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Salvation or Mirage?
The *New York Times* Paywall

By late 2009, newspapers hit hard by the triple whammy of a tottering economy, declining advertising revenues and falling subscriptions were desperate to find new ways to finance operations. Even one of the nation's most prestigious publications, the *New York Times* (NYT), was feeling acute pain—it had laid off reporters for the first time in its history. Yet even as the organization was hemorrhaging cash, millions of readers had unpaid access to its news stories, features, photographs and video on the website, NYTimes.com.

Some news organizations, including the *Wall Street Journal*, had erected what were called paywalls: a barrier on a website that prevented readers from reading material online without paying for it. Such paywalls, however, had ideological and practical disadvantages. Ideologically, many of the Internet's earliest creators preached an "information wants to be free" philosophy. Editors and reporters in general were delighted by open access that gave their work the widest readership—sometimes global—of their careers.

Moreover, for each successful paywall, there were more that had failed, including high-profile experiments like the *Los Angeles Times*, which had quietly ended an early paywall experiment in 2005 after less than two years. The *New York Times* had experienced a paywall failure of its own: in September 2007, it ended "TimesSelect," a two-year foray into charging for online content. Editorial and technology staff alike were gratified when the wall fell. In the short term, the business side was also on board: booming online ad revenues more than made up for the modest subscription revenue that TimesSelect had brought in.

But not for long. In late 2008, as the global economy hit the skids, online advertising slowed, as did newspaper subscriptions. Across the newspaper industry, circulation, in decline for two decades, dropped another 10 percent in 2009. NYT weekday circulation fell 7.3 percent from the third quarter of 2008 to the third quarter of 2009, dipping under one million for the first time

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since the 1980s.[1] In spring 2008, the *Times* laid off journalists for the first time in its history. In January 2009, the company borrowed $250 million from a Mexican financier. A second round of layoffs—8 percent of the newsroom—followed in October 2009.

But NYTimes.com was a bright spot, with growing traffic. Moreover, the IT staff were producing ever more attractive products intended to lure additional readers. Inevitably, the question arose anew: would a paywall make sense? Surely the paper could take monetary advantage of its ballooning online readership? In early 2009, Publisher Arthur Sulzberger Jr. launched an investigation into another paywall. For the next year, Times Company leaders from the business, editorial and technology departments met repeatedly to review the options.

There were numerous models, from the *Wall Street Journal* to the *Financial Times* (FT). At the same time, comparable publications such as the *Washington Post* and the *Guardian* (UK) emphatically rejected a paywall solution. Inside the *Times*, support and opposition to the project came from unexpected quarters. Some IT staff did not want a paywall; some on the editorial side thought it worth another try. The business managers just wanted to arrest the steep decline in revenues.

By the fall of 2009, Sulzberger felt the time had come to make a decision. That October, leaders from the business, editorial and website operations assembled. All present, whether for or against a paywall, worried about taking an expensive step with an uncertain outcome. Would a paywall, no matter how permeable, stifle website traffic and alienate the next generation of readers? Would enough readers be willing to pay for something previously free? Would the enormous technical effort required mean missed opportunities to develop other money-earning products? Yet if the *Times* didn't find another source of income soon, there was the specter of more cuts in the newsroom.

NYTimes business

Newspapers historically had two distinct revenue streams: advertising and circulation. A common split was 80 percent advertising and 20 percent circulation. This revenue model supported investment in reporting, kept subscription and newsstand prices low, and generated healthy profits.[2] The *New York Times* was no exception. Founded in 1851, it was acquired in 1896 by Adolph S. Ochs. Two years later, Ochs lowered the price to 1 cent, which tripled circulation to 76,000 within a year, which, in turn, increased advertising revenue.

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1 Richard Perez-Pena, "US Newspaper Circulation Falls 10%," *New York Times*, October 26, 2009. See: http://www.nytimes.com/2009/10/27/business/media/27audit.html

2 Suzanne M. Kirchhoff, "The U.S. Newspaper Industry in Transition," *Congressional Research Service*, September 9, 2010. See: http://digitalcommons.ilr.cornell.edu/key_workplace/634/

For much of the 20th century, the *Times* was widely considered the paper of record for the United States. As of 2009, it had garnered 101 Pulitzer prizes, more than any other news organization. In 1992, Arthur Ochs Sulzberger Jr., great grandson of Adolph S. Ochs, was named publisher.[3]

In 1979, the Newspaper Association of America counted 1,763 daily newspapers in the US. Over the next 15 years, that count fell steadily, reaching 1,548 in 1994. Meanwhile, newspaper circulation began a steady decline a few years later, falling from 63 million subscribers in 1987 to 59.3 million in 1994. Sunday circulation started to slide in 1993, and went from 63 million in 1993 to 62.3 million in 1994.[4] *New York Times* circulation began to fall near the end of this period. For the six months ending in March 1994, weekday circulation was 1.19 million, down from 1.23 million the year before. Sunday circulation went to 1.77 million from 1.81 million the year before.[5]

