



REINVENTING BUSINESS MODELS FOR NEWS

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# The Daily Memphian

**How the digital startup fundraised \$8 million for its subscriptions-based news business**

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**About the author:** Beth Lawton is publisher of Alexandria Living Magazine. She has also founded Canoe Media Services, a content marketing agency based in Alexandria. She has worked for several online-only news publications and small businesses in editorial, marketing and business development roles, including the Lawrence Journal-World and KUSports.com, MKE in Milwaukee, The V.I. Source in the U.S. Virgin Islands and AOL's Patch.com. She also worked at the Newspaper Association of America, where she ran the Digital Edge Awards and blog, the Online Publishing Update and more. She graduated from Washington University (in St. Louis) and Northwestern University's Medill School of Journalism with a digital media storytelling focus – and she would go back to either in a heartbeat.

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With a diverse and hard-working 40-person newsroom, *The Daily Memphian* is rivaling the best of any Midwest regional newspaper. Launched in September 2018, the publication covers news and politics, business, sports, food, arts and culture — to name just a few things. Combined with podcasts, events, and special in-depth reporting projects, the newsroom is busy and the publication is in growth mode.

What's different about *The Daily Memphian* is its business model and its launch story. A nonprofit, *The Daily Memphian* raised \$8 million in just over a year through foundations and anonymous giving, helping it to go head-to-head with daily newspapers in the region.

## How it all started

CEO Eric Barnes has called Memphis home for 24 years, and he's been in the publishing industry the entire time. He's been friends with Andy Cates for at least 20 of those.

Barnes has been back and forth, he said, between editorial and business operations at a variety of media companies from the time his career started in Connecticut, where he was a reporter at the now-shuttered *Pictorial-Gazette* newspaper. But he's always been in the news business.

As publishing technology developed in the late 1990s and early 2000s, he was frequently asked to help the business side with implementing new systems. "I was relatively good at bridging the editorial, marketing, and technology."

Barnes is a former president of the Tennessee Press Association, was COO of Towery Publishing in Memphis, and remains publisher of a group of community newspapers and host of *Behind the Headlines* on WKNO, the local PBS station.

At *The Daily Memphian*, he continues to be involved with the editorial, technology and revenue sides of the business. He also hosts a show on the local PBS station in



Behind the Headlines

Memphis and a podcast on *The Daily Memphian* site.

Cates is the president of the board of directors for *The Daily Memphian*. His day job is in the private sector with Value Acquisition Fund (ValFund), an acquisition and development company that he founded in 2004. He has a history of major civic engagement projects, including being founding chairman of the Soulsville Revitalization Project, a major inner city revitalization project in Memphis. He founded Memphis Fourth Estate, Inc., the company that runs *The Daily Memphian*, in 2018.

Cates said he always had a real interest in the local news industry and frequently asked questions about what it would mean for the Memphis community if there was no strong, locally focused newspaper. “I spent a lot of time talking to folks and researching, and I was always talking to [Barnes] about it.”

As the flagship Memphis daily newspaper, *The Commercial Appeal*, switched hands from E.W. Scripps to Gannett, Barnes and Cates witnessed a series of newsroom staff cuts and what they saw as less in-depth coverage of local issues. At one point, Cates tried to put together a purchase of *The Commercial Appeal*, but it didn’t work out – and he’s glad it didn’t.

“So, Andy called me and said, ‘Let’s talk,’” Barnes recalled. That was more than two years ago.

Over the ensuing year, Barnes and Cates developed more than 20 pro formas, knowing at the outset that they didn’t want to be just free access and only ad-supported. They also wanted to figure out how to make the new venture financially self-sufficient. In the process, they closely looked at and spoke to people at *The Texas Tribune*, Institute for Nonprofit News, *The Washington Post* and Graham Holdings, and numerous other nonprofits and media companies.

In the spring of 2018, Cates and Barnes formed the new nonprofit, launching in mid-September that year.



