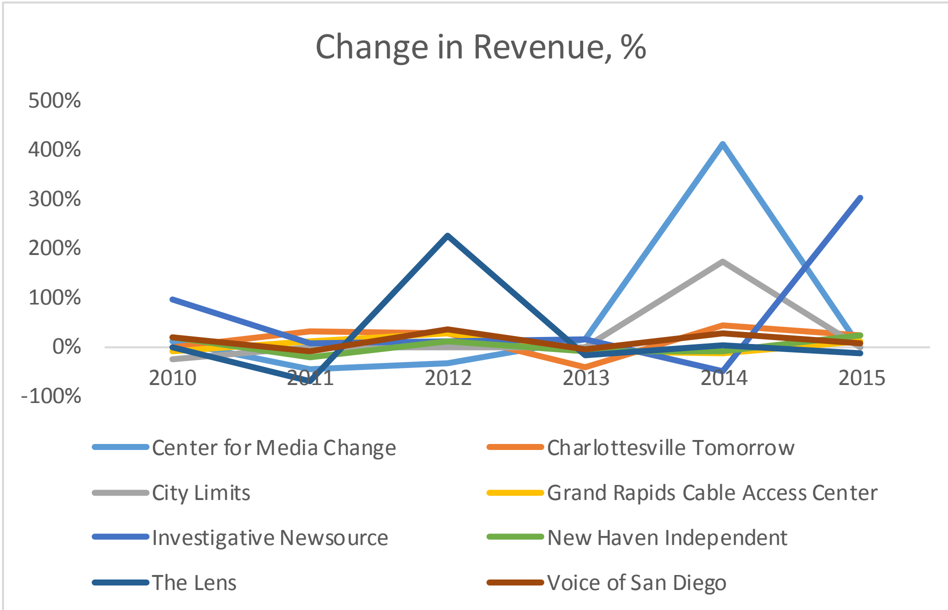
### Local Nonprofits

**Figure 6 – Annual Revenue**




The above figure shows the revenue reported by all nine organizations over the course of the study. The following figure shows percentage that revenue increased or decreased.

**Figure 7 –Changes in Revenue;** ***Does not include the Voice of the OC***




The Voice of the OC experienced a 640% increase in 2010 because it was founded in late 2009, and thus had smaller revenues.

The large spike shown here – 413% – in 2014 revenue belongs to Center for Media Change. This is due in part to a government grant of $94,075 but largely to the other donations and grants totaling $840,593. The government grant alone would have been over half of Center for Media Change's 2013 budget. Advertising only generated $9,703 in revenue, with miscellaneous revenue adding another $6,336 to the total.

The Lens also had a huge increase – 226% -- in revenue in 2012.

**Figure 8 - Annual Net Income, *Does not include Voice of San Diego***

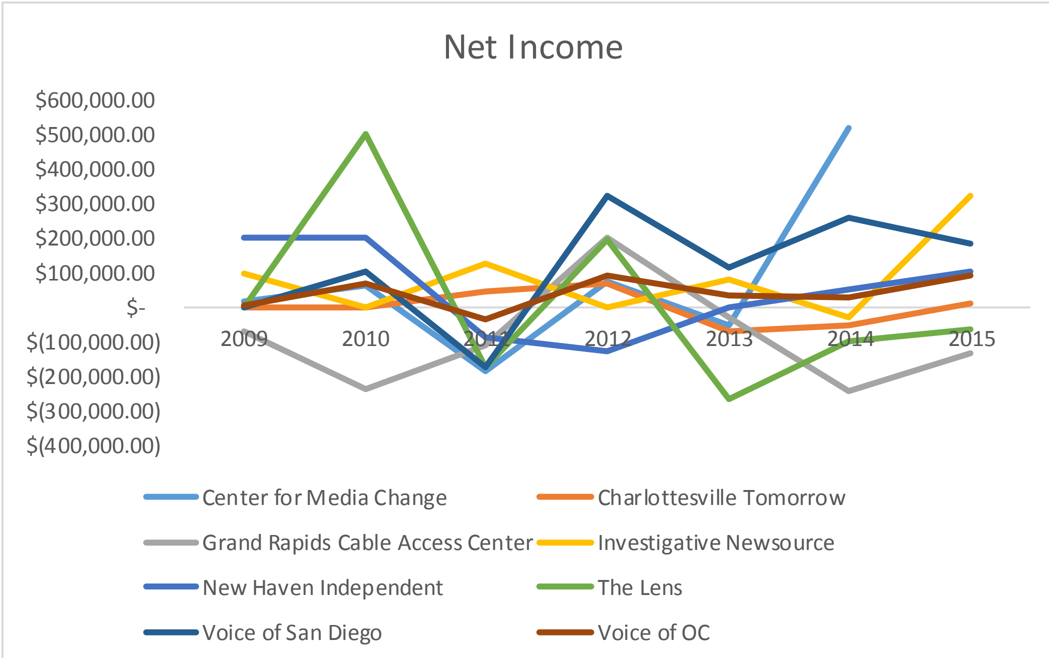
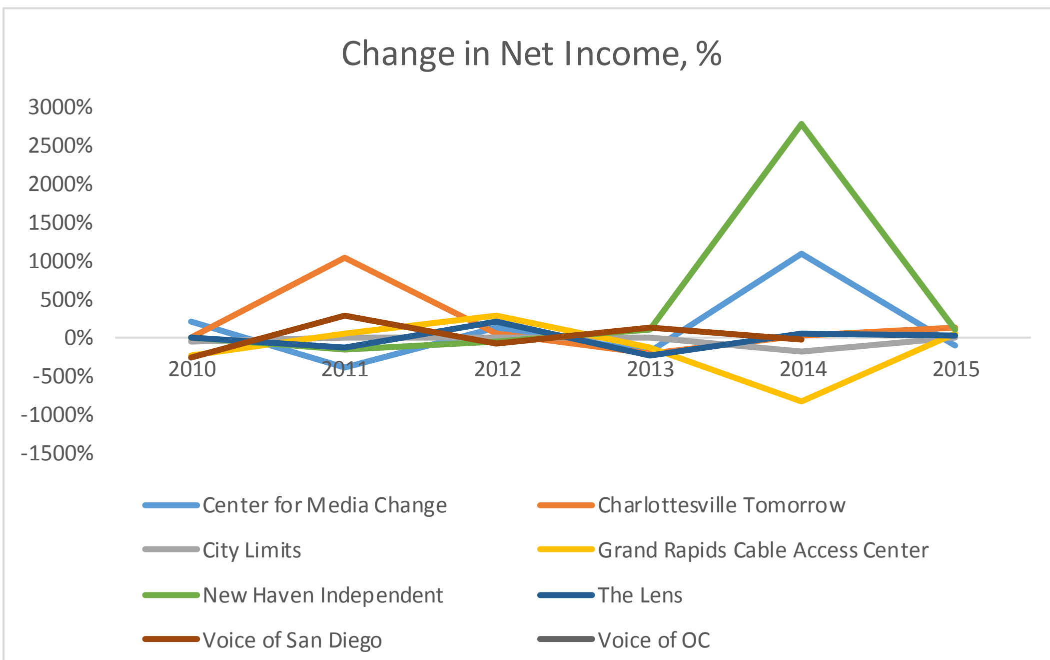


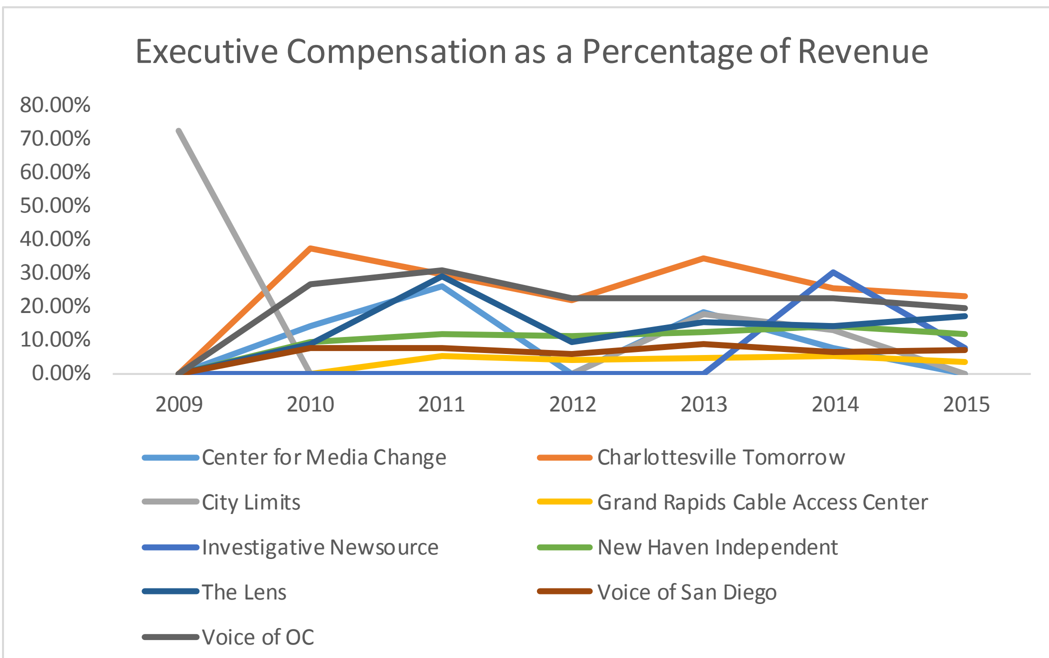

**Figure 9 - Changes in Net Income; *Does not include Voice of San Diego, iNews' 2010 figures due to outliers***



Figures 8 and 9 display the net income and annual percent change for each organization, respectively. Neither chart includes the Voice of San Diego and the second chart does not contain 2010 Investigative Newsource figures, as they were huge outliers.

Additionally, I charted executive compensation as a percentage of revenue for all of the peer groups. Naturally, although the payment of public companies' executives is higher, it makes up a much smaller percentage of revenues than most of the nonprofits. Several nonprofits, however, pay no salaries to executives.

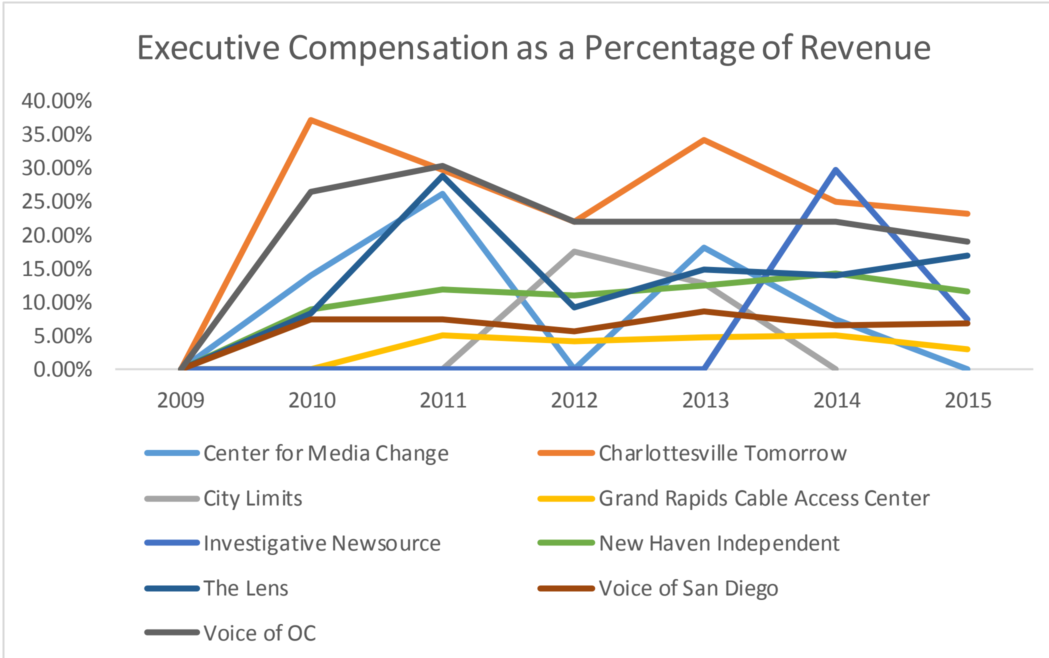
**Figure 10 - Executive Pay to Revenue Ratio**




City Limits' 2009 executive pay -- $41,158 – comprised nearly 73% of the organization's revenues. Following 2009, City Limits did not pay its executives again until 2013. In 2013, the highest paid executive was only paid $18,462.