Online

Meanwhile, a new medium was emerging. The Internet began as Department of Defense project ARPANET when computers at four US universities were connected for the first time in 1969. People began to refer to the growing network as the Internet in 1982. In 1989, Tim Berners-Lee developed the World Wide Web software that brought an easy-to-use graphical user interface to the Internet. In 1993, Mark Andreeson developed Mosaic, a user–friendly web browser.[6]

On January 19, 1994, the *Palo Alto Weekly* became the first newspaper to publish a full version of its editorial content on the web.[7] Less than two years later, in November 1995, 230 newspapers were on the Internet. Another 45 papers published on private networks AOL, prodigy or CompuServe, and another 38 were published on online bulletin board systems.[8]

First foray. By this time, the *New York Times* was well into planning its web debut. In June 1995, it hired Martin Nisenholtz as president for digital ventures. The paper's strategic planning department had come up with three possible price points for reader access to a website. At that

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3 William Glaberson, "8 of 10 Largest U.S. Papers Have Declines in Circulation," *New York Times*, April 30, 1994, sec. Business. See: http://www.nytimes.com/1994/04/30/business/8-of-10-largest-us-papers-have-declines-in-circulation.html.

4 Newspaper Association of America, "Newspaper Circulation Volume," accessed April 14, 2014. See: http://www.naa.org/Trends-and-Numbers/Circulation-Volume/Newspaper-Circulation-Volume.aspx

5 Glaberson, "8 of 10 Largest U.S. Papers Have Declines in Circulation."

6 "Internet Timeline | FactMonster.com," accessed April 29, 2014, http//www.factmonster.com/ipka/A0193167.html

7 "Timeline | Palo Alto Online |," accessed April 16, 2014. See: http://www.paloaltoonline.com/about/palo_alto_online_timeline.php.

8 "David Carlson's Online Timeline - 1995-99," accessed March 11, 2014. See: http://iml.jou.ufl.edu/carlson/1995s.shtml - 1995

point, "there was no free scenario," says Nisenholtz.[9] The company was deciding whether to charge customers to the new site $9.95, $14.95, or $19.95 per month.

But in the end, the NYTimes.com team decided to create the website and offer it largely for free. That was a compromise. Nisenholtz and his team of developers, in order to lure advertisers, wanted to offer content for free. But "a significant group of people here … felt that we ought to charge," he says. So when NYTimes.com went live at the end of January 1996, it was free inside the United States, while customers abroad were charged $35 per month. The rationale was that outside the US, readers couldn't get the *New York Times*, so if they wanted it they should pay for it.

WSJ. The *Wall Street Journal* had been experimenting with an online edition as well. In September 1995, the paper launched an online markets news update dubbed "Money & Investing." Less than a year later, on April 29, 1996, it published a full version of the paper online.[10] The interactive edition at first was free of charge, but in January 1997, WSJ added a "hard" paywall (zero access without payment) of $49.95 per year for non-print subscribers, and $29 per year for print subscribers. Over the next 18 months, the *Journal* steadily gained subscribers, reaching 200,000 in April 1998, two thirds of them online-only.[11] But as would become evident, the *Journal* was an exception. It could charge because many subscribers wrote off the cost as a business expense; also, its print subscription base, at two million, was large.

By July 1998, only 3,200 overseas customers had subscribed to the *New York Times* website. "It made no sense, and so we decided on Bastille Day in 1998 to end that," says Nisenholtz. Over the next few years a handful of other papers experimented with paywalls, but the vast majority of the industry continued to put content online for free. Most newspapers were still focused on the print product, and treated the website as a secondary place to put content.

Early adopters. But a few erected paywalls. In March 2001, a new online-only newspaper, AllNovaScotia.com, launched with a paywall. Like the *Wall Street Journal*, it focused on business—regional rather than national. It struggled for nearly a year, had weak subscription sales, and stopped publication for a few months to revamp. In February 2002, the Web publication relaunched. It started with two employees and grew very slowly as subscriptions increased.

Other experimenters included the *Albuquerque Journal* which, on August 1, 2001, began charging $8 a month (or $60 a year) for online-only subscriptions. The paper had about 100,000 print subscribers and had maintained a free website since 1995. The website remained free for print

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9 Author's interview with Martin Nisenholtz on December 12, 2013, in New York, NY. All further quotes from Nisenholtz, unless otherwise attributed, are from this interview.

10 "WSJ.com," accessed April 15, 2014, http://online.wsj.com/public/resources/documents/info-wsjlookback06.html

11 Janet Kornblum Staff Writer and CNET News, "WSJ Reaches Member Milestone - CNET News," CNET, April 15, 1998. See: http://news.cnet.com/WSJ-reaches-member-milestone/2100-1023_3-210214.html?tag=mncol.

subscribers who registered. By 2003, the site had garnered just under 2,000 subscriptions and 35,000 print subscribers had registered.[12] In 2002, the *Arkansas Democrat-Gazette*, which had nearly 200,000 print subscribers, began charging $5.95 a month ($59 a year) for online-only subscriptions. It, too, had a very modest number of takers in the first couple of years.[13]

