Experimenting with new strategies to run a media startup

In the beginning, there was money.

Next Avenue started with a whopping $5 million grant. The St. Louis Beacon got over $5 million from a variety of sources. Harvest Media received $600,000.

Today, Harvest Media is the only one standing on its own.

The reasons for success and failure of these three startups are as varied as the companies. All had altruistic missions, but their futures were determined by the ability to build partnerships and navigate the rough waters of sustainability in a rapidly changing economic environment.

There were similarities. Each startup was birthed by grants.

Next Avenue, which aimed for an audience of aging Baby Boomers, was launched by Twin Cities Public Television in 2012. Harvest Public Media, a collaborative born of public radio station KCUR in Kansas City in 2010, focuses on agriculture. The St. Louis Beacon, a former digital newsroom established in 2008, was set up by former employees of the city’s daily paper.

In the end, Harvest became a financially independent media organization after using up its initial grants. Next Avenue struggles today with creating timely content and is using up its original foundation money. The Beacon merged with another news entity for better financial security.

“Foundation funding is intended to be a start, not a permanent source,” said Ken Doctor, a well-known media industry analyst and author. “So, having a revenue plan — as if the site were a small business — is the answer.”
Jake Halliday, president and CEO of the Missouri Incubator Center, said grants give an entrepreneur the opportunity to prove the venture is worthwhile, feasible and, ultimately, sustainable.

“They are hoping that the venture can stand on its own feet.”

**Grant money: Free but doesn’t last forever**

A grant is good news.

The money not only guarantees a smoother birth of the startup, but it also attracts talent. To veteran journalists, who have strong networks and want to make a difference in the digital world, getting grants or foundation donations can make their entrepreneurial dream come true. But planning also needs to begin immediately on sustainability.

A media start-up can’t afford a singular focus on content, said Mary Bruno, who is a veteran in working with start-ups. Companies must also focus on revenue.

As editor in chief and interim publisher of Crosscut, a nonprofit digital newspaper based in Seattle, Bruno lives in the world of chasing grants and sees both the upside and downside of relying on grants and donations. She has helped launch media startups and worked as a writer, executive editor and media consultant before she joined Crosscut.

Ideally, donations can support general operations because it’s free money and the entrepreneurs have the liberty to decide how they can spend it, Bruno said. The unrestricted nature of major donations is a big advantage, but it takes time to pursue them.

“Usually you have to cultivate those relationships over the course of years before you get to that point,” Bruno said. “So it’s a very long-term investment.”
The Corporation for Public Broadcasting launched Harvest in 2010 to cover food, fuel and field reporting in the Midwest. As one of CPB’s seven Local Journalism Centers, Harvest helped fill the void in agriculture coverage.

“So seven of them were launched with a charge to be innovative in terms of pushing the boundaries of how we do multimedia story telling, but then also cover areas of the specific concern to Americans,” Donna Vestal, supervising editor of Harvest, said.

Harvest turned out to be one of the few Local Journalism Centers that continued to serve its mission after the original funding ran out.

Harvest was fully funded for the first two years after its launch and then 80 percent funded, receiving a total of $500,988 in grant money between October 2012 and September 2013, according to Harvest and CPB’s grant agreement.

“It’s a winding-down relationship,” Vestal said. “We are dealing with the end of the grant and making sure we are using the fund appropriately.”

Harvest said that even though the CPB grant has been used up, Harvest might get money for special projects from CPB. But the Harvest team had to plan ahead and figure out new revenue strategies to close the gap.

Next Avenue was started to better serve those born between 1946 and 1964. It received $5 million as seed money from The Atlantic Philanthropies, The General Mills Foundation and The Medtronic Foundation to launch the website.

As those contributions began to run out in fiscal 2013, the team needed to find new sources of revenue to keep the newsroom operating, Judy Diaz, former president of the Next Avenue, said.
Yet Next Avenue didn’t transition smoothly from relying on grants to having an independent budget. Diaz left the organization as the original funding was running out in 2014, and no replacement has been hired. The current online content is no longer as timely as it once was.

The Beacon set out to cover in-depth stories in government and arts. It received early grants, including a $500,000 challenge grant from philanthropist Emily Rauh Pulitzer. The Knight Foundation gave the newsroom $90,000, and the Missouri Foundation for Health gave $100,000 in the first two years after its launch. The newsroom heavily relied on individual donations from 2010 to 2012, according to The Beacon’s budget. It received $4.3 million from individual donors in 2010.

“The large amount raised in 2010 was directly tied to a large fundraising campaign focused solely on sustainability, which did not continue in the following years,” Nicole Hollway, general manager of The Beacon, said.

**Running a business is challenging**

Good journalism is expensive.

A typical media startup in the digital age runs online and hires a small staff. It doesn’t pay for printing and administration like many traditional news organizations. Some just have a virtual newsroom, which also saves costs.