## Binghampton's Promise

Proud neighborhood cherishes its diversity while planning growth

By David Waters

Updated: October 23, 2019 9:50 AM CT | Published: October 23, 2019 4:00 AM CT



Carpenter Art Garden volunteer Jane Pate reads “Last Stop on Market Street” to after-school student Javion Hicks, 7. (Mark Weber/Daily Memphian)



School buses arrive before the sun in Binghampton.

They collect groggy teenagers from the corner of Holmes Street and Nathan Avenue at 6:20 a.m., the corner of Red Oak Street and Mimosa Avenue at 6:38, and from 337 N. Merton at 6:40.

### PART THREE OF A THREE-PART SERIES

**PART 1:** [Razing public apartments gives hope to a historic and forgotten neighborhood.](#)

**PART 2:** [Armed with a plan, residents push for involvement in neighborhood's future.](#)

According to the website:

*“The Daily Memphian is the must-read, primary daily online publication for intelligent, in-depth journalism in the Memphis community. The Daily Memphian will report on critical news, hold political, business and community leaders accountable, and engage with and entertain its readers – all while seeking truth, acting with integrity, and never fearing stories simply because of their negative or positive attributes. Led by a seasoned team of veteran journalists, The Daily Memphian is of Memphis, not just in Memphis, and seeks to tell the stories of this city.”*

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# Daily Memphian

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Thursday, December 5, 2019

**REAL ADVANTAGE THROUGH REAL ESTATE.**  
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### Renovation, addition project at 1750 Madison seeking incentives

Projects at 1750 Madison and the old American Snuff Factory at 46 Keel will be up for consideration of tax incentives Tuesday, Dec. 10.

By Wayne Risher 45 minutes ago

### Germantown family brings holiday joy with 'that house with all the lights'

A love of technology started Germantown family's annual light display.

By Abigail Warren 7 hours ago

### Elwood's Shells in Cooper Young has closed its doors

Elwood's Shells in Cooper Young has shut its door less than a year after it opened; Elwood's Shack remains open and 'booming'.

By Jennifer Biggs 1 hour ago

## MICAH presents plan to raise millions for MATA

MICAH officials on Wednesday offered the Shelby County Commission alternatives that would raise all of the \$30 million needed to fully fund the Memphis Area Transit Authority.

By Linda A. Moore 1 hour ago

### Calkins: Can't stop fretting about Mike Norvell? A solution

Memphis coach Mike Norvell may well take another job after Saturday's game against Cincinnati. Here's the best way to handle that news.

By Geoff Calkins 15 hours ago

### The Early Word: A star-studded special and a home for the holidays

Good morning; it's Thursday, Dec. 5, and today the Greater Memphis Chamber will host its Annual Chairman's Luncheon, where its newest chair will be revealed.

By Mary Cashola 43 minutes ago

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## A paywall-driven nonprofit

On a day-to-day basis, *The Daily Memphian's* revenue is driven by a subscription paywall and advertising. At the outset, though, fundraising played a major role.

By launch, *The Daily Memphian* had raised \$7 million in what Barnes called “philanthropic venture capital.” This was all anonymous, donated with no-strings-attached to The Community Foundation of Greater Memphis, then transferred to *The Daily Memphian* and its nonprofit owner, Memphis Fourth

Estate, Inc., which is controlled by a public board of directors, led by Cates. Subsequently, another \$1.4 million has been raised from local foundations, including The First Tennessee Foundation, The Briggs Foundation, The Assisi Foundation, and The Hyde Family Foundation. This funding is still contributing to the budget.

“We made the pitch that this is an important part of democracy – that it’s civically important – for Memphis to have its own, locally-focused and locally-run news site,” Barnes said.

To help make it clear that investors wouldn’t get special editorial treatment, Cates did most of the pitching. His two main questions to potential donors were whether having a healthy newspaper was critical to a healthy community (the answer was always yes, Cates said) and whether it was important enough to be among the community’s top critical issues.

People seemed to understand and gave generously, but raising that amount of money wasn’t easy. In Memphis, there were “a lot of complicated things going on, and they needed to be covered with depth, not with sensationalistic play and not shallowly,” Barnes said.