In August 2003, the *Los Angeles Times*, the fourth-largest newspaper in the US, put its CalendarLive section behind a paywall, charging $4.95 a month or $39.95 a year for non-print subscribers. The section, which included arts and culture reviews and events, remained free for print subscribers who registered. Six months later, the sign up numbers were dismal: 15,000 print subscribers had registered and 3,674 non-subscribers had paid. The paywall reduced the number of site users to 18,694 from a high of 729,000 before the paywall, a 97 percent drop. The *LA Times* removed the paywall in May 2005.[14]

Meanwhile, early in 2004 the *New York Times* held a meeting about subscription revenue, says Nisenholtz. "There was a sense in that meeting that the folks at the newspaper were anxious to start to charge for the web, because it seemed to be getting more and more difficult to sell newspaper subscriptions," he recalls. Indeed, newspaper circulation continued to shrink annually. In 2004, the Newspaper Association of America counted 1,457 daily newspapers in the US, down from 1,548 in 1994. Newspaper circulation had fallen to 54.6 million from 59.3 million in 1994. Sunday circulation stood at 57.8 million, down from 62.3 million in 1994.

Getting serious about online

As 2004 wore on, *New York Times* executives debated whether to charge for the website, but most of the discussion was on the business side. "The discussion, the debate—and it was a contentious one—was really between the print [business] people and the digital [business] people" says Nisenholtz, by then CEO of NYTimes Digital. The print business staff were afraid that the free website was cannibalizing print circulation, and so wanted to charge for the website. The digital side wanted to keep the website free so it could more rapidly increase readership, which translated to more ad revenue.

12 "OJR Article: From Free to Fee in 10 Easy Steps," November 5, 2003. See: http://www.ojr.org/ojr/business/1068080483.php

13 Edit Staff, "The Arkansas Democrat-Gazette A Model For Newspaper Paywalls? Not Really," Gigaom, May 23, 2009, http://gigaom.com/2009/05/23/419-newspapers-and-the-paywall-maybe-the-arkansas-democrat-gazette-isnt-the/. Also Bret Schulte, "Against the Grain," American Journalism Review, accessed April 23, 2014, http://ajrarchive.org/article.asp?id=4859

14 "Will Paid Content Work? Two Cautionary Tales from 2004," Nieman Journalism Lab, February 10, 2009. See: http://www.niemanlab.org/2009/02/will-paid-content-work-two-cautionary-tales-from-2004/.

Bill Keller, who had been executive editor of the *New York Times* since July 2003, was inclined to explore a paywall. "My feeling was we've got to try things," he says.[15] Many in the newsroom, however, "were sort of agnostic about it," says John Geddes, then one of two managing editors.[16] Nisenholtz opposed charging for web subscriptions. "I thought it was a terrible user experience," he remembers. "At that time, the advertising business was growing very, very rapidly and I didn't want to do anything that got in the way of our growth."

Industry-wide, advertising revenue was a bright spot. From 2003-04, print advertising revenues had increased from $44.9 to $46.7 billion, while online advertising had gone up from $1.2 to $1.5 billion.[17] But traditionally, newspapers revenue had come from both advertising and subscriptions. Sulzberger decided to try again with a paywall. "Advertising could only be part of the revenue stream," he observes. It was also critical that the *Times* keep testing and learning. "If you always do what you always did, you'll always get what you always got," he says, quoting former *Times* CEO Russ Lewis.

In late 2004, the Times began building an e-commerce system dubbed TimesSelect. Under the "partial paywall" scheme, news would remain free, but the opinion pages and archive would go behind a paywall. "The logic, very simply, was that opinion pages were the most differentiated content that the *Times* has. [Columnist] Tom Friedman only writes for the *New York Times*, he doesn't write for anyone else," observes Nisenholtz.

Gail Collins, editorial page editor at the time, and Andy Rosenthal, deputy editorial page editor since 2003, were not involved in the decision. "By the time I got engaged, it was Gail telling me that a decision had been made to try to charge for part of the paper," recalls Rosenthal.[18] "And that they had selected the opinion section, specifically the columnists, for this experiment."

Online Newsroom. Meanwhile, Keller was aware that online journalism was becoming more prevalent. Yet the structure of the *Times* did not reflect this. In 2005, the digital newsroom was "an orphan," he says. The operation was housed in a separate building and it was tiny. This affected morale, says Keller. "Everybody in it felt like second-class citizens, and although we tried to sort of pat them on heads and assure them they weren't, the fact is they were."

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[15] Author's interview with Bill Keller, January 21, 2014, in New York, NY. All further quotes from Keller, unless otherwise attributed, are from this interview.

[16] Author's interview with John Geddes, January 23, 2014, in New York, NY. All further quotes from Geddes, unless otherwise attributed, are from this interview.

[17] Rick Edmonds, "Newspapers: By the Numbers | State of the Media," May 7, 2013. See: http://stateofthemedia.org/2013/newspapers-stabilizing-but-still-threatened/newspapers-by-the-numbers/

[18] Author's telephone interview with Andy Rosenthal, February 13, 2014. All further quotes from Rosenthal, unless otherwise attributed, are from this interview.