The following chart does not include City Limits to better show variation.

**Figure 11 - Executive Pay to Revenue Ratio, Local Nonprofits; *Not including City Limits***




The above charts show that local nonprofits spend a good portion of their revenues on their highest paid executives. Charlottesville Tomorrow, for example, has spent over a fifth of its revenue value on its highest paid executive, Brian Wheeler. In 2010, Wheeler made over $94,000 while Charlottesville Tomorrow made just above $250,000. Wheeler received a 3.8 percent raise in 2011.

**State/Regional Nonprofits**

Figure 12 - Annual Revenue

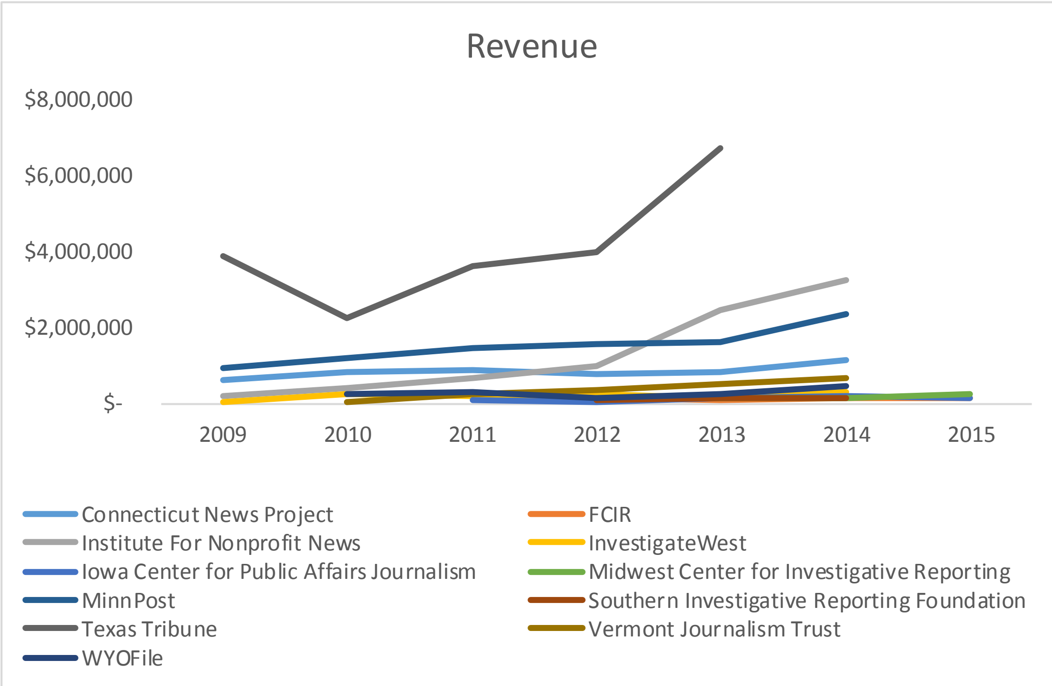
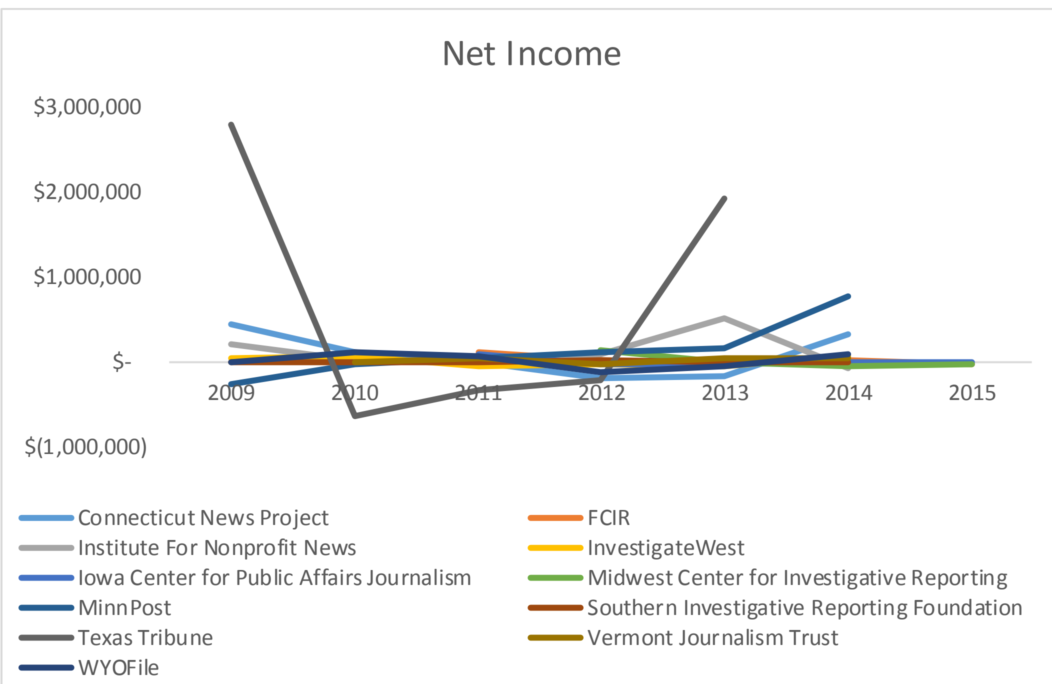
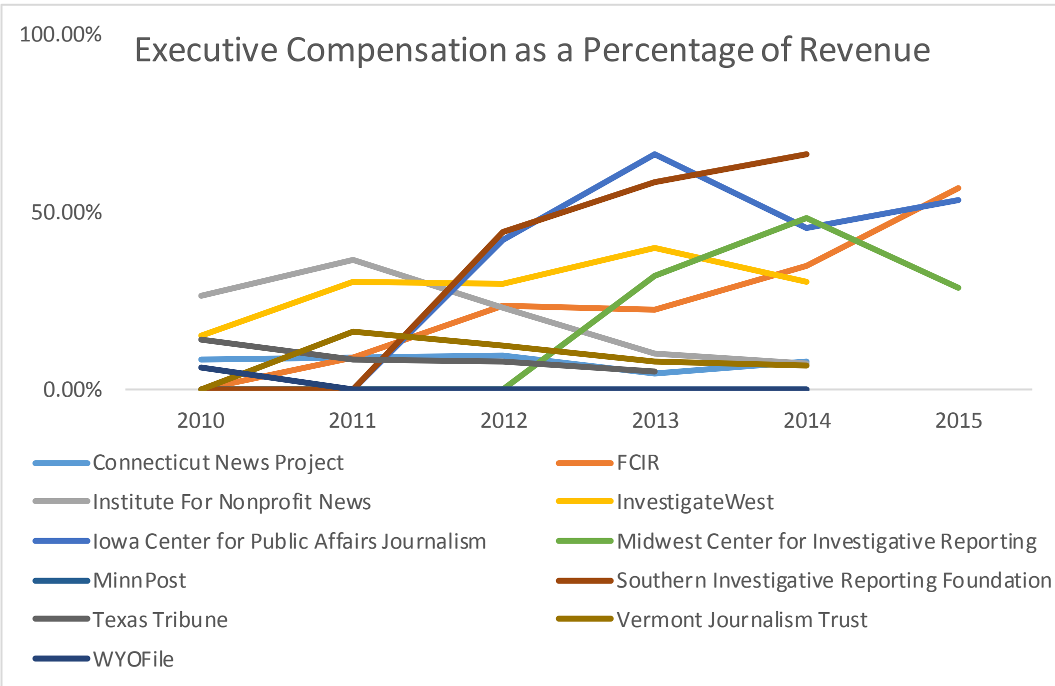



Figure 13 - Annual Net Income



The Texas Tribune is the most successful state/regional nonprofit in both revenue and net income, displayed in Figures 12 and 13. The Tribune had a difficult stretch from 2010 to 2012, but overall has been profitable. In 2010, the Tribune's expenses rose 162%. Coupled with a 42% decrease in 2010 revenues, the Tribune's net income plummeted.

**Figure 14 - Executive Pay to Revenue Ratio; *2009 excluded due to small sample size***




Like local nonprofits, state and regional nonprofits spend a fairly high amount of revenues to executives. In 2013, the Iowa Center for Public Affairs Journalism paid its top executive over two thirds of its annual revenue.

**National Nonprofits**

Figure 15 - Annual Revenue, National Nonprofits

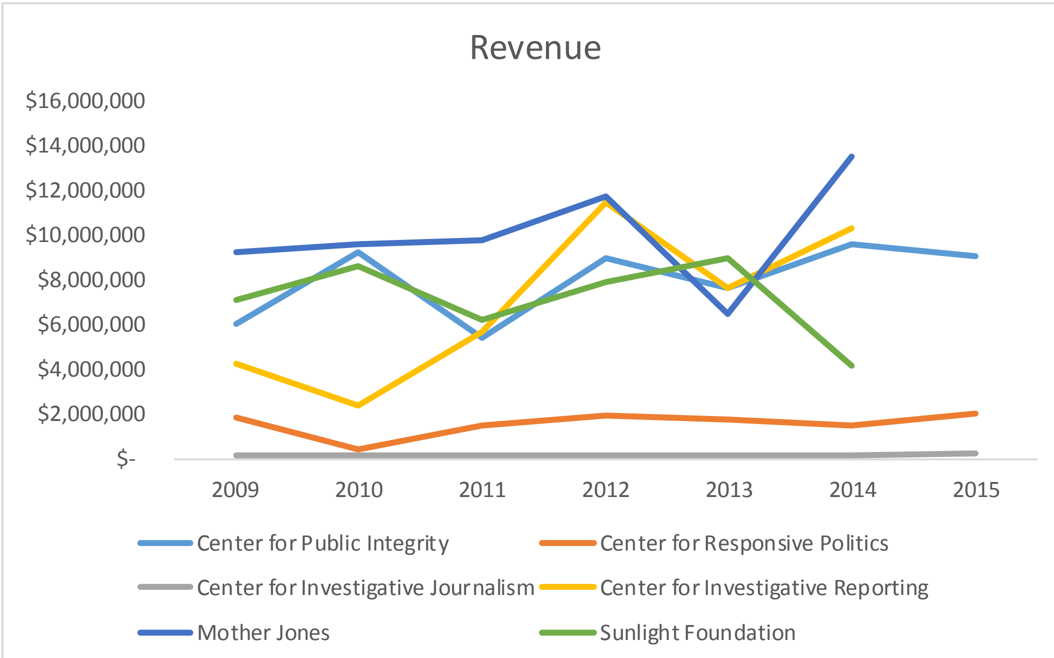
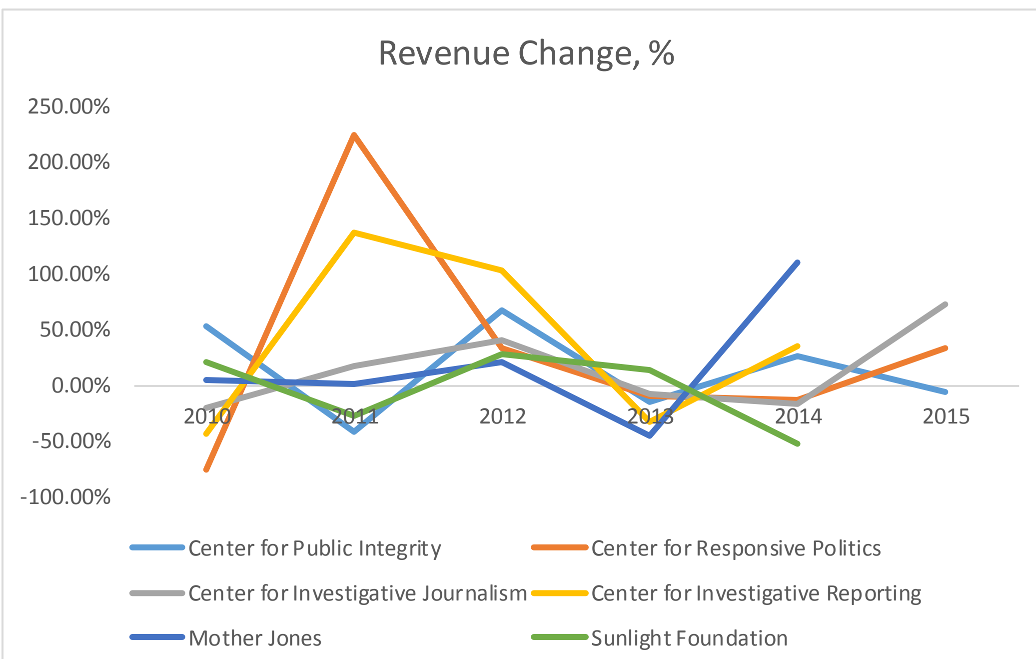
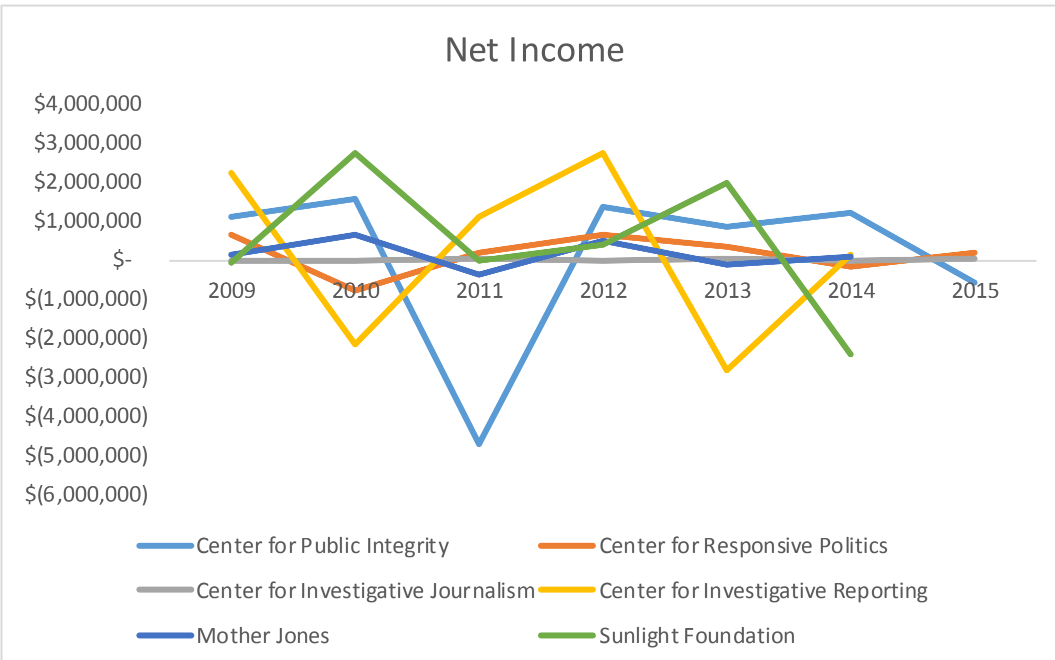



