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Future May Be Brighter, but It's Apocalypse Now

'Chaos Scenario' Author Bob Garfield Watches as His Worst Predictions Wreak Havoc on Media and Marketing Worlds

By [Bob Garfield](#)

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The New York Times. TV Guide. Clear Channel. NBC, Boxee, Yahoo.

They tell the story. There is no longer a need to warn of a gathering Chaos Scenario, in which the yin of media and yang of marketing fly apart, symbiotic no more. There is no need to seed doubt about the internet's prospects as an advertising medium, nor otherwise be a prophet of doom.



Photo: Katja Heinemann

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..... Amid 23% population growth in the past two decades, U.S. newspaper circulation has dropped 20% -- one reason your morning paper, downsized every which way, is no match for a stiff breeze. Craigslist, siphoning off \$7 billion worth of classifieds, is another.

There are so many horror stories to choose from. The Rocky Mountain News just folded, the Seattle Post-Intelligencer went web-only last week and the San Francisco Chronicle is on death's door. A decade ago, the Minneapolis Star Tribune sold for \$1.2 billion. In January, it declared bankruptcy. Chicago's vast Tribune Co. was valued at \$12 billion in 2000, when it took on debt to acquire the Times-Mirror Co. for more than \$8.3 billion. In April 2007, real-estate developer Sam Zell snapped up the whole empire for \$8.2 billion, and commenced wholesale retrenchment, including layoffs, bureau closings and the sale to Cablevision of the venerable Newsday. Within 20 months, bankruptcy.

As for The Wall Street Journal, nobody knew when Rupert Murdoch plunked down \$5.5 billion for a \$3.5 billion paper last year whether he was a genius of synergy and valuation or a sucker. The recession obscures the answer, but last month News Corp. declared a write-down of \$8.4 billion in assets -- about 40% of it attributed by Wall Street analysts to the Journal deal. Oops.

Chicken Little, don your hardhat. Nudged by recession, doom has arrived.

The toll will be so vast -- and the institutions of media and marketing are so central to our economy, our culture, our democracy and our very selves -- that it's easy to fantasize about some miraculous preserver of "reach" dangling just out of reach. We need "mass," so mass, therefore, must survive. Alas, economies are unsentimental and denial unproductive. The post-advertising age is under way.

This isn't about the end of commerce or the end of marketing or news or entertainment. All of the above are finding new expressions online, and in time will flourish thanks to the very digital revolution that is now ravaging them. The future is bright. But the present is apocalyptic. Any hope for a seamless transition -- or any transition at all -- from mass media and marketing to micro media and marketing are absurd.

The sky is falling, the frog in the pot has come to a boil and, oh yeah, we are, most of us, exquisitely, irretrievably fucked.

Newspapers

For sheer poignancy, though, it's hard to beat The New York Times. With a \$400 million May debt payment approaching like a runaway cement truck, the Times is selling 75% of its shiny new headquarters. More alarmingly, it has suspended its stock dividend and borrowed \$250 million at usurious rates from Mexican oligarch Carlos Slim, whom a Times editorial not long ago condemned as a "robber baron." And if not Slim, who, Gazprom?

On the plus side, thanks to the internet, all of these papers -- especially the Times -- have seen their readership soar. Surely, with the attendant savings in production and distribution, the future online-only paper represents a promising business model, right? No. That ship has sailed. Long ago newspapers based their online strategy on advertising, at which point traffic became the holy grail. Times Select -- the walled garden of premium columnists available by subscription only -- generated income but depressed traffic. So out it went. The Times and 99% of its brethren opted to give away all content in exchange for audience, neglecting to understand two structural facts of online life: 1) Nobody clicks on ads, because why would they? 2) The virtually infinite supply of online ad inventory will always depress the price even the best publisher can fetch. Always. Immutably. Forever. Mass media thrived on the economics of scarcity. The internet represents an economy of unending abundance.

As Philadelphia Inquirer and Daily News boss Brian Tierney told me at the end of January, "Clearly a free internet model online -- if you build it, they will come -- I don't think is working for media like ours. ... I think we're going to have to start to find a way to charge for it and not just rely on advertising."

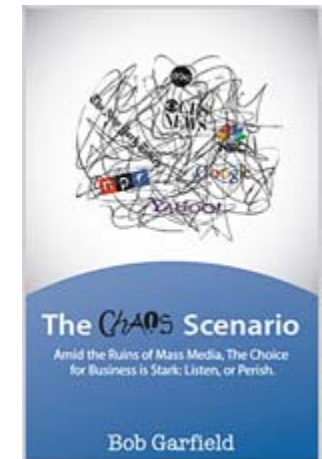
By the time anyone figured that out, it was too late. The audience doesn't imagine that all cars want to be free, or that all toasters want to be free, or that all paper towels want to be free, but it somehow believes that all content wants to be free. That's an indefensible ethic, but moral high ground doesn't repay the creditors. And three weeks after our conversation, Tierney's Philadelphia Media Holdings declared bankruptcy.