> Martin [Nisenholtz] used to refer to it as newspaper.com in a sort of disparaging way. And pretty much all newspapers were that way in 2005. The Web was a place that you put your newspaper when you were finished making your newspaper. It was not a venue for creating news. It was not a first place to put your news. It was an afterthought. And it dawned on me from spending some time with the people in digital that that was not going to be sustainable. [If] at some point print was going to go away, then everybody ought to be familiar with and skilled in the practices of digital journalism.

On May 27, 2005, Keller wrote a 10-page memo to *Times* Publisher Sulzberger, CEO Janet Robinson and Nisenholtz proposing to integrate the separate newsrooms. To shift NYT journalism from print to digital was a "central challenge" that required physically merging the two newsrooms. "This may be difficult politically, and it presents a variety of logistical problems… But I believe it is doable, and that it is imperative we try," Keller wrote. The paper was slated to move into a new building in 2007. Keller said it should "seize the moment to combine the two newsrooms, and build an editorial infrastructure to create journalism with the online user in mind." He concluded:

> If we harness the creativity of the newsroom, we can move both our journalism and our revenue-generation online, and we can make a profitable venture of it. I don't see that we have any realistic choice but to bet on that.

As it turned out, everyone agreed. "While I feel sheepish about the kind of revolutionary tone of my memo, I feel a certain amount of justified pride that ahead of a lot of other people, we agreed that we had to do that," says Keller. He tapped Assistant Managing Editor Jonathan Landman, who had been at the *Times* since 1987 and had previously established a computer-assisted reporting unit, to manage the integration of the print and Web newsrooms.

In September 2005, Landman was named deputy managing editor for digital journalism. Another *Times* veteran, Rich Meislin, became associate managing editor. Meislin had started at the *Times* in 1975 as a copy boy, within a few weeks became Abe Rosenthal's personal news clerk, served many roles on the print side including bureau chief in Mexico, and had been editor-in-chief of *New York Times* Digital from 1998-2001 before moving back to the print side as editor of Technology News.

TimesSelect

On September 19, 2005, the paper launched TimesSelect, which put its columnists behind a paywall of $7.95 per month, or $49.95 per year. Subscribers also got 100 articles per month from the

Times archive back to 1851, and early access to Sunday *Times* articles. It had taken nearly a year of development time to build the paywall, "pretty much to the exclusion of other product development," says Meislin, who had moved into his new role a few days earlier.[19] The key questions before the launch were "would people actually pay for it, and was the package right?" It did not go smoothly. "Trying to sign on to TimesSelect was a challenge," says Meislin. For the first few days, there were more customer service calls than subscriptions.

After the initial bumps, TimesSelect enjoyed some success, attracting 135,000 subscribers by the end of November 2005. But the columnists behind the wall didn't like it, and with good reason—a sizeable part of their audience evaporated. Readership for columnists like Maureen Dowd and Paul Krugman plummeted by 70 or 80 percent, says Rosenthal. "It was really devastating. And the columnists hated it from day one, just hated it, because they felt that it took them out of the discussion." Splitting off a portion of the paper to go behind a paywall also went against a long-held tenet of the *Times*—that the whole was greater than the sum of its parts, says Rosenthal. "It diminishes the entire *New York Times* to delete a portion of it," he says. But that's what TimesSelect did.

TimesSelect did spur improvement of the online opinion section. "We asked for money to invest in making this a good product, and they gave it to us," says Rosenthal.

> Of course, I asked for about half of what I should have asked for. That's a classic beginner's mistake. But we got editors and we got money to create new features for TimesSelect, and that was really where the whole online op-ed report was born.

But the part-paid, part-free site isolated the columnists and caused tension all around. "There was a great deal of hostility in the rest of the website toward the TimesSelect experiment," recalls Rosenthal.

> Any innovation that came up was kept out of TimesSelect because the emphasis at the time was to make the website for the free audience as big as we possibly could. Anything that helped TimesSelect was automatically seen as a drag on the free side, and it just got worse and worse.

Meanwhile, the *Times* continued to build up its digital side. In May 2006, it tapped Vivian Schiller, general manager of the Discovery Times Channel, a joint venture of the *New York Times* and Discovery Communications, to be general manager of *New York Times* Digital.

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19 Author's interview with Rich Meislin, February 13, 2014, in New York, NY. All further quotes from Meslin unless otherwise attributed, are from this interview.

Plateau. But TimesSelect's growth quickly leveled off. After signing up the initial 135,000 subscribers, there were only 65,000 more over the next year, and less than 30,000 new subscribers the year after. "It became pretty clear pretty early that it plateaued very fast," says Keller. "It wasn't going to be the salvation of the company." But it was adding about $10 million to the bottom line. The business plan for 2008 predicted an even smaller increase in sign-ups, says Rosenthal, by this time editorial page editor.