Figure 16 - Revenue Changes, National Nonprofits



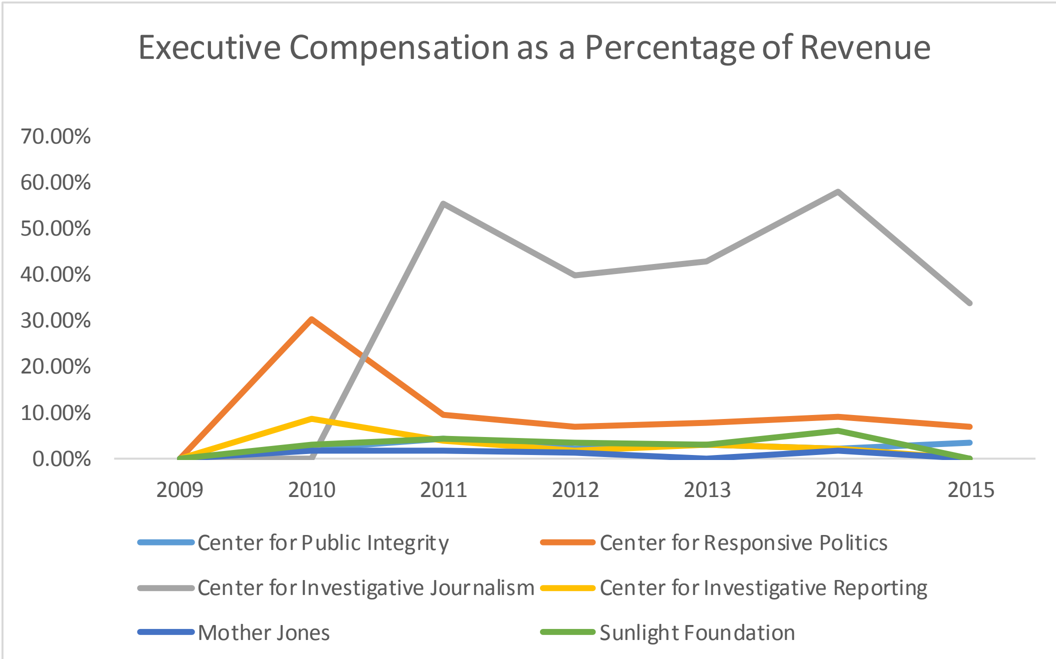
The above figures show the nominal annual revenue recorded as well as percentage of annual change. Notably (and predictably), the revenues for national nonprofits are significantly higher than the state and local nonprofits. Only three of the 11 state/regional nonprofits had revenues over $1,000,000. Three of the nine local nonprofits achieved this feat. For national nonprofits, all but the Center for Investigative Journalism were above the million-dollar mark.

**Figure 17 - Net Income, National Nonprofits**




Net income varied similarly to the other nonprofit groups. The high revenue of the national peer group was matched by high expenses, offsetting any opportunities to invest profits back into the business.

**Figure 18 - Executive Pay to Revenue Ratio, National Nonprofits**




With the exclusion of the Center for Investigative Journalism (which has the lowest revenues by far), national nonprofits compensate their highest paid executives at a much lower rate than the other nonprofit groups. Naturally, a large part of this is because revenues are much higher for national nonprofits.

This is closer in line with executive compensation of publicly held companies. The Center for Public Integrity had the highest paid executive during the time period, paying nearly $294,000 to its top employee. Median salary across the peer group largely stayed above $175,000.

**Publicly Held Companies**

Figure 19 - Annual Revenue in thousands, Public Companies

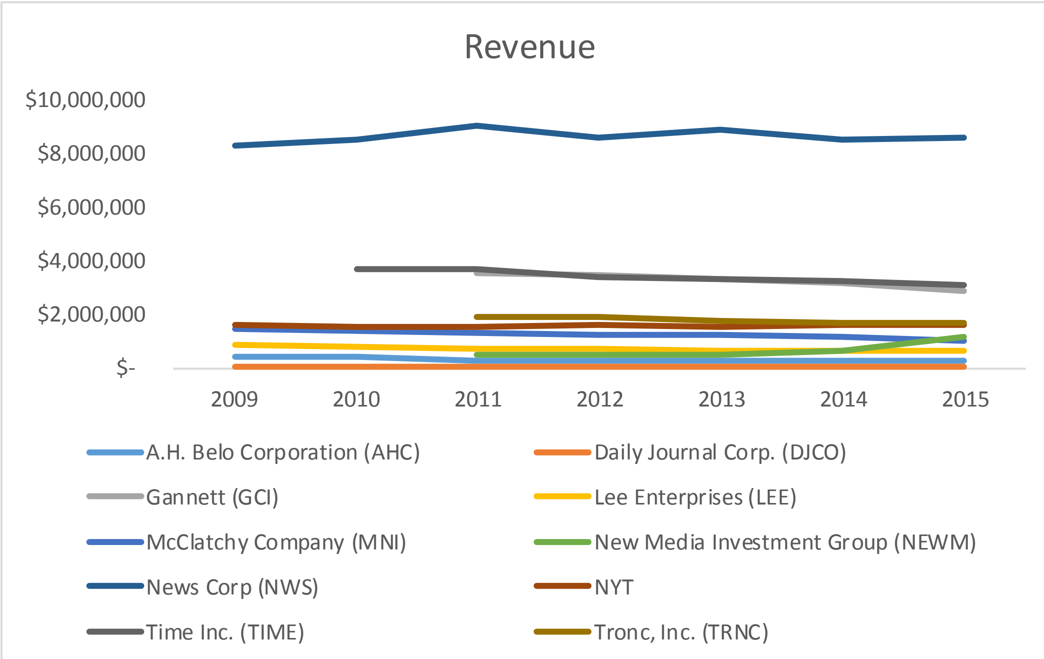
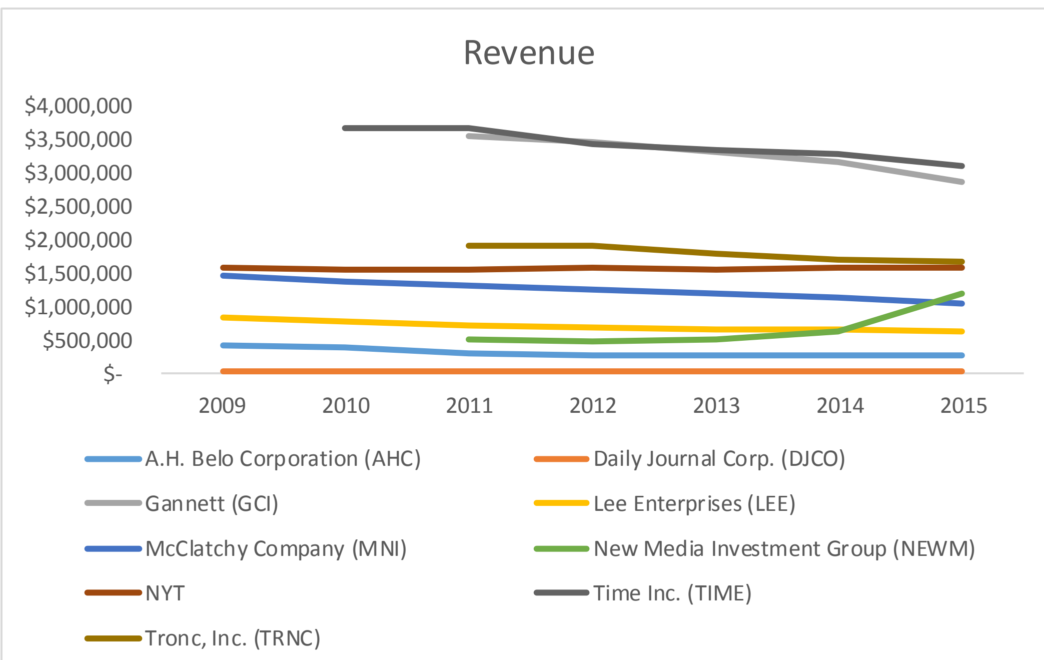



Figure 20 - Annual Revenues in thousands, Public Companies (without NewsCorp)



The two charts – one with and one without NewsCorp – display annual revenues among the public companies. NewsCorp is excluded in the second chart to better how the differentiation among the other companies.

Revenues are much more stable among public companies compared to nonprofits, which rely much more on donations rather than advertising and circulation revenue. The chart almost looks striated, with all companies staying ranked the same. The only difference is New Media Investment Group's large jump from 2014 to 2015. New Media Investment Group posted a particularly strong fourth quarter in 2016, including digital revenue growth 10% higher than 2014. They also acquired several companies, such as Wooster Republican Printing Company and Harris Enterprises. Both deals closed at over $20 million.