But some things never change. Just like the legacy media, much of a startup’s budget goes to employees.

“In order to get good content and in order to stay on top of the news, you really need people you can count on,” Bruno said. “And the only fair way that you can really count on people is if you pay them.”
Salaries and benefits account for 36 percent of Harvest’s expenses, according to the newsroom’s third-year budget.

Vestal, the leader of Harvest, said the organization’s management style is “top-down,” and she is responsible for everything from supervising reporters to monitoring partnerships, writing company reports and overseeing the spending of grant money.

About 85 percent of Harvest’s content is original, which poses a challenge for the small editorial team.

“(With) five reporters (working) we have the content we need to keep the website fresh and the radio content flowing,” Vestal said.

High salaries can burn a hole in a young startup’s pocket.

More than two-thirds of Next Avenue’s costs came from paying its personnel, as its fiscal 2014 budget shows.

The Beacon projected it would pay $1.3 million in salaries for its 18 employees, but it expected to bring in $674,000 in revenue in 2012.

Between 2010 and 2012 when The Beacon existed, its total salaries kept rising as its total revenue dropped three years in a row. It merged with St. Louis Public Radio, which is owned by the University of Missouri-St. Louis, as a solution for sustainability in 2013.

The proportion of staff cost seems large for startups because they don’t have many other expenses, Bruno said.

“I think it’s hard for all organizations like this to consistently raise enough money to be able to pay good journalists, good reporters as much as they need, and as much as they deserve, in order to do their job well and consistently over a long period of time.”
One solution to match expenses with revenue is to hire freelancers or part-time employees until revenue streams can support them.

“Based on your vision and mission, you decide what the content budget of your media operation needs to be — whether it's freelance- or staff-based — and then determine whether you can consistently generate that sum,” Bruno said. “If you can’t, then find yourself another business.”

**Diversifying revenue strategies: Life beyond advertising business model**

Many revenue streams are necessary.

Newsrooms launched with grant and foundation money should prepare for the day when initial funding runs out. If one revenue stream dries up, other streams should fill the void.

“I don’t think that in this current climate you can rely on any single stream of revenue,” Bruno said, “I think the best thing you can do is, like an investor, to diversify your portfolio because there’s no question in any given year, one of those revenue streams is going to underperform.”

Startup entrepreneurs come up with both traditional and innovative strategies to create revenue. They can include everything from wealthy board members to selling expertise. There needs to be one reliable golden goose, Bruno said, but you must realize that it will not be there forever.

When Harvest faced the challenge of running out of CPB grant money, Vestal worried that the team might lose momentum. In a short window of time to make the transition, the team figured out the key to survival is to cooperate with partner stations and associate members and to take advantage of university resources.
KCUR, the flagship NPR station in Kansas City, remained “the face and facilitator” of Harvest. The station agreed to pay Harvest’s editorial team and infrastructure, manage the budget, and seek partnerships and grant funding.

Harvest’s member stations continued to employ reporters for Harvest as well as provide it content. In addition, the member stations are responsible for raising money, including recruiting sponsorships, selling underwriting spots, seeking national grants and developing associate partners, according to Harvest’s Year 4 Memorandum of Understanding.

Associate members who pay annual fees would be obliged to provide regular reports to Harvest and to promote Harvest on their websites. In return, they get full access to Harvest’s content and customized editing service.

The Harvest team had to be cautious about choosing certain sponsors, such as Monsanto, Vestal said. The agribusiness corporation, which makes genetically modified seeds, herbicides and other products, has been controversial because agriculture science is being debated worldwide.

Vestal also partnered with graduate students at the University of Missouri to work on strategies for sustaining revenue streams.

Harvest proved its value in the market and survived after the CPB funding ran out.

Next Avenue monetizes its website with content produced by PBS as well as its own. That strategy is intended to make it more marketable and to help it achieve a higher return than websites that monetize only their own content, Diaz said.

For both content and marketing, Next Avenue relies on sponsorship partners including Twin Cities Public Television; Yamototo, an advertising agency in
Minneapolis; and the Gerontological Society of America, a research organization in Washington D.C. It uses a partner’s content for Next Avenue’s special editorial sections; shares Next Avenue’s content through a partner’s website, e-newsletters and social media; runs a partner’s TV packages on Next Avenue’s television specials; and offers tailored add-ons to a partner.

Revenue generation can also come from expanding syndication. In January 2013, Next Avenue created a partnership with Retirement Living TV, a Baltimore-based television network, for Next Avenue’s content distribution. According to the agreement, RLTV buys Next Avenue’s content to post on its website and pays a monthly syndication fee. Next Avenue seeks similar syndication agreements with other news organizations, Diaz said in a story published in Current.org in January 2013.


The Beacon also avoided advertising revenue for different reasons.