Rosenthal argued that it was time to end the experiment. "They asked us how many readers do we want, and we said we want all of them. We want our readership back," he says. Meanwhile, Landman and others on the digital side objected to TimesSelect because the paywall was cutting off potential readers and limiting the website's growth. "I thought our job at that point was to make the [*Times's* web presence] grow," says Landman. The opinion pages were popular, and "cutting off a generation that had gotten used to getting it for free was probably not a good idea."[20]

After the 2008 business plan came out, Rosenthal and Landman went to an Indian restaurant to talk. "There was a certain amount of tension between us," recalls Rosenthal, "but we had a common goal, which was to make the TimesSelect experiment stop. We had different reasons for wanting to do it, but we both felt that it was hurting way more than helping." The new general manager for digital, Schiller, had come to the same conclusion, but for different reasons. The paywall was holding back website growth at a period of rapid advertising growth. Online advertising had grown from $1.5 billion in 2004 to $2.7 billion in 2006. TimesSelect, she says, "was holding back our ability to scale the network" and take advantage of search on the web.

> You had this kind of perfect storm of us not being able to scale at a time where everybody was competing with raw numbers, which is what advertisers were looking for. [The paid areas of NYTimes.com were] shut off from being crawled by Google. Maureen Dowd—all the [opinion] writers—were cut off from large audiences. Tom Friedman was an incredibly hot commodity at the time with *The World is Flat*. He was talking about kids in Bangalore, [but] nobody overseas could read his pieces. So these were a lot of the conditions that led us to rethink it.

The *Times* lifted the TimesSelect paywall on September 18, 2007—just two years after its launch. Fortunately, the developers had built the paywall to make removal relatively easy, says

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[20] Author's telephone interview with Jonathan Landman on December 17, 2013. All further quotes from Landman, unless otherwise attributed, are from this interview.

Meislin. Website traffic "shot way up, which is exactly what we wanted to happen," says Schiller. Unique visitors went from 12 million a day to nearly 20 million a day.

Still, many at the *Times* continued to think about how to eventually make a paywall work. Recalls Schiller:

> The drumbeat had been there from the beginning—so deeply rooted in the *New York Times*—that we are paid for our content in two ways. We are paid by advertisers, and we are paid by readers. And so I think it was always uncomfortable inside the *New York Times* that we were being paid by advertisers but we were not being paid by readers. What does that say about training the audience, so to speak, about the value of what we do? That never went away.

The important lesson learned from TimesSelect, says Sulzberger, was that "there were people who would pay."[21]

First-ever staff cuts

Meanwhile, the steady national decline in newspapers and circulation picked up speed. In 2007, the Newspaper Association of America counted 1,387 newspapers, down from 1,457 in 2004. Over the same period, weekday circulation had fallen to 50.7 million from 54.6 million, with the steepest decline in 2007—3.6 percent. Sunday circulation had fallen to 51.2 million from 57.8 million, with a 4.6 drop in 2007 alone. Print advertising, which encouragingly rose from $46.7 billion in 2004 to $47.4 billion in 2005, had reversed direction, dropping to $46.6 billion in 2006 and more steeply in 2007 to $42.2 billion.

The *New York Times'* circulation remained stronger than most, but began to fall in 2006; in 2007, weekday circulation dropped 1.9 percent and Sunday circulation 3.4 percent.[22] The *Times* was initially able to buffer the decline by raising the print price. "Circulation revenues were going up as we raised the price and our readers thought it was worth it," says Keller. "But I think everybody realized that we needed to do something."

In spring 2008, the losses had become unsustainable. In early March, Keller announced that the newsroom would lose about 100 jobs—the first time in its history that the paper had laid off journalists. A voluntary buyout period would last until April 22. If the *Times* didn't get 100 takers,

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21 Author's interview with Arthur Sulzberger, Jr., on January 21, 2014, in New York, NY. All further quotes from Sulzberger, unless otherwise attributed, are from this interview.

22 Richard Perez-Pena, "Newspaper Circulation in Steep Slide Across Nation," *New York Times*, May 1, 2007, sec. Business / Media & Advertising. See: http://www.nytimes.com/2007/05/01/business/media/01paper.html

there would be layoffs. "It was horrible," says Geddes. "Nobody doubted that it had to be done. But it was still hard, because it had never been done before." Meislin was among those who took a buyout.

On May 7, Keller sent a memo to the newsroom reporting that fewer than 100 had volunteered for the buyout, so there had also been some layoffs. News reports put the number of layoffs between 15 and 20.[23] "We hope that the worst is now behind us… our plan from the outset was to move through this difficult process as quickly as possible so we do not spend a year bleeding from serial cuts," Keller wrote.[24]

Advertising cliff. But it wasn't over. A deep and wide recession hit the global economy in 2008. As circulation continued to decline, print advertising fell off a cliff, dropping to $34.7 billion in 2008. Even online advertising, which had hit a high of $3.2 billion in 2007, dipped to $3.1 billion. "Everything can be divided into before that recession and after that recession," says Nisenholtz, who was by then chief digital officer for the *Times* Company. The *Times* had become the largest newspaper website in the world 2001, and advertising growth at the *Times* had been double digits from 2002 until 2008. At the end of 2008, "the world kind of collapsed," he says.