**Figure 21 - Annual Net Income in thousands, Public Companies**

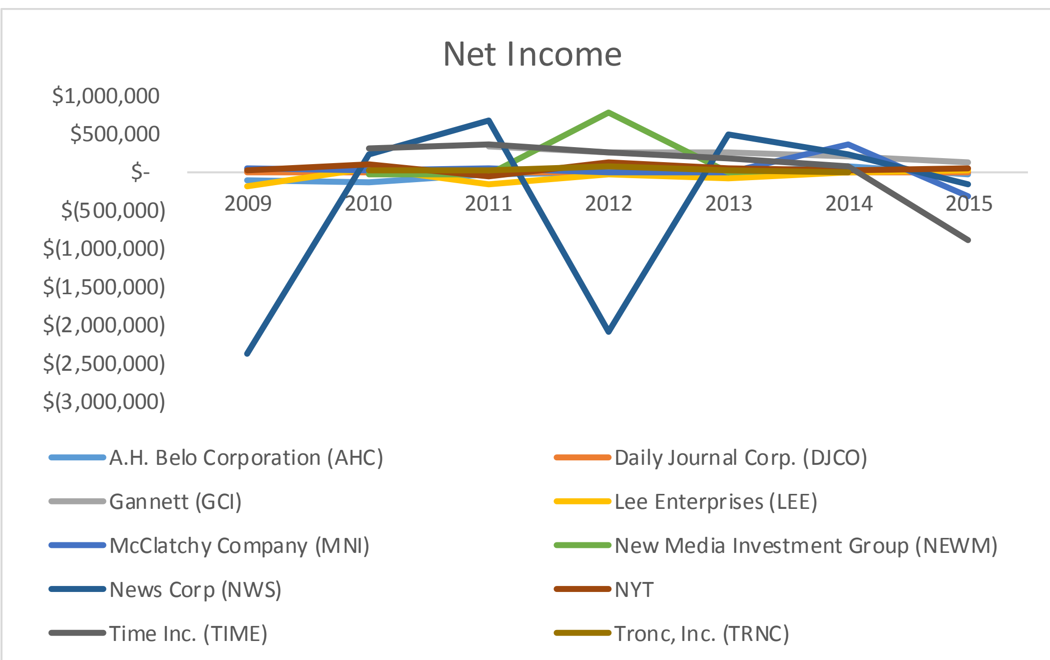
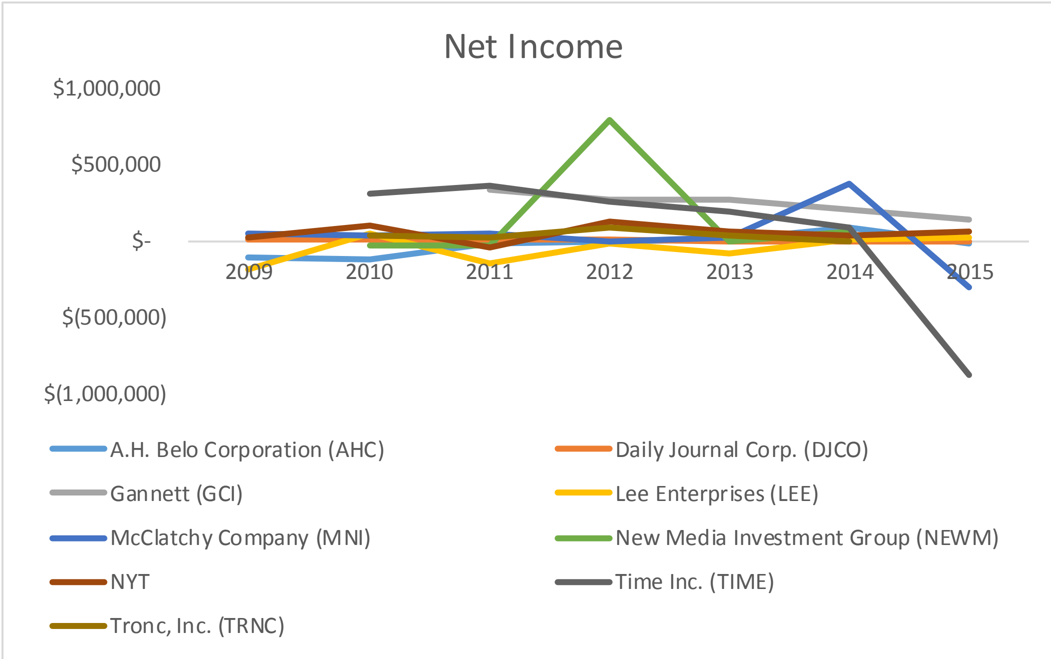


**Figure 22 - Annual Net Income, in thousands, Public Companies not including NewsCorp**




Again, above are the net incomes for public companies both with and without NewsCorp. Time Inc., NewsCorp and McClatchy Company all posted losses in 2015, but the remaining companies were profitable. New Media Investment Group again stood out with strong 2012 performance. NEWM's net income in 2015 was over $67 million, making it the second highest net income behind only Gannett.

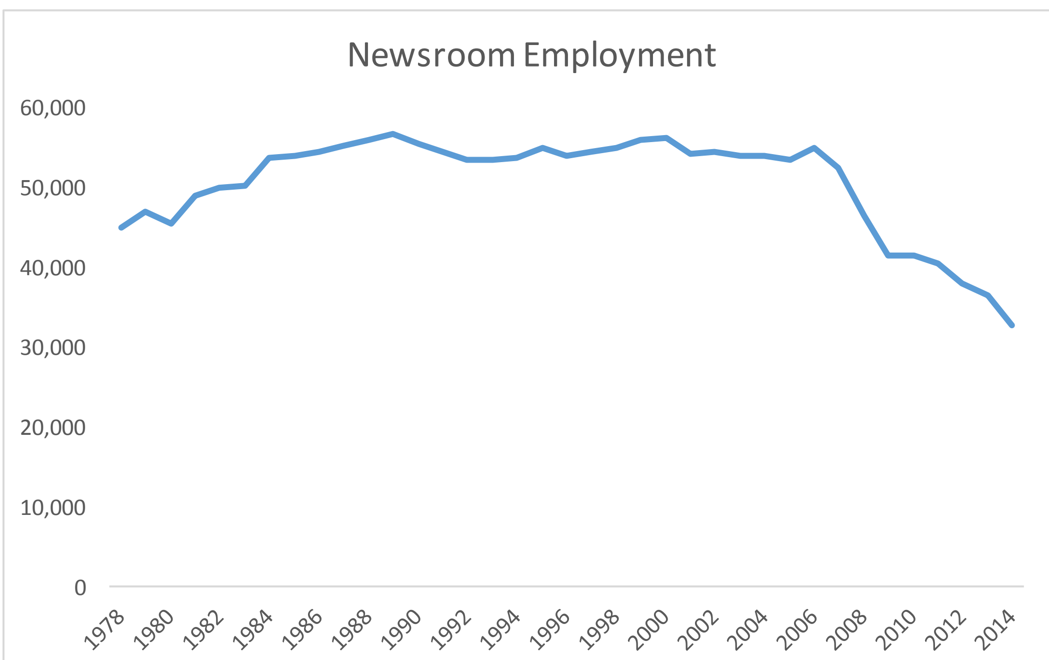
# Chapter 6

## Conclusion

In Pew Research Center's State of the News Media 2016 report, the think tank spelled out a relatively bleak future for the industry. Weekday and Sunday circulation dropped by their greatest declines since 2010, indicating that perhaps the decline of print journalism has not yet bottomed out. Even digital advertising – a lone bright spot in the industry – dropped 2% (Barthel).

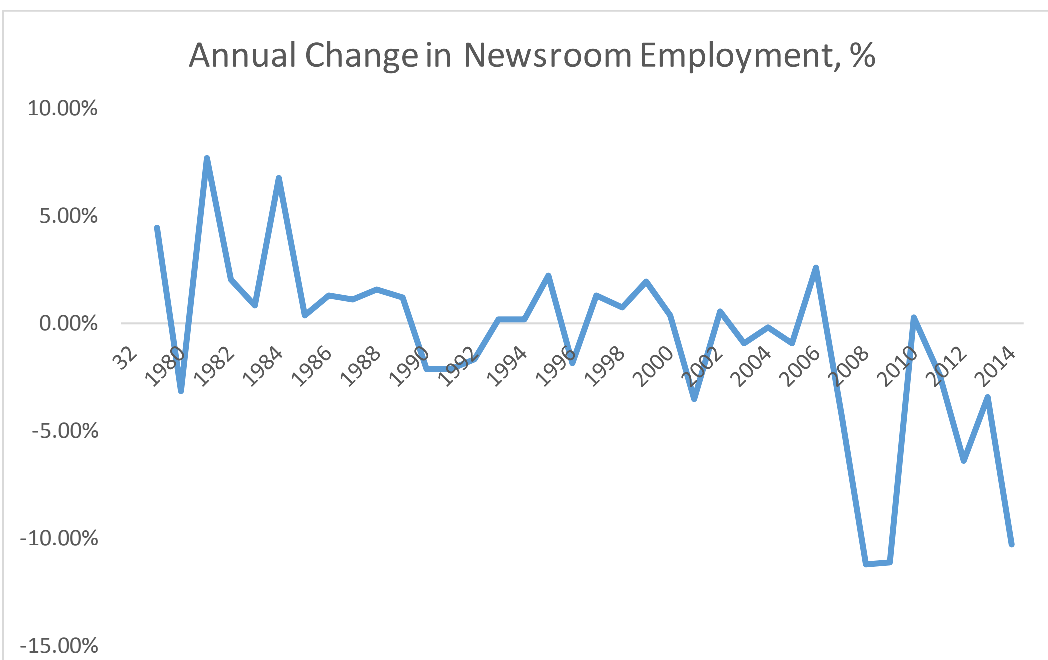
These decreases feed into a vicious cycle leading to constant cuts to newsroom budgets, including layoffs and replacing experienced reporters with younger, cheaper replacements. The following chart, using data gathered by the American Society for News Editors Newsroom Employment Census Projections from 1978-2014, shows total newsroom employment.

**Figure 23 - Newsroom Employment over time**



The highest ever year of newsroom employment was 1989, when nearly there were nearly 57,000 people working in newsrooms. The lowest number in the 37-year survey is the most recent year: 2014. Only 32,900 people were employed in newsrooms. This is a full 24,000 employees less than the 1989 figure. News organizations are being held more accountable than ever, forced to work quickly to get reports out first online without sacrificing accuracy and journalism ethics. With fewer employees, it is much more difficult to do thorough fact checking before publishing a piece. It is important to note that the roles within the newsroom have changed drastically during this time period. In addition to editors and reporters, newsrooms now include video producers, social media managers and data scientists, among many other roles.

**Figure 24 - Annual Employment Changes**




The above chart shows the year-over-year change in newsroom employment by percentage. From 2007 to 2014, only 2010 showed an increase in employees. The boost in jobs was a 0.24% increase, meaning only 100 jobs were added. The last time newsrooms added 2% to the previous year's employees was 1999.

With these realities facing the news industry, it is easy to assume that the downward spiral will continue. But the research indicates that news organizations should at least consider a nonprofit structure. For existing news organizations, the Philadelphia Inquirer is a good example of corporate structure in which a news organization can get more freedom in budgetary decisions, encourage donations and operate with the dual mandate of seeking profit and benefitting the public.

While median year-over-year changes in revenue were largely positive for all three nonprofit peer groups, they were negative every year for for-profit companies (see Figure 2). However, the changes in revenue, expenses and net income are all significantly more volatile for nonprofit organizations, as seen below.

**Table 7 - Standard Deviation Summary**

| STANDARD DEVIATIONS | | | | |
|---|---|---|---|---|
| | NONPROFITS | | | |
| | **Local** | **State/Regional** | **National** | **Public Companies** |
| **Revenue** | 17.37% | 20.36% | 20.44% | 1.63% |
| **Expenses** | 7.74% | 13.39% | 10.03% | 9.46% |
| **Net Income** | 106.72% | 85.25% | 98.02% | 54.80% |
| **Executive Compensation** | 1.54% | 5.02% | 1.37% | 36.46% |

A chief benefit of nonprofits is not having to answer to shareholders constantly pressuring companies to squeeze more profits, cut down expenses and focus solely on driving revenue. While public companies keep down the volatility of revenue and expense changes, they also do not always have the liberty to try new things. Similarly, they may not be able to retain all key employees as shareholders pressure company executives to cut down on personnel.

Going nonprofit is not a perfect remedy to the ills plaguing the industry, but it gives organizations a longer leash. Philadelphia Inquirer editor Bill Marimow discussed that in the past, “If you failed to produce the results that were promised in your budget, it would require significant adjustments, sometimes very painful adjustments that might mean layoffs, figuring out some way to increase your revenue very quickly, and cutting the marketing budget.”

Marimow cited the recent budget decision to bring in people to teach multimedia tools to the newsroom as an example of something that would have been very difficult in the past. Funding from the Lenfest Institute for Journalism allowed this program.

With the election of President Donald Trump, people have shown that they are willing to pay for news. The New York Times reported increases of 132,000 paid subscriptions in the weeks following the election. The Wall Street Journal had 300% daily subscription increase on the day after the election (Huddleston). Meanwhile, other citizens have begun (or continued) distrust the news. Being nonprofit could assuage some of those concerns. Taking away the motivation of seeking profit could increase the public’s trust in media.

