As newspapers shift from print to the Internet, they are hoping to significantly reduce production costs. These companies are trying to offset declines in advertising revenue by reducing the amount they spend on printing presses, newsprint and delivery trucks.

Reducing offline production costs is a complex problem to solve. Most of the industry's advertising revenue – about $21.8 billion in 2012 – still comes from print publications. So newspapers must maintain that revenue source at the same time they are moving to the Internet.

Production costs might be lower on the Internet, but they are not zero. Newspapers must pay to build and maintain websites and mobile applications. But Internet advertising and other digital sources accounted for just 11 percent of the industry's total revenue in 2012 . [1] Newspapers also face significant competition from digital firms for online revenue.

To make the transition succeed, newspaper companies must keep digital production costs low enough to be competitive and attract enough online revenue to cover those costs. Meanwhile, the companies must continue to produce the print products that generate the bulk of their revenue for as long as those products remain profitable.

And economic survival isn't likely to get easier for newspaper companies that do leave print behind. Those firms will have to manage new kinds of competition.

There was an important reminder this week of just how difficult the transition can be. Digital First Media, which owns 75 newspapers, has a strategy of moving quickly away from print to digital distribution on the Internet.

One high-profile piece of the Digital First strategy has now failed. The company is closing a centralized newsroom that used digital production to provide national stories for its newspapers across the U.S.

Rick Edmonds notes the failure is a valuable reminder that even digital news production is expensive:

It is myth, embraced by digital future-of-news enthusiasts, that Web publishing is close to free. [Digital First CEO John] Paton seemed of that view early in his tenure when he asked newsrooms to use mainly free tools to put out their reports for a week.

But in his most recent manifesto/speech to the Online Publishers Association in January, he said he was looking for another $100 million to invest in the company's digital activities on top of an earlier $100 million.

Digital First is a private company, so it's hard to tell what the implications are for other newspaper companies. There is reason to be cautious because Digital First has complex finances – it was created by merging two other companies that had both been gone through bankruptcy. A hedge fund is a major investor, and that fund may be looking for a quick return on its investment.

Other companies with stronger finances or different investors might have more flexibility in managing the transition from print to digital. But it won't be easy for any company to do.

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[1] An estimated $4.2 billion of $38.6 billion in total industry revenue according to the Newspaper Association of America.

Source http://feedproxy.google.com/~r/EconomicsOfMedia/~3/Y6CDLPoOBUo/shifting-production-to-internet-wont.html