> The entire advertising business tanked, and, not only did the print advertising fall off the side of the earth, but the digital did too. And that was a wake-up call, particularly for Arthur [Sulzberger], who is looking at the business over the long-term. You needed a second revenue stream to smooth out that incredibly cyclical advertising stream, which by the way hadn't been as downwardly cyclical as it was then since the Great Depression, so it was really bad.[25]

It was clear that ad markets were no longer reliable. When the digital advertising market dropped, the *Times* was already grappling with challenges on the print side. "As you started to look out a couple of years at the financials, you said, okay, where is the revenue going to come from?" says Sulzberger. In January 2009, the *New York Times* Company borrowed $250 million from

23 Richard Pérez-Peña, "New York Times Moves to Trim 100 in Newsroom," *New York Times*, October 20, 2009, sec. Business / Media & Advertising. See: http://www.nytimes.com/2009/10/20/business/media/20times.html.

24 John Koblin, "Layoffs at the Times; Keller Says 'We Hope the Worst Is Behind Us,'" *New York Observer*, May 7, 2008. See: http://observer.com/2008/05/layoffs-at-the-itimesi-keller-says-we-hope-the-worst-is-behind-us/

25 Author's telephone interview with Martin Nisenholtz on March 3, 2014.

Mexican telecommunications billionaire Carlos Slim at 14 percent interest.[26] Employees took a five percent pay cut to forestall further staff reductions.[27]

Bright spot. NYTimes.com traffic was the one bright spot, with growing traffic and regular new products. In July 2008, the *Times* had released the first version of an iPhone app and announced a strategic relationship with the professional social media website, LinkedIn. In September, it had launched its own social network, TimesPeople, and had put up its first live streaming video: the September 26, 2008, presidential debate.[28] By September 2008, the site averaged 19.2 million unique visitors a month.

Some on the business side, including CEO Robinson, said it was time again to take a good, hard look at a paywall. "And we did," says Sulzberger.

Can we make online pay?

This time, Sulzberger engaged many people in the discussion. In early 2009, he kicked off a wide-ranging internal investigation into how to generate revenue from NYTimes.com. In February, a steering committee began to meet regularly and the newsroom hosted a series of brainstorming lunches. On March 30, Sulzberger and Nisenholtz went on a five-day trip to meet with business leaders on the West Coast including executives at Google and Amazon. The company also commissioned outside consultants, including McKinsey & Co., to do research, says Keller.

The brainstorming lunches ensured that people from the newsroom were part of the discussion. "While we honor and respect the separation of the people who make the money and the people who make the news, we had to have the newsroom involved," says Keller. "One lesson of TimesSelect was that the design of it was not inclusive. One of the reasons the columnists were upset was that they hadn't been in on the decision in the first place."

The eight lunch meetings ran from February 3 to July 27. Masthead editors met with a new group of one or two dozen newsroom staffers each time. Ways to generate revenue from web content was a major focus; charging for apps, a membership model, or donations got frequent mentions. Several newsroom staffers suggested that the Times consider micro-payments, asking customers to make very small payments—on the order of a few cents—for each article read. Science writer Ken Chang even prepared a detailed presentation on the micro-payments model.

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26 Eric Dash, "Mexican Billionaire Invests in Times Company," *New York Times*, January 19, 2009. See: http://www.nytimes.com/2009/01/20/business/media/20times.html

27 Richard Pérez-Peña, "New York Times Moves to Trim 100 in Newsroom," *New York Times*, October 20, 2009, sec. Business / Media & Advertising. See: http://www.nytimes.com/2009/10/20/business/media/20times.html

28 The New York Times Company: Our History, at http://www.nytco.com/who-we-are/culture/our-history/

During the first lunch on February 3, a newsroom staffer pointed out some interesting math: the *New York Times* website averaged 20 million unique visitors a month. Of those 20 million, three million generated 60 percent of the traffic. A dollar per month from each unique visitor would generate $20 million, but $10 per month from the more dedicated group of users would generate $30 million.

Intense debate. The internal debate about reinstating a paywall was intense. Many print editors, afraid that the website was cannibalizing print readership and given the global economic crisis, thought the *Times* should try a paywall again. "The world had changed," says Geddes. "We needed the money." Keller wanted to find a pay model that worked, for two reasons. "What we do is distinctive and important, and readers value it. Therefore, just as a philosophical matter, they should pay for it and we should charge for it to send the message that it is different from commodity news," he says.

> We were something pretty extraordinary and our readers knew it, which is why they were so loyal. A corollary to that was the *Times* had always had two revenue sources, circulation and advertising. And that had seen the company through some hard times in the past. When one pedal was not performing, you pressed on the other pedal. So the idea that we at least carry that principle over to the digital side seemed to make great sense.

But many on the digital side argued that a paywall would decrease the reach of the *Times*, retard website growth and divert resources from future products like apps that could provide readers with new services and generate revenue. Building infrastructure for the paywall meant integrating existing print and digital systems and building e-commerce system software. This would commandeer most of the paper's IT resources for a year, meaning that the digital side would have to pull back on exploring other avenues for new revenue.

TimesSelect didn't provide a clear lesson, either. For those who favored a pay model, it was proof that people would pay. For those who did not, it was proof that a pay model would fail. "It provided great ammunition for the people who wanted to argue that a pay model was a mistake. And there were lots of those people inside—smart, reasonable, thoughtful people, not reactionaries" says Keller. Landman was "the articulator of the misgivings from the web people," he adds. "Nisenholtz was the main skeptic on the corporate side."