As discussed in the literature review, many have also made the argument that there is a moral imperative for news organizations to go nonprofit. Harvard economist Julia Cage posits that nonprofit media is the way of the future. This model would allow media to avoid undue influence by shareholders, advertisers and the government.

While it is unlikely that the New York Times or Wall Street Journal will be donated to a nonprofit foundation any time soon, it is not out of the question that nonprofit news organizations will rise in prominence in the coming years. Crowdfunding sources like GoFundMe and Patreon may also be avenues for news organizations to continue contributing great reporting while compensating employees.

**Other Avenues for Research**

This thesis could serve as a launch pad for many other avenues of research. The data compiled here are only revenue, expenses, net income and highest paid employee. The 990 form breaks down nonprofit revenues by advertising, circulation revenue, donations and other miscellaneous means of raising money. Similarly, expenses are broken down. A much more comprehensive survey could look into how these individual categories have changed over time.

In the Knight Foundation's similar survey of nonprofit organizations, the organizations voluntarily gave the foundation more information. I would have liked to incorporate this information, such as what all employees make, employee retention rates, benefits offered, resources devoted to multimedia platforms, average click rate (and search engine optimization metrics), and much more. This would allow for more actionable insights and advice to nonprofit news organizations.

Another avenue of research would aim a wide lens at the news industry. In particular, it would be interesting to look at industry profit margins over time. Before the internet, newspaper companies had much larger profit margins. Many insights could come from looking at how newspapers should have been using those gains to prepare for a digital-first future.

Perhaps the best related research topic will take at least a few more years, but it would be fascinating to see how the Philadelphia Foundation and the Inquirer are doing in several years. As a model example of a large city newspaper that changed corporate structure to gain the benefits of a nonprofit, the Inquirer could provide blueprints for other news organizations.

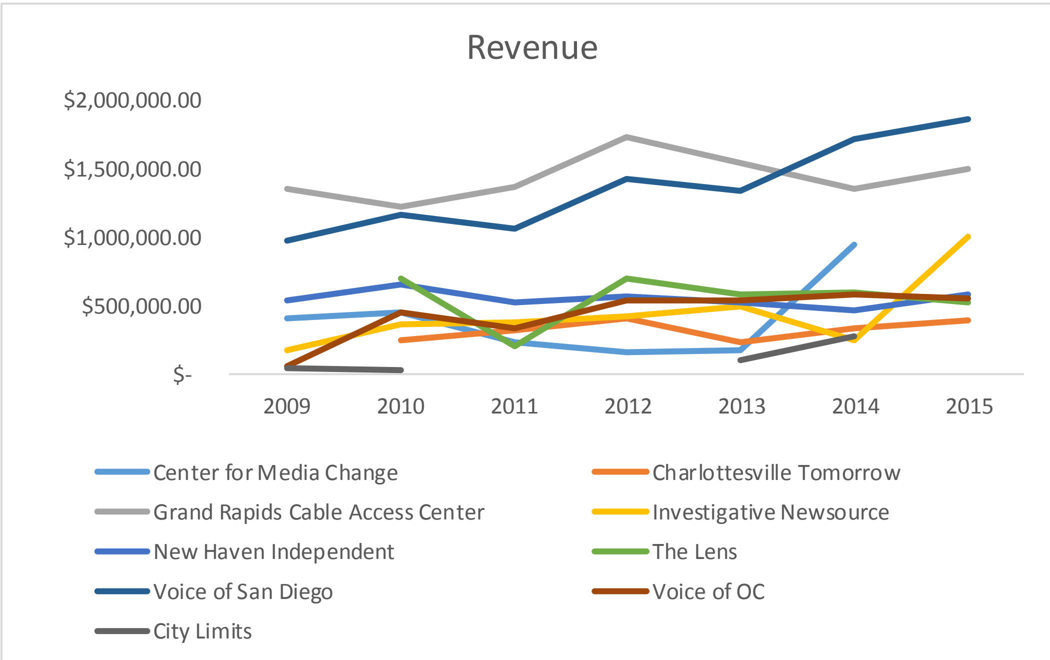
# Appendix A

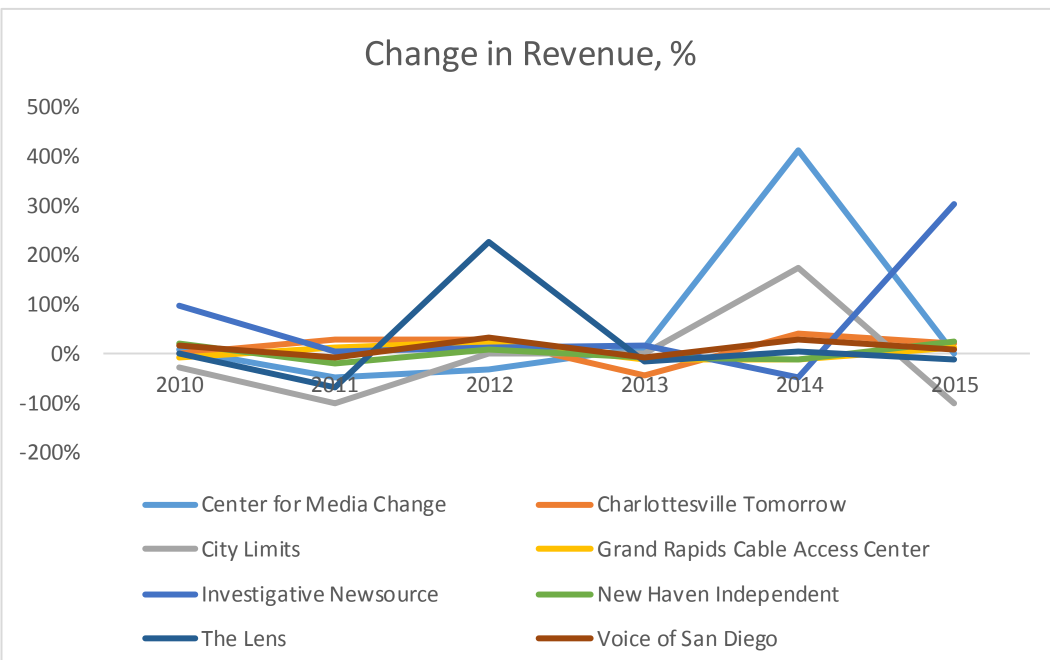
## Standard Deviations by Peer Group

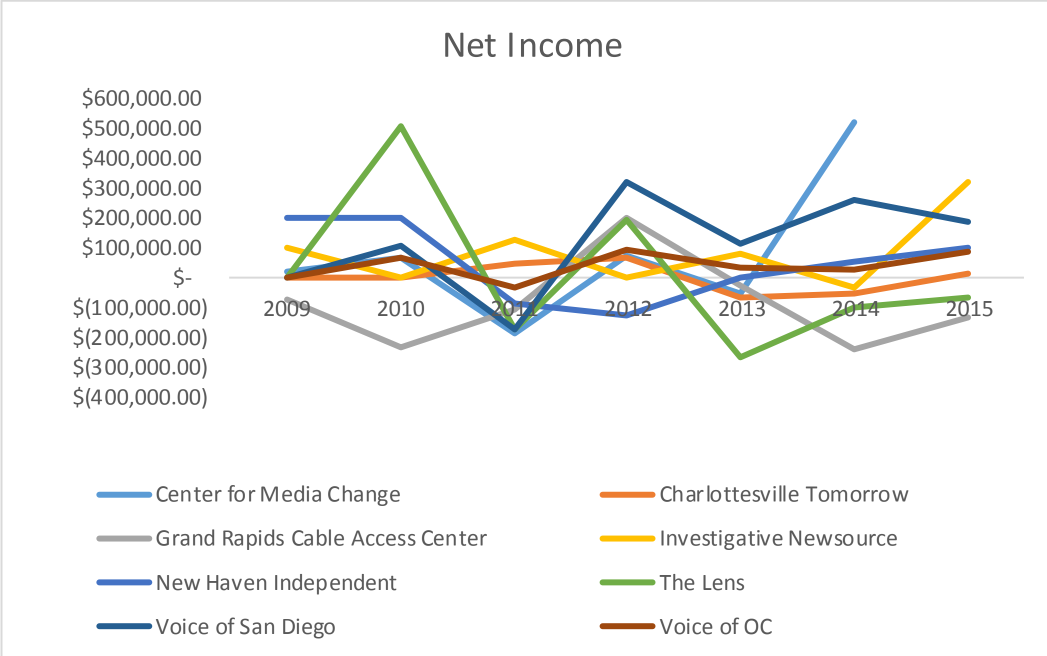
| STANDARD DEVIATIONS | | | | |
|---|---|---|---|---|
| | NONPROFITS | | | |
| | **Local** | **State/Regional** | **National** | **Public Companies** |
| **Revenue** | 17.37% | 20.36% | 20.44% | 1.63% |
| **Expenses** | 7.74% | 13.39% | 10.03% | 9.46% |
| **Net Income** | 106.72% | 85.25% | 98.02% | 54.80% |
| **Executive Compensation** | 1.54% | 5.02% | 1.37% | 36.46% |