While *The Daily Memphian* is a nonprofit organization, Barnes said they downplay that aspect intentionally and haven’t made it a part of the company’s central identity. For a lot of people, Barnes said, nonprofit “implies sometimes that there’s advocacy, or it implies niche or boosterism, or it implies a kind of ‘we’re here to help’ – and we may be, but we’re also here to hold people accountable and to report the news.”

Prior to launch, Barnes and co-founder Cates told potential funders that they believed they would make it sustainable and they wouldn’t be coming back asking for money over and over – but that they wouldn’t be getting a great return on their investment, either.

“The overall business plan is to achieve sustainability. While we raised a lot of money to get started, we don’t want to be constantly fundraising,” Barnes said.

That said, there is an option to donate on the website through *The Daily Memphian*’s nonprofit organization. Even that donation solicitation stipulates there will be no quid-pro-quo:

*“Frustrated by the gutting of local journalism in Memphis, a group of seasoned journalists, media professionals and concerned citizens gathered to discuss the need for strong, locally focused and locally produced daily news. After much*

*research and outreach to local and national media professionals and thought leaders, Memphis Fourth Estate Inc. was formed. A 501(C)3 nonprofit, Memphis Fourth Estate owns and operates The Daily Memphian; however, the newsroom operates independently of Memphis Fourth Estate's influence and will not know donor names or pledges.”*

Initially, the website offered five free articles per month, and charged \$7 per month, or \$84 per year. After experimenting with only an annual option for several months, in November 2019, *The Daily Memphian* increased subscription rates to \$99 annually or \$10.99 per month.

“We’re paywall driven, and very much subscriber-based,” Barnes said.

Over the winter, *The Daily Memphian* reduced the number of free articles from five to three per month, and that change did not have a negative impact on website traffic, Barnes said. They also added subscriber-only stories – now at one or two per day.

*The Daily Memphian* has more than 11,000 paying subscribers. The goal is to get to 20,000-25,000 subscribers paying an average of about \$10 per month, Barnes said.

The business plan calls for subscriptions to contribute about two-thirds of total revenue, and one-third generated from a mix of advertising – on the website, app, emails and podcasts – and sponsorships, including 6-8 events per year.

“We’re ahead of where we thought we’d be on ads and sponsorships,” he said.

The site touts strong website traffic numbers – 350,000 unique visitors in October 2019 and more than 1.5 million page views, and growing – but the site does not sell any programmatic or network advertising.

“The low net revenue to us isn’t worth it, we believe, given the performance hit that tends to come with that sort of advertising, and given the negative impact that type of advertising has on the user experience,” he said. “For the same reasons, we don’t sell video ads.”

*The Daily Memphian* does not sell advertising for obituaries or branded content. The organization hosts 6-8 events per year that are helping with profitability, including a monthly lunch series at a local restaurant with speakers; business seminars on commercial real estate, healthcare, women in business; holiday events.

While all of the events from their first year were successful, Barnes and the leadership team decided to do fewer, higher-quality events in 2020.

“Events are really good,” Barnes said. “You get to meet subscribers in person, and you get to ask questions.” However, he admitted, they do take a lot of time. “We’re not convinced events are the answer to the revenue question for us,” he said.

## A leaky paywall

*The Daily Memphian* uses Piano ([www.piano.io](http://www.piano.io)) as a digital business platform to handle the paywall. Piano also works with both national and local publications, including *The Economist*, *New York Post*, *AdAge*, GateHouse Media, Conde Nast and *Esquire* magazine.

*The Daily Memphian* has about 27,000 email subscribers, far more than the number of paying subscribers. Barnes said a high volume of emails helps drive significant traffic – even more than social media.

“We have solid open rates, 20-35 percent, depending on the type of email it is – Morning Edition, Week in Review, Breaking News, etc. – and really low unsubscribe rates. Because we send so much email ... we’ve found it’s important to emphasize to readers that they can customize and control their experience.”