They had good company outside the building. Many newspapers had misgivings about charging for content, notably the *Guardian* and the *Washington Post*. CEO Don Graham refused to create a paywall, noting that 90 percent of *Post* readers were outside the newspaper's geographic distribution area so it could not link Web access to paper subscriptions as many publications did. He also felt a fee would restrict the *Post's* influence, which he wanted as wide as possible. The

Post's website general manager, Goli Sheikholeslami, told executives at a October 2009 newspaper conference that too few readers would be willing to pay for online newspaper content to make selling it viable.[29]

Models. At the *Times*, the steering committee looked at a variety of pay models, says Keller, "including some that were completely alien to the company." These included ones used by outfits like Weight Watchers, *National Geographic*, and *Consumer Reports* as well as the few successful newspaper paywalls. The idea was to get a sense of who was able to charge for content and why, and to see what the *Times* could learn from them, says Denise Warren, general manager of NYTimes.com.[30]

The newspaper models included the *Wall Street Journal*, and the *Financial Times*, a UK business paper that had launched a metered paywall in October 2007. The metered paywall allowed free access to five stories per month, or 30 per month to those who registered, charging only heavier users.[31] Looking at all the models was "like investigative journalism—you're just exploring and you don't know what you are going to find out," says Warren. The committee considered dividing the paper into component parts and selling the more popular sections, similar to TimesSelect; a donations model like National Public Radio; and "at least in passing, the question of whether we should approach philanthropic organizations and whether you could actually have a for-profit business that in some way capitalized on the goodwill of foundations," Keller says.

NYT business executives took a detailed look at micropayments, but concluded that they would not generate sufficient revenue and would be difficult to administer. The company also investigated the membership model—providing extras for paying subscribers. But it didn't test well, says Nisenholtz. If people felt the core product of the *New York Times* wasn't worth paying for, apparently they wouldn't pay for extras, either.

It became clear that if the *Times* was going to charge, it had to be some kind of paywall that required people to pay for regular *Times* content. The paywall used by the *Wall Street Journal*, *Consumer Reports*, and some newspapers—a hard wall that prevented all nonpaying customers from going to all or part of a website—was quickly ruled out because of the TimesSelect

29 "Pay Walls Never May Come at Some Papers," *Newsosaur*, November 3, 2009, See: http://newsosaur.blogspot.com/2009/11/pay-walls-never-may-come-at-some-papers.html. Also "How to Make Money in News: New Business Models for the 21st Century," Shorenstein Center on Media, Politics and Public Policy, Harvard University, October 29, 2009. See: http://shorensteincenter.org/2009/10/executive-session-discusses-new-business-models-for-news/

30 Author's interview with Denise Warren, February 13, 2014, in New York, NY. All further quotes from Warren unless otherwise attributed, are from this interview.

31 "Financial Times Frees Some Of Its Content, Sort Of | Techdirt," *Techdirt*, October 2, 2007. See: https://www.techdirt.com/articles/20071001/160203.shtml.

experience. "A hard wall would have completely destroyed the ad revenue machine," says Warren.

The FT's metered paywall was different because it allowed anyone to read a set number of stories per month before shutting them out, and it allowed access through a search engine. This had worked for the FT, which garnered 101,000 subscribers in 2007 and 117,000 in 2008 at a relatively high subscription price of around $300 per year.[32] But many remained skeptical that the FT model could translate for the *Times* audience because, like the WSJ, the FT had a specialized business audience. Keller explains:

> A lot of us felt the same way about the FT that we felt about the *Journal*—that it's a specialized publication. It goes to people who expense their subscription. It's bankers and business executives and CEOs and corner office guys. It is not the newspaper for the masses or even for the educated masses. It's a very specialized publication. So you can't emulate them.

The steering committee started to talk about what should remain free. It made a distinction between a hard paywall and one that both allowed a certain number of stories per month, and was flexible enough to allow readers linking in via blogs or search engines to read the *Times* for free, says Keller.

> It dawned on me, and I think it dawned on other people at the same time, that we weren't talking about a paywall. We were talking about a kind of semi-permeable membrane. We could make it as open as we wanted and we could calibrate. If we weren't getting the subscriptions we wanted, we could [close it] a little bit more. And if we were losing traffic, we could open up the spigot a little bit. So that, I think, was the intellectual breakthrough.

Once the steering committee realized that a paywall didn't have to be like an iron curtain, it started to look more closely at the *Financial Times* model.

The big bet

As the internal debate over whether to implement a paywall stretched on, the economy continued to go downhill, and the future of the entire newspaper industry became even more uncertain. On May 6, 2009, Senator John Kerry convened the first hearing of the Senate Commerce, Science and Transportation Committee's new subcommittee on Communications, Technology and

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32 Eric Pfanner, "The Paper That Doesn't Want to Be Free," *New York Times*, August 17, 2009, sec. Business / Media & Advertising. See: http://www.nytimes.com/2009/08/17/business/media/17ft.html.

the Internet. In introducing the hearing on the future of journalism, Kerry said he was concerned about the long-term and accelerating trend of newspapers losing daily and Sunday readers.