“As a nonprofit, there is a cap on the amount of potential advertising or underwriting revenue that the Beacon could have attained,” Hollway said. “Additionally, staffing did not allow for a dedicated team for selling advertising. In the midst, the resource allocation that would have been needed to start up an advertising department that would bring in a significant amount of income was not feasible without significantly changing the makeup of the organization.”
The reality is that there is not a clear line between advertising and sponsorship, Bruno pointed out. She believes nonprofit newsrooms should take good advantage of sponsorship opportunities.

Sponsorship is when a company or entity purchases space or time with a start-up to help brand its image or sell a product.

Some startups are shy about using sponsors because they feel it will stifle their credibility, Halliday said. But the opposite is often true.

“The naive bias, or the uninformed (bias), (the media company is) more likely to write negatively about multi-national corporations, and you essentially run off potential sponsors,” Halliday said.

Added Bruno: “One interesting thing is there’s the cap on advertising, but there’s no cap on sponsorship. You know, sponsorship is different from advertising, sort of technically, but there are many ways in which it’s the same. I mean it’s associating your brand as an advertiser or sponsor with a particular product.”

Bruno shared a list of revenue strategies that media startups can consider: Grants, contributions from members, board members and major donors, sponsorships, events, ad sales, workshops, speaking engagements, publishing and media consulting.

A key, she said, is hiring a development director who focuses totally on raising money.

“So I think you really need to always have to cultivate all those different opportunities,” Bruno said. “You just have to make sure you’ve got enough different revenue streams that if something dries up, you can count on the others.”

**Keys to form healthy partnerships**
Robust partnerships can promote a startup in many different ways: They can create content, build brand awareness, strengthen the mission, boost and diversify a newsroom’s audience, and create revenue to saving costs and resources.

To establish healthy partnerships, advertisers and startups need to find a real mutual interest and work at developing it, Doctor said. Partnerships fail because “both parties don’t make strategic and relationship investments in them.”

Harvest was founded through the collaboration of several public media stations. After proving its value to the stations, Harvest expanded its list of full partners including KCUR based in Kansas City, Mo.; KBIA in Columbia, Mo.; Iowa Public Radio in Des Moines, Iowa; NET in Lincoln, Neb.; WUIS in Springfield, Ill.; and KUNC in Greeley, Colo.

The entrepreneurs believed they could cover important topics better with their collective resources. The committed partner stations contributed both funding and tailored content to the consortium.

In the early stage after its launch, the biggest challenge for Harvest was collaborating with the partner stations and having them feel truly embraced, Vestal said. She believes partnership is one of the keys to the media industry’s future success.

In addition, Harvest recruited associate partners, including Kansas Public Radio based in Lawrence, Kan.; High Plains Public Radio in Garden City, Kan.; Tri States Public Radio, in Macomb, Ill.; KRCU in Cape Girardeau, Mo.; and WFIU Public Radio in Bloomington, Ind.

Harvest shares content with the stations, provides customized content to serve their needs and supports their talk shows and other events. The stations’ obligations includ
providing monthly reports and audience data, promoting Harvest on air and on their websites, and paying an annual fee.

Without the partner stations’ support, Harvest would have experienced a more difficult time becoming financially independent from CPB.

“So we accomplished creating the value for the partners to the degree that they are not willing to let us stand alone, if that makes sense,” Vestal said.

Launched by The Public Broadcasting Service, Next Avenue takes advantage of the PBS branding.

“With the PBS stations, we created affiliated relationships with one station in every market,” Diaz said. “The stations are important for us. They provide local content, branding and promotion.”

Next Avenue also developed 31 online content partners, including Twin Cities Public Television, the National Institutes of Health, the FDIC, and the National Endowment for Financial Education. These media partners carry information and perspectives that Next Avenue could include on the website, Diaz said.

Some newsrooms team up with each other through mergers and acquisitions, which might further the mission but dilute the original brand, Bruno said.

The Beacon turned cooperation into the merger with St. Louis Public Radio. One of the important motivations behind the marriage was to combine their fund-raising abilities to achieve a more secure financial future, according to a Beacon article in November 2013. The two organizations have raised $3 million together to fund the combined newsroom over the next five years.
Startups such as Next Avenue, Harvest and the Beacon are changing the media industry's landscape.

Among the countless challenges they face, struggling for revenue sources and sustainability is universal. Some startups survive with strong leadership, good financial plans and healthy partnerships, while many experience hardships or major changes that distract them from the original mission.

Media entrepreneurs, both traditional and those using innovative strategies, seek to build organizations that have a clear mission and influential partners.

Future success of media entrepreneurship depends on how strategically they find sources of revenue and how well they enhance partnerships in order to further financial success.

The key to Harvest’s success is that it recognized the disconnection between urban audience and rural issues and executed its business plan step by step, Halliday said.

So the problem was the disconnection, he said. The solution was Harvest.

“Be aware of …the what if,” Bruno said. “Always have a Plan B. Plan ahead but be willing to change the plan.”