The paywall isn’t as strict as it is at some other news organizations. “Sometimes it’s leaky. You’re allowed to share your login with your spouse and family,” Barnes said. Whether that rule will remain in place is still to be determined.



Monday, December 9, 2019



### Tom Intrator stakes claim as Downtown change agent

Tom Intrator is described as “a self-made, self-taught investor, developer and entrepreneur.” So, just who is the man behind one of Memphis’ biggest proposed mixed-use real estate projects ever?

By Wayne Risher

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### 100 Black Men of Memphis to focus on mentoring young people

Led by new president Darrell Cobbins, the 100 Black Men of Memphis are looking to live up to their name. with a goal



They have, however, made efforts to stop people from viewing the website free using incognito mode in Chrome or other private browsing. That's not always possible.



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- ✓ Locally owned and funded.
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\$7/month price is for Daily Memphian Annual Subscription billed as \$84 annually. One-time St. Jude donation consists of any amount paid over the base subscription price of \$84/year.

The organization does, however, want to move to a model of consumer revenue combined with inclusiveness by putting partnerships in place to allow free access to those who shouldn't have to pay, such as community groups and senior living facilities. They will have a person going to community centers, senior living facilities for people on fixed incomes and more, to set that up.

"It's complicated and it takes a lot of time, but that's an important part of our mission," Barnes said. "We are charging people who can afford it, but we want to make it free to people who couldn't or shouldn't pay for it."

The website is free at all local public libraries and in Shelby County schools, which includes the City of Memphis. They will make it free for all schools, including charter schools and private schools pre-K through 12<sup>th</sup> grade, next year. They haven't figured out how to give free access to teachers away from school property yet.

## Lessons learned

At the outset, Barnes had a newsroom staff of 25 people, and it wasn't enough to cover a city the way he (and his readers) wanted it covered. "Demand was even greater than we thought, and the expectations were even

higher. We needed to add more weekend coverage, neighborhood coverage and government coverage.” He added 10 more people, and wants to add 10 more. The total budget is more than \$5 million per year.

“It takes a lot of people, if you’re going to try to be a comprehensive news source,” Barnes said. “We’ve been successful by having a presence. Our sports guys do a lot of local radio, for example. ... I think those things are really helpful, to partner with other media.”

In addition, the people Barnes hired really matter, from local journalists who had decades of local experience and brought a following with them, to younger journalists who are bringing in new ideas and energy. In December, *The Daily Memphian* added an executive editor to the team, Ronnie Ramos, who most recently led *The Indianapolis Star* newsroom.

There were also more technical challenges than Barnes expected, including helping users stay logged in and navigating the registration and subscription checkout process. They have customer service people to help readers. When new versions of popular browsers like Chrome and Safari are released, login-based websites like his can suffer collateral damage.

“What we realized is that we also have a lot of users who have cookies turned off or have something on their firewall, Barnes said. “A lot of users have settings that aren’t optimized to use our site, but their problems are our problems. ... We have to work really hard with users to educate them on changes to their settings. That’s been a real constant challenge.”

The most positive lesson is that people will pay for content. *The Daily Memphian* has done a little bit of discounting – the first month free, for example, in the beginning – but they’ve ended that. Barnes is also skeptical of businesses that are doing \$1-a-week or 99-cent offers because he sees nothing but low revenue and high churn rates.

“I think we have a lot more value than that,” he said.

## Conclusion

The future looks bright at *The Daily Memphian*, but Barnes isn’t at all complacent.

“You just have to be really creative and constantly adaptive,” he said. He’s always asking himself if he’s experimenting and trying new things often enough. He said the other questions running through his mind on a daily basis:

What can we do differently? What can we think twice about? What can we change?

“The response has been overwhelmingly positive but we have an enormous amount of work to do,” Cates said. “We have this extraordinary balance of insane excitement and optimism, but we’re also terrified because we’re a living lab experiment.”

Being a lab experiment, however, means they are interested in continuing to innovate, experiment, learn from other nonprofit news organizations – and more importantly, share their results as they develop, he said.

Of the competition, Cates said, “If our worst case is that they get better, that’s great.”