Kerry pointed out that the New York Times Company was valued at under $800 million, less than the company had paid for the *Boston Globe* a decade and a half before. He mentioned that financier Warren Buffett had said he wouldn't invest in newspapers at any price. He cited the words of Joseph Pulitzer in assessing the importance of newspapers: "a Republic and its press will rise or fall together."[33] On May 28, executives from most major newspapers met in Chicago to discuss options for building a business model for the Internet.[34]

That same day, Bill Keller received an update—an 11-page memo titled "Metered Model Research Update"—with some tentative good news. The *Times* had surveyed a sample of NYTimes.com users to determine their willingness to pay at different price points under a metered paywall scenario. Preliminary results had indicated a willingness to pay. They had finally found a paywall model that might be viable.

But problems remained. On August 7, a specially-designated Digital Strategy Steering Team sent a seven-page memo with a 10-page "Metered Model Memo Appendix" to the Digital Steering Committee that summarized research on the metered model and was designed as the basis for a "go, no-go" decision. The memo concluded that, for the metered paywall to work, there had to be enough customers willing to pay, and at the same time site traffic had to be preserved to prevent a loss of advertising revenue. For the quarter ending March 2009, the *New York Times* had had 20.2 million unique visitors and 690 million page views. One of the main reasons for paywall failures, including TimesSelect, was that paywalls held down site traffic. The steering committee went through an exercise that showed just how fraught the decision was, says General Manager Warren: "Because, depending upon what you believed, you could really construct a very legitimate case that this was the worst thing we could ever do."

Models? By 2009, some two dozen newspapers had experimented with paywalls, and at least half had failed, says Tara McMeekin, editor-in-chief of News & Tech, which published a North American paywall list.[35] Meanwhile, the economic outlook for newspapers looked increasingly grim. In the six months ending September 30, 2009, weekday sales were down by 10.6

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33 "Hearing of the Communications, Technology and the Internet Subcommittee of the Senate Commerce, Science and Transportation Committee-The Future of Journalism-Public Statements-Project Vote Smart," Project Vote Smart, May 6, 2009. See: http://votesmart.org/public-statement/422651/hearing-of-the-communications-technology-and-the-internet-subcommittee-of-the-senate-commerce-science-and-transportation-committee-the-future-of-journalism - .Uw5PKIWhZqx.

34 "The Chicago Meeting » Collections » Nieman Journalism Lab » Pushing to the Future of Journalism," Nieman Journalism Lab, accessed April 28, 2014, http://www.niemanlab.org.

35 Author's telephone interview withTara McMeekin, editor-in-chief of News & Tech, March 6, 2014. All further quotes from McMeekin, unless otherwise attributed, are from this interview.

percent and Sunday sales by 7.5 percent. The industry was selling fewer papers than at any time since the 1940s.

For its part, *New York Times* weekday circulation by September 2009 had fallen yet again--by 7.3 percent, dipping under one million for the first time since the 1980s.[36] These results drove plans for a second painful round of staff cuts. Keller's newsroom needed to shed another 100 jobs—eight percent. It was time to make a final decision on whether to go forward with some kind of a metered paywall.

In late October 2009, Sulzberger called a meeting in the Eagle room—a 15th-floor dining room at the *Times.*[37] Leaders from the business, editorial and website operations attended. The meeting was unusual because CEO Janet Robinson asked for everyone's opinion, "[She said] let's put our cards on the table, what do you think?" and everyone went around the table offering arguments for or against the paywall, says Rosenthal. Despite his dislike of the TimesSelect model, Rosenthal spoke in favor of the metered model. He was part of the newsroom contingent that agreed with Executive Editor Keller: newspapers should rely on both advertising *and* subscription revenues. Robinson and Sulzberger both spoke in favor of charging. But it wasn't an obvious choice. "This was not a gut call," says Sulzberger.

Meanwhile, the digital side generally argued against the paywall, says Nisenholtz: "All of the digital people were fairly adamant about keeping the site as free as possible." One of the worries was alienating younger viewers. "I was very worried about influence and traffic," says Landman. "I was worried about the plateau affect that we'd experienced with TimesSelect. That you'd get a quick shot of revenue and then it would stop or at least it would top out." Landman says he was also concerned that erecting the paywall, which was projected to take a year, would distract the *Times* from other, possibly more long-term, solutions.

Would the significant development effort be worth it? Would *Times* readers pay for Web content that had previously been free? Would the paywall turn away casual readers, cutting the reach of *Times*' journalists and affecting advertising? Or would the metered nature of the paywall encourage casual readers? Would enough readers sign up to provide a viable income stream from the paywall? Would the income be sufficient to ward off future staff cuts even if advertising revenue continued to fall? What about the delay that a paywall might cause in other technology development? ? With more cuts pending in the newsroom, the *Times* had to do something to stem the bleeding. But making the wrong call could be very costly.

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36 Richard Perez-Pena, "U.S. Newspaper Circulation Falls 10%," *New York Times*, October 27, 2009, sec. Business / Media & Advertising. See: http://www.nytimes.com/2009/10/27/business/media/27audit.html

37 People's memories differed on the exact date of this meeting.