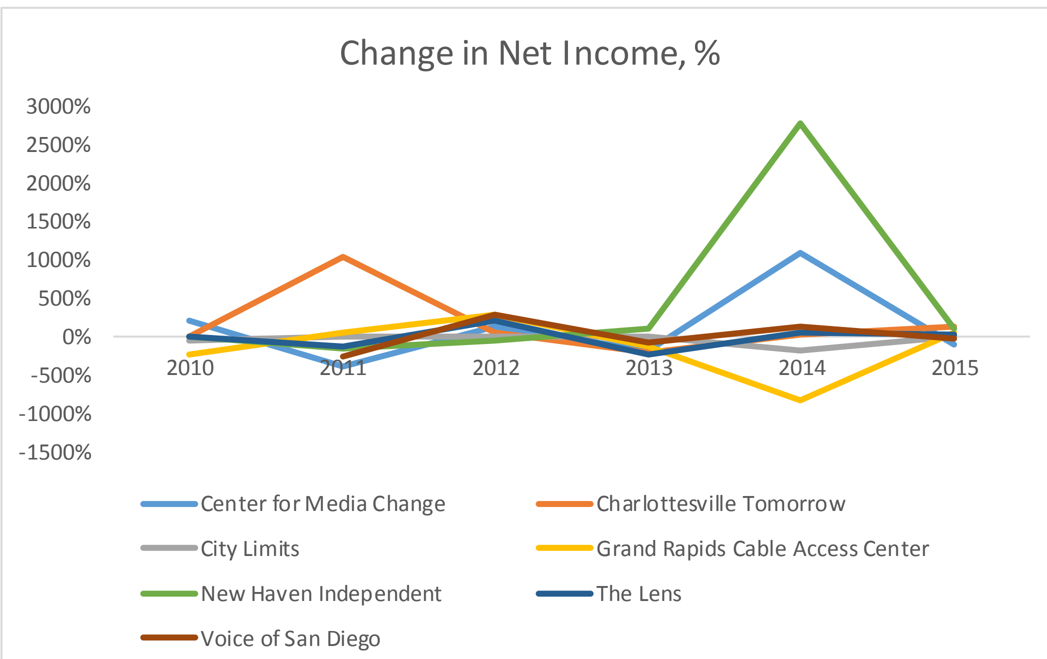
# Appendix B

## Local Nonprofit Charts

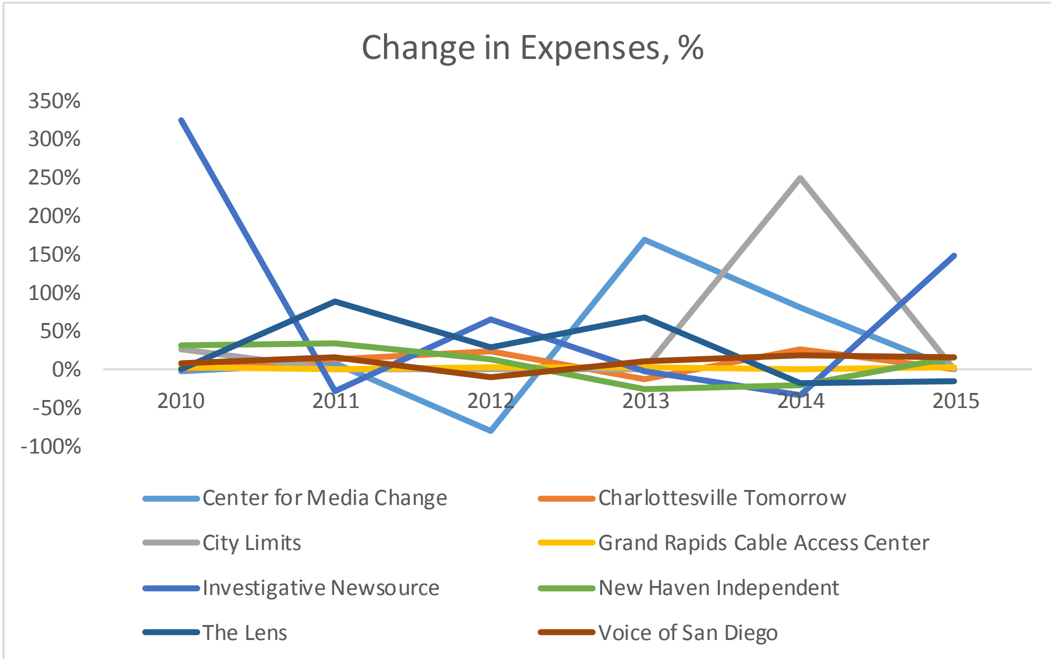


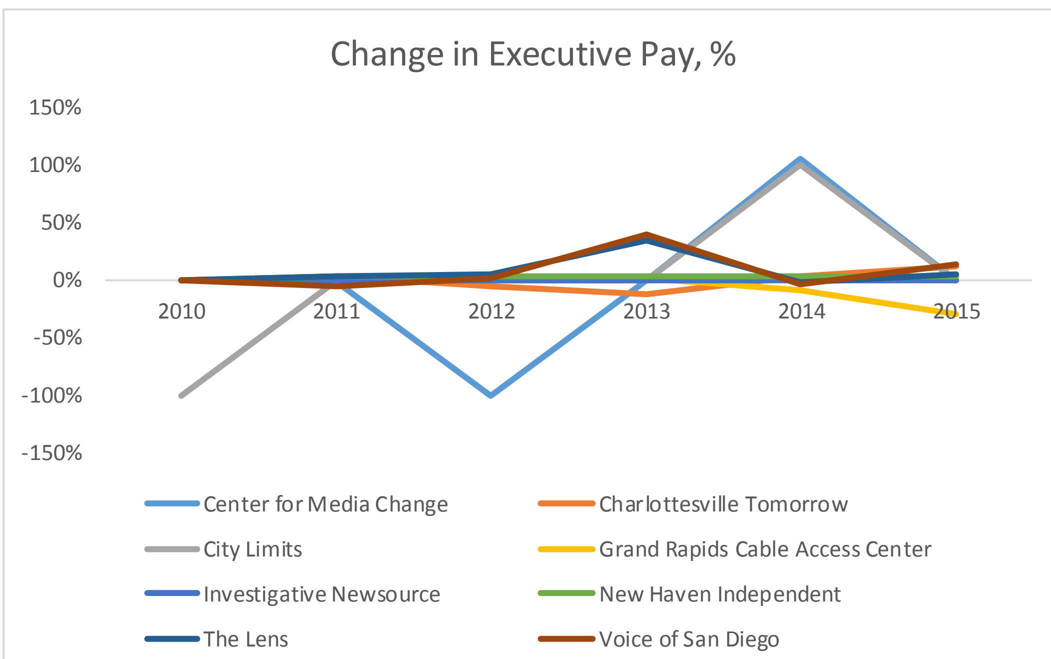





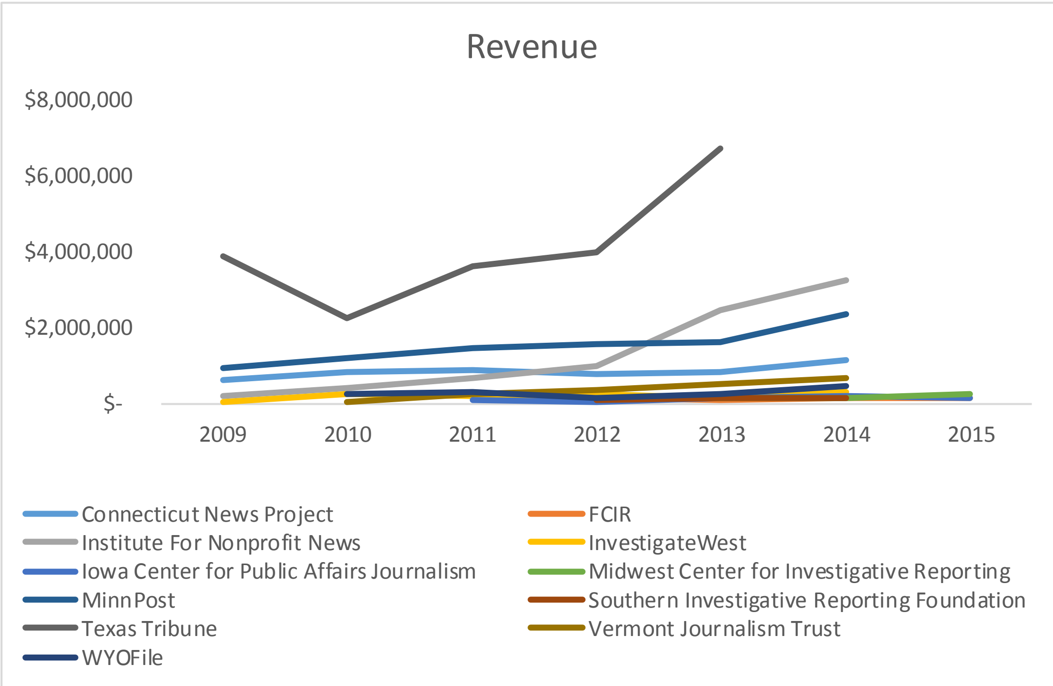

***Note: without Investigative Newsource, Voice of San Diego's 2010 data (outliers)***

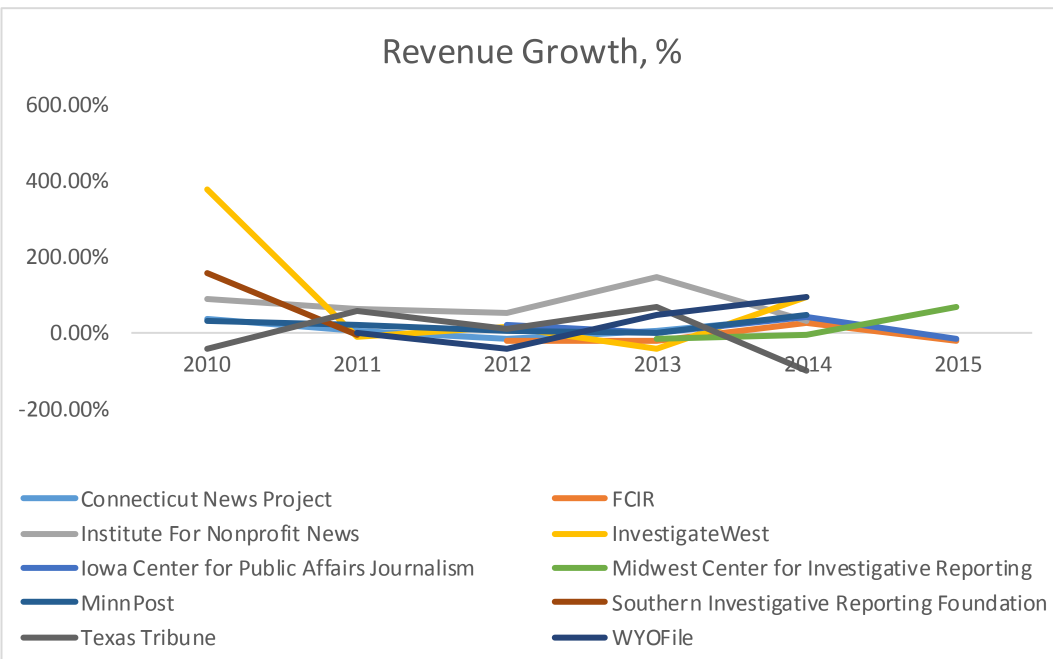

Change in Expenses, %
350%
300%
250%
200%
150%
100%
50%
0%
-50%
-100%
2010
2011
2012
2013
2014
2015
Center for Media Change
Charlottesville Tomorrow
City Limits
Grand Rapids Cable Access Center
Investigative Newsource
New Haven Independent
The Lens
Voice of San Diego


Change in Executive Pay, %
150%
100%
50%
0%
-50%
-100%
-150%
2010
2011
2012
2013
2014
2015
Center for Media Change
Charlottesville Tomorrow
City Limits
Grand Rapids Cable Access Center
Investigative Newsource
New Haven Independent
The Lens
Voice of San Diego