Magazines

In 2008, newsstand sales -- the profit engine of the industry -- fell 12%. According to Media Industry Newsletter, gross ad pages so far in 2009 have dropped a staggering 22% -- that coming off a dismal 2008. In recent months, Condé Nast has folded Domino, Meredith has folded Country Home, Ziff-Davis has folded PC Magazine, Hearst has folded CosmoGirl and O at Home, The New York Times has folded Play, and Hachette has folded Home.

Playgirl is gone. Radar is gone. The formerly weekly, formerly biweekly U.S. News is now a monthly. Time Inc. magazines have reduced head count -- mostly through layoffs -- by 1,400 employees since 2004. And TV Guide magazine, the erstwhile 17 million-circulation goldmine, was sold in October to OpenGate Capital for \$1, or \$2 less than a copy at the supermarket checkout.

Two years ago, Jack Kliger, chairman of Hachette Filipacchi Media U.S. and then chairman of the Magazine Publishers of America, told an MPA audience: "I'm not ready to end up my career watching our industry get marginalized and fade away." That's been taken care of. Kliger was pushed



Bob Garfield's "The Chaos Scenario" will soon be a book. For a preview:

TheChaosScenario.net.

out of daily responsibilities by his French owners who, as one of many cost-cutting measures, withdrew from the MPA in mid-February.

Be not tempted to dismiss this as the toll of a down cycle; this is structural, as articulated a few weeks ago by Wenda Harris Millard, co-CEO of Martha Stewart Living Omnimedia. "Advertising simply cannot support all the media that's out there." Or as the publisher of another famous-name, high-circulation title recently told me, begging for anonymity on the grounds of not wishing to be stoned to death: "We are living the Chaos Scenario." Nicely phrased.

Broadcast stations

Remember how Clear Channel, the radio-TV-billboard colossus, was going to destroy our very democracy by voraciously swallowing every broadcast station in America? For a decade, the mantra from media-concentration hawks: Stop Clear Channel now or we will all be slaves!

Yeah, well, we're probably safe. After being purchased by two private-equity firms (for \$38 per share, down from \$100 in 2000), Clear Channel dumped its 56 TV stations and tried to unload more than 500 of its small-market radio stations, but has been stymied by the credit freeze and declining value of those assets. Without those sale proceeds, the company's prospects for default on its \$20 billion debt are worrisome enough that Standard & Poor's rates its commercial paper five steps below investment grade. Junk, in other words. In early February, S&P said it was considering downgrading the company yet again. The fearsome juggernaut has just laid off 9% of its work force.

At least it got out of TV when the getting was merely not so good. Bernstein Research predicts a 20% to 30% drop in 2009 TV station ad revenue. Stations' share of TV ad dollars, according to TNS Media Intelligence, dropped to 26% in 2007 from 34% in 2000. Affiliate fees from networks have essentially disappeared, and the values of local licenses have plummeted, resulting in massive write-downs by ownership groups. And two of the four major networks -- CBS and NBC -- have publicly hinted that the days of distributing programming over the air via affiliates are numbered.

TV networks

"Do we want to be what we've been?" asked NBC Universal CEO Jeff Zucker at a December investor conference, as if the matter were in his hands. If everybody had their druthers, the status quo would be just dandy: networks distributing programming to local broadcasters and selling the aggregated audience to advertisers at ever higher costs per thousand.

But nobody has their druthers. According to Nielsen Media Research, in the last reporting period, CBS's prime-time audience was down 2.9%. ABC was down 9.7%, Fox was down 17.5% and NBC was down 14.3%. The numbers were particularly devastating for Zucker, whose weak schedule has exacerbated viewer exodus, resulting in lost revenue, yielding huge spending cutbacks, producing cheap, even-less-popular programming (no dramas or sitcoms in the first hour of prime time, more and more "The Big Loser" and next "The Jay Leno Show" only in the last hour), leading to still more viewer defection and so on toward oblivion. Zucker keeps the lights on only because mass marketers, desperate for access to even the Incredible Shrinking Mass Audience, have continued to pay more and more for less and less.

The average price of reaching 1,000 households with a 30-second spot in prime time, according to Media Dynamics, has jumped from \$8.28 in 1986 to \$22.65 in 2008 -- but effectively more like \$32, because between 150 and 200 of those 1000 households use DVRs to skip past the ads.

But the ratchet effect is over. What the law of diminishing returns could not influence, the deep recession has. Now the advertiser exodus, too, is under way. As of mid-February, 71% reported having slashed their 2009 budgets, and 6% more said the cuts were on their way.