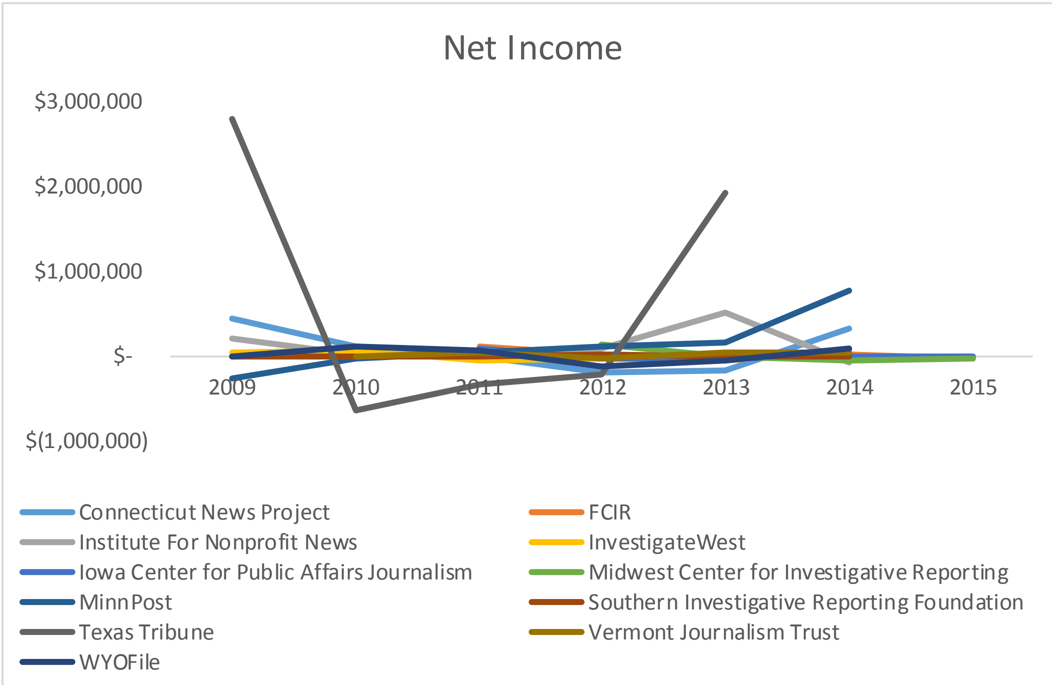
# Appendix C

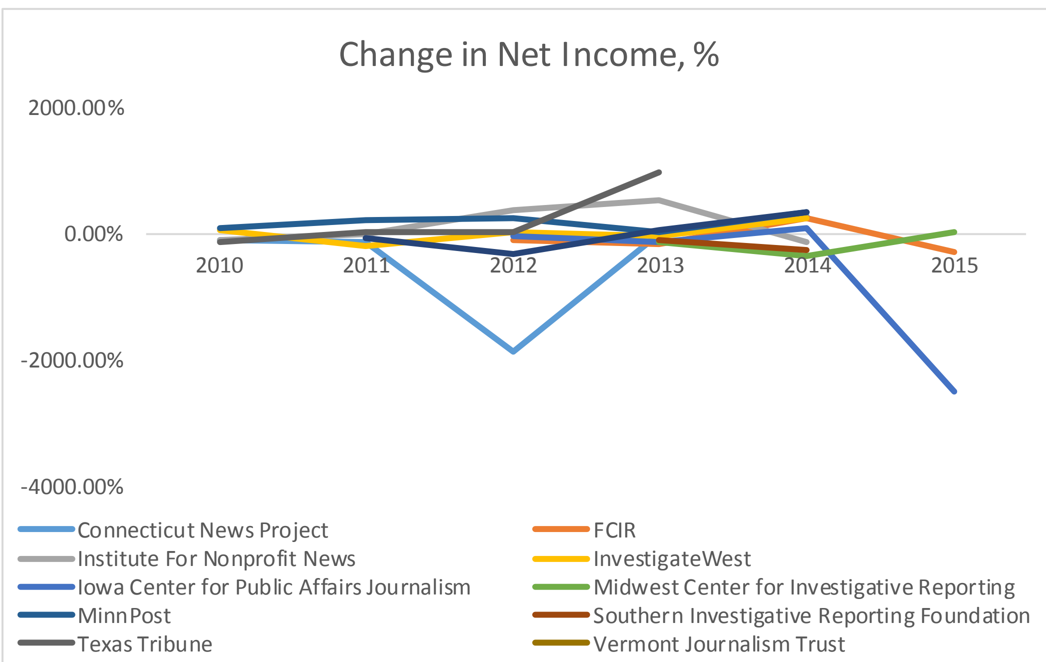
## State/Regional Nonprofit Charts




***Note: Vermont Journalism Trust excluded (outlier)***

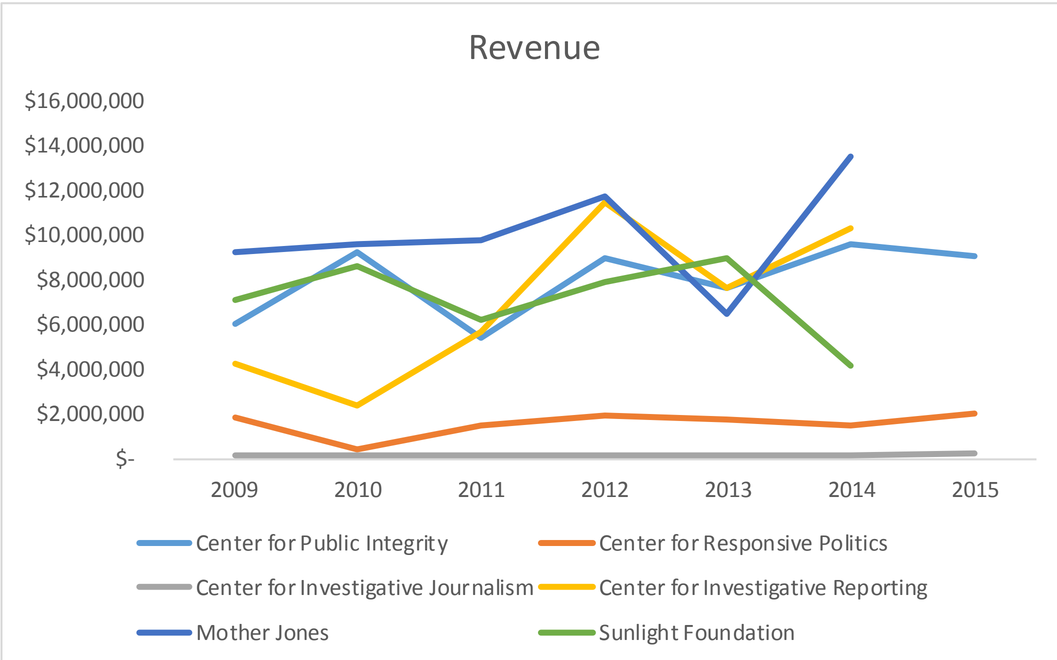


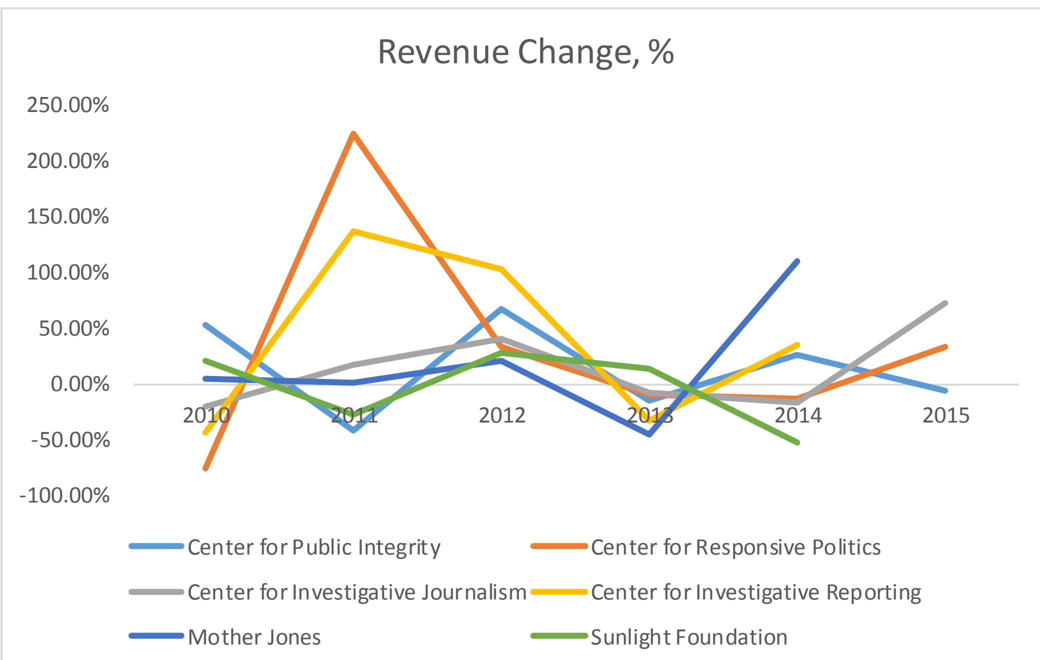



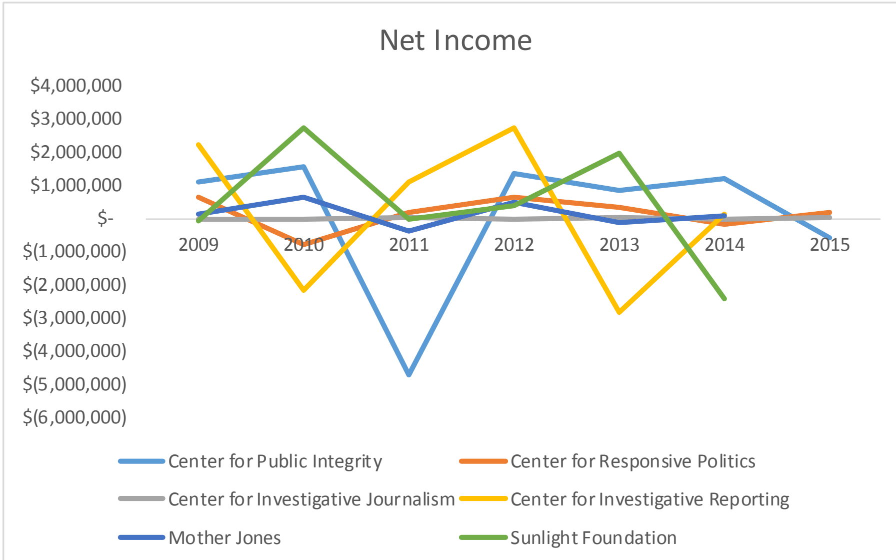

***Note: 2010 excluded for Vermont Journalism Trust (outlier)***

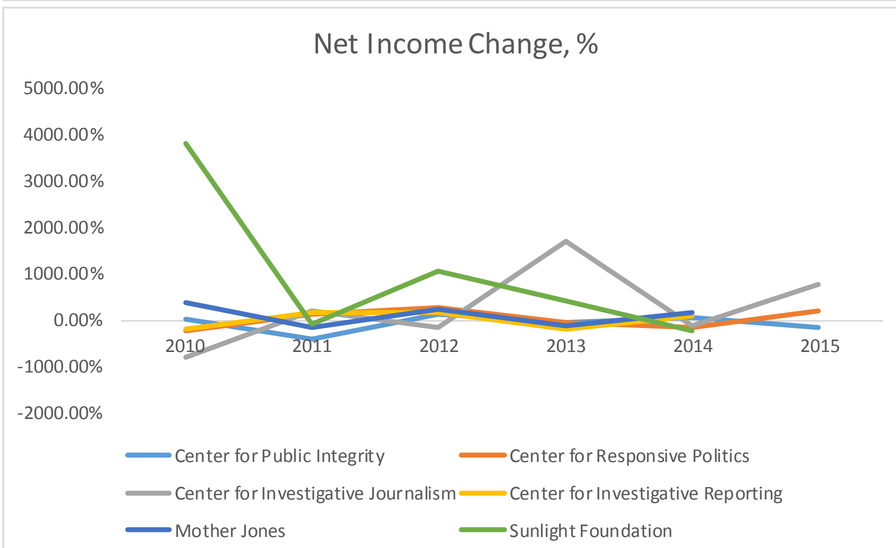
# Appendix D

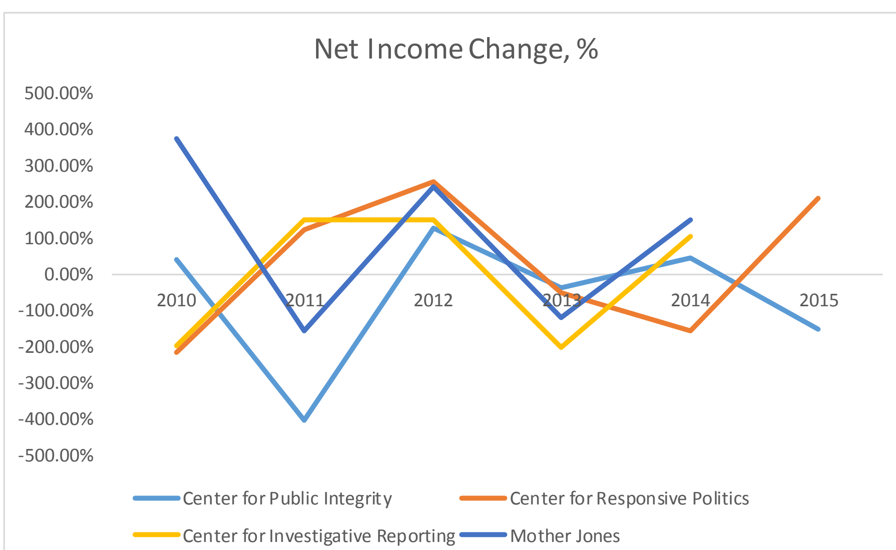
## National Nonprofit Charts



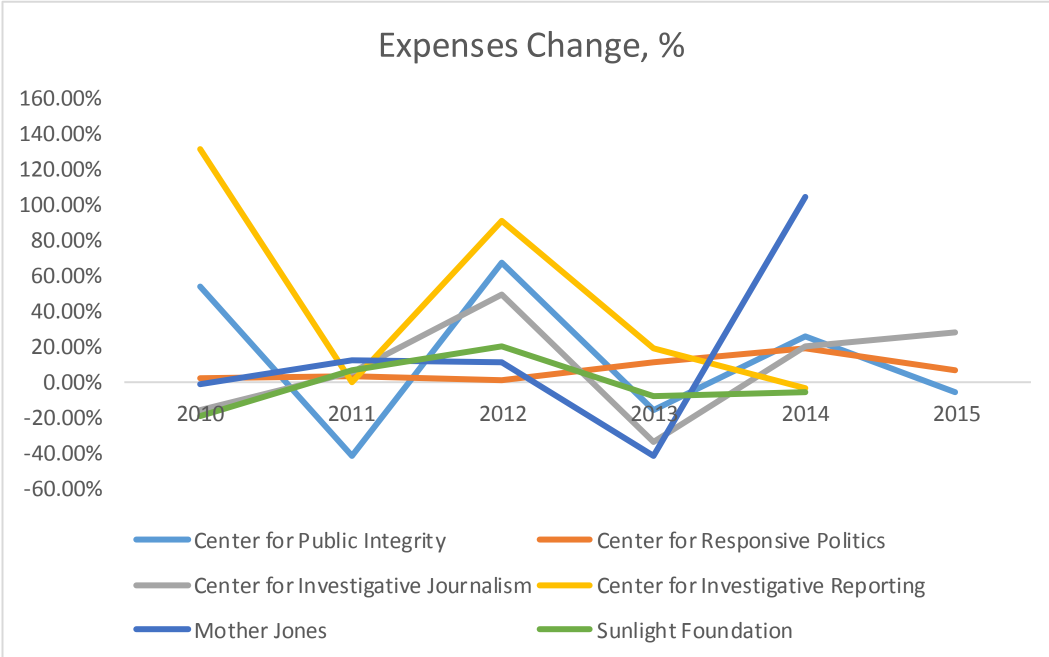



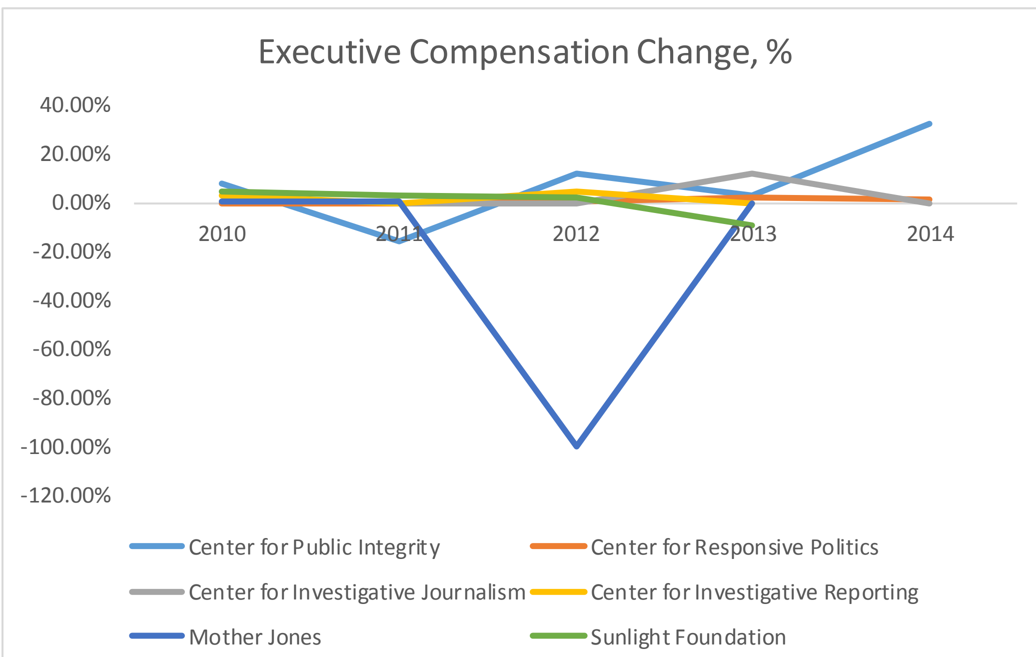


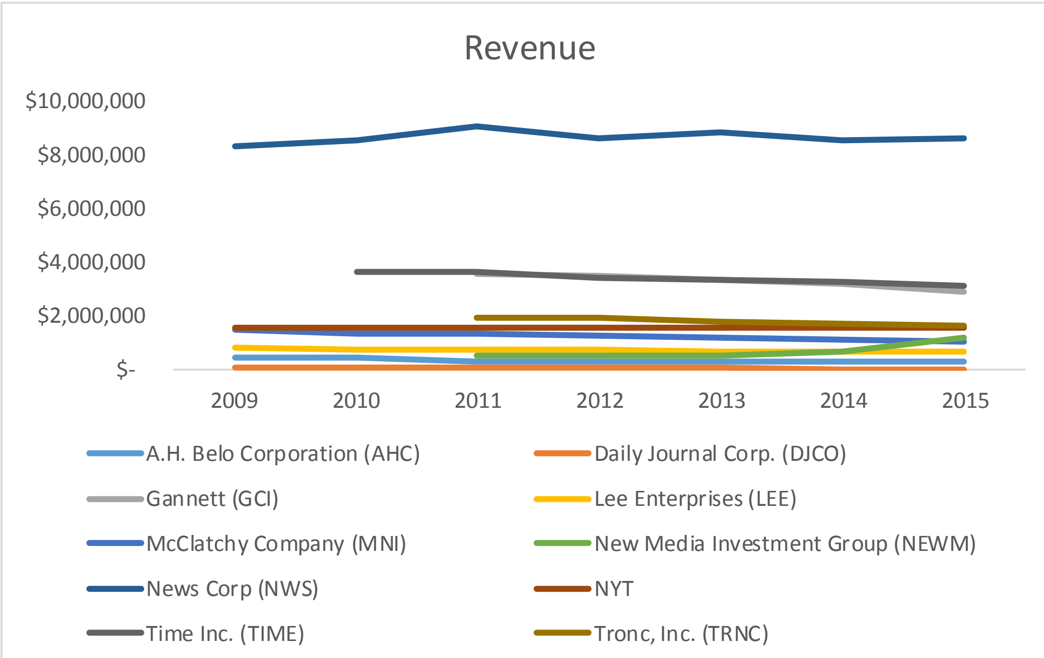

***Note: last chart without outliers.***

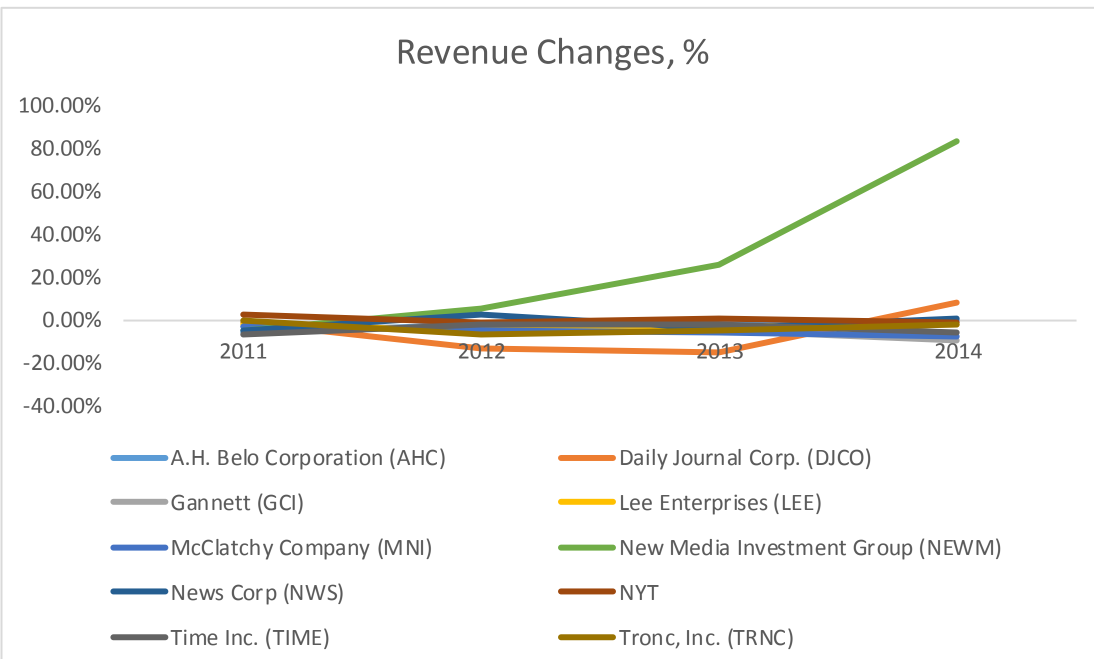

Expenses Change, %
160.00%
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