That's why Zucker finally admits to considering a once-unthinkable proposition: once affiliate contracts and pro-sports deals expire, ceasing to be a network at all. NBC: the cable channel.

And that's not just the last resort of the Big Four laggard. It's also the last resort of the Big Four leader. At CBS, where fourth-quarter profit was down 54%, Les Moonves has publicly speculated about a similar move "five or 10 years away."

Cable

Just fair warning, guys: Cable has problems of its own. It's no more DVR-proof than broadcast. It is also suffering a sort of distribution autoimmune disease, wherein the body attacks itself. The very coax the industry has been stringing for 50 years is now the pipe for broadband, which households increasingly are using to bypass pay cable entirely.

Charter Communications will soon be in bankruptcy after losing more than 75,000 basic-cable customers in the fourth quarter of 2008. Churn, the expensive process of replacing lost subscribers with new ones, is taking its toll. Comcast's sign-ups in the fourth quarter were down by half from 2007. Here's what Glenn Britt, CEO of Time Warner Cable, told analysts in his last earnings conference call: "People are saying, 'All I need is broadband. I don't need video.'"

Britt was referring to "over-the-top," which, if you don't like the autoimmune analogy, can equally be thought of as being shot with your own gun. The game changer in this respect is Boxee, a software app that aggregates all your videos onto one screen and allows you to feed them into your TV machine. This is what they mean by "convergence."

But Boxee is such a threat to the business model of both cable and broadcast that Hulu -- which distributes NBC, Fox and Viacom programs online for free with minimal advertising -- demanded to be removed from Boxee's offerings.

Because if you can watch TV programs on your actual TV, with very few ads and no subscription fees to a cable middleman, why wouldn't you?

Online publishers

Yahoo, at about 3.5 billion daily page views, is the most visited website in the world. In 2008, it had a profit of \$424 million on \$7.2 billion in

revenue. Not too shabby, unless you compare it with 2005, when the company had a profit of \$1.9 billion on revenue of \$5.3 billion. Last spring, after a prolonged dance, it finally rejected Microsoft's takeover bid at \$33 per share, or about \$50 billion. Yahoo now trades in the range of \$12, for a market cap of \$17 billion.

What does it mean when online usage soars, yet the most popular publisher's value is cut by two-thirds? It means Wall Street sees Yahoo's margins headed steadily down -- not just because it gets trounced by Google in search but because its CPMs are going in the wrong direction.

The fundamental obstacle for online publishing, according to the president of the Interactive Advertising Bureau: "It couldn't be more straightforward," Randall Rothenberg says. "It is a disequilibrium between supply and demand."

Yeah, that about sums it up. As (my former Ad Age colleague) Rothenberg details, "Today the average 14-year-old can create a global television network with applications that are built into her laptop. So from a very strict Econ 101 basis, you have the ability to create virtually unlimited supply against what has been historically relatively stable demand."

So the biggest online publishers, with all their vast overhead, have no more access to audience than Courtney the eighth-grader. And there are hundreds of millions of Courtneys, millions of them on Google AdSense, driving the price of ad space down, down, down.

Rothenberg also acknowledges the problem of ad avoidance, as evidenced by average click-through rates approaching zero. Yet, for all his economic realism, he stubbornly insists there's a solution: "Better advertising. More informational. More entertaining. More beautiful."

A latter-day Creative Revolution, that is.

"The interactive industry is finally and belatedly beginning to see that the way we built our sites, based on the direct-response foundation, infused the environment with ugliness and clutter."

Granted, fewer dancing silhouettes and pop-ups might be nice, but if you need to trump Econ 101 and basic human behavior, the job calls for something a bit more efficacious. Like a magic beanstalk. It's worth noting that Wenda Harris Millard's analysis about the structural glut of ad inventory took place at a conference of the IAB, where she is chairwoman. Her previous gig: head of sales at Yahoo.

But why pick on poor Yahoo? Consider Twitter, Facebook and YouTube, which among them have altered human behavior of a grand scale. Two and a half years ago, Google paid \$1.65 billion for YouTube. The 2008 payoff: about \$90 million in ad revenue -- which might (but probably won't) cover the costs of copyright-infringement litigation and certainly won't cover bandwidth charges. Facebook, whose 2007 valuation of \$15 billion has shrunk to about \$3.7 billion, had 2008 revenue estimated at \$300 million. And Twitter had \$0.

Thus, the mantra: "We have the audience. All we need is a business model." As if adequate revenue were somehow guaranteed by physics or heavenly deity. It isn't. I've pored over Isaac Newton and the Ten Commandments. There is no "Thou shalt monetize."

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