-60.00%
2010
2011
2012
2013
2014
2015
Center for Public Integrity
Center for Responsive Politics
Center for Investigative Journalism
Center for Investigative Reporting
Mother Jones
Sunlight Foundation

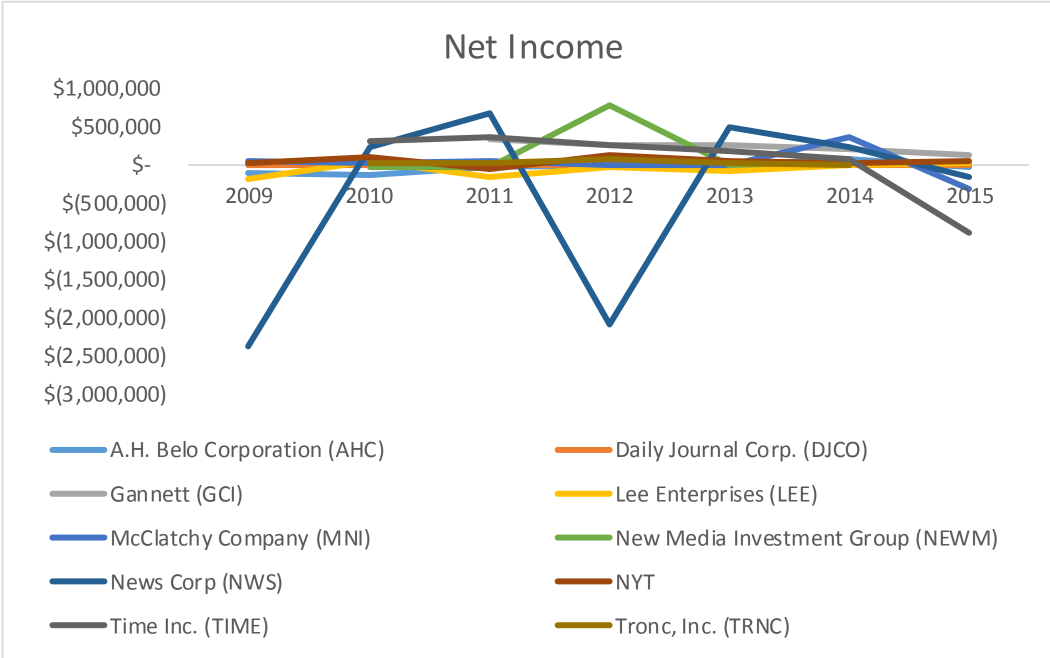

Executive Compensation Change, %
40.00%
20.00%
0.00%
-20.00%
-40.00%
-60.00%
-80.00%
-100.00%
-120.00%
2010
2011
2012
2013
2014
Center for Public Integrity
Center for Responsive Politics
Center for Investigative Journalism
Center for Investigative Reporting
Mother Jones
Sunlight Foundation

# Appendix E

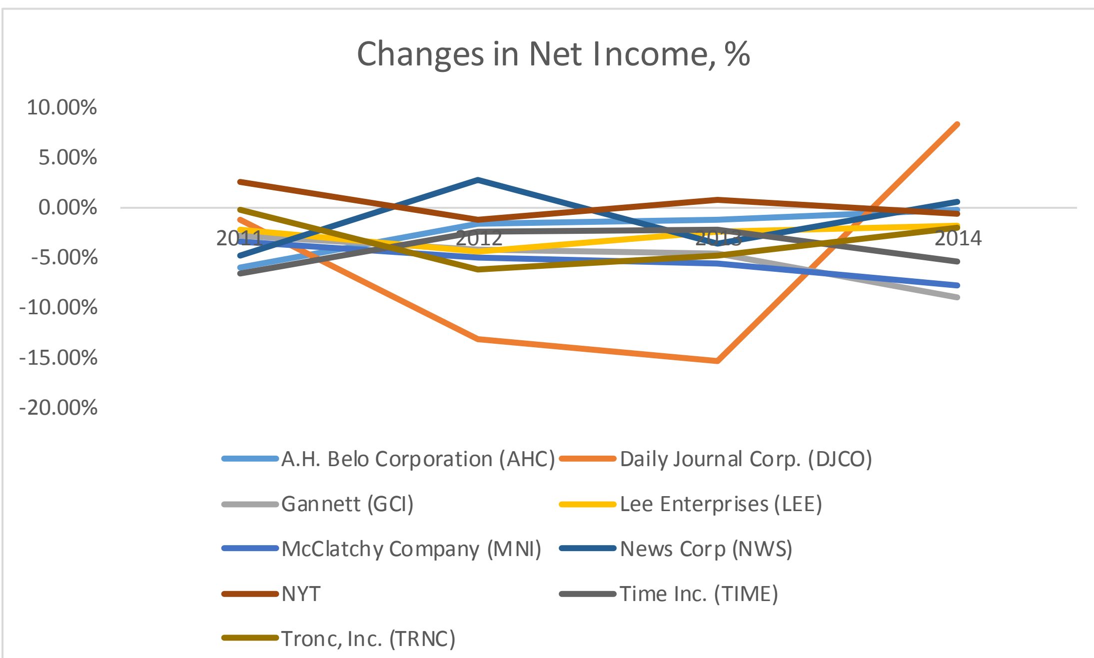
## Public Company Charts






***Note: (In thousands)***




***Note: New Media Investment Group excluded (outlier)***

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