One of my bigger aha moments came during Andrew McAfee's "Managing in the Information Age" class. The Readership Institute's research has told us about newspapers as defensive cultures, but this hit home as I read a case study about a German investment banking company that experimented with creating an employee wiki. Here was what is perceived to be a conservative company in a conservative industry trying to find a new way to flatten its hierarchy and encourage contributions from its workers. It was a sobering moment as this example made me even more aware of how strongly newspapers fight change.

Newspapers lacked the external vision necessary to see the vast range of opportunities created by the Internet. Instead, the questions they asked pointed inward. Why create a search engine that might make it easier for Web users to read something other than the newspaper? Why give away classified advertising online for free? Why construct a social network for people who might post questionable material? Ask such questions, and the consequence is evident in many newspaper executives' slowness to adapt to a change they knew was happening.

Harvard Business School case studies are filled with examples of pharmaceutical companies spending billions on research and development. The newspaper industry, on the other hand, has barely awakened to this need. The Newspaper Next project is a small first step in the search for a new business model for an industry so focused on protecting its once lucrative classified advertising franchise that it couldn't see how to grow the business in entirely new ways. Without a sense of vision, some appetite for risk, and a willingness to invest in future strategies, the path to irrelevance becomes much shorter.

Thinking Like a Disruptor

As the Newspaper Next project recommends, those of us at newspapers must learn to think like a disruptor. Such a mentality would tell us to act either by playing offense or defense. At the Tribune, we've chosen to go on the offense; in doing so, we've made aggressive moves into new markets such as creating a Spanish-language weekly and a youth-focused entertainment weekly. Each reaches readers well beyond the county boundaries of our traditional daily newspaper.

Many of our company's newspapers already are successful as free-distribution dailies. With the Internet setting the standard of free information, newspapers need to figure out how to compete. Unquestionably, this search for new business models will lower profit margins. One question worth asking is whether we have the guts to go after market share at the expense of the bottom line.

The days of our monopoly business practices are over. Gone, too, are the times when journalists can write a story for print only and reach a mass audience. The Harvard Business School professors, among others, advise that we can view this change as a threat or an opportunity. To choose the path of opportunity means rewriting job descriptions of everyone who now occupies the newsroom. It means looking for new partners and being willing to collaborate far outside of our comfort zone. And it means knowing that we have to cannibalize our print edition rather than grudgingly having it happen because of a corporate dictate.

If we aren't ready to compete fully in this digital game, then to punt might be the way to go. I doubt, however, that we'll get very far by stabbing Google in the leg. ■

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Capital Crisis in the Profitable Newspaper Industry

Solving this 'will call upon levels of creativity, innovation and entrepreneurship infrequently found in newspapers in recent years.'

By Robert G. Picard

The recent sale and breakup of Knight Ridder is symptomatic of the broader problems newspaper companies face due to their difficulties in creating value for readers and investors. These problems have resulted in a capital crisis in the industry because financing through the stock market, which is the primary way in which the nation's leading and midsized newspapers get capital, is increasingly regarded as a less viable investment option by financial firms. This circumstance also has led to apprehension among journalists and industry observers, since managerial behaviors have changed in an attempt to satisfy investors.

This crisis arrives at a time when the newspaper industry is struggling, too, to respond to changes in technologies, society and in how consumers use media. Audiences are less willing to spend time and money on newspapers, and this induces advertisers to increase spending and to seek other market mechanisms in new media to reach customers. The pace of change seems especially striking since the second half of the 20th century produced such dramatic advertising growth and an extraordinary era of journalistic and business success. But the conditions leading to that growth have all but vanished. In the past decade, news companies have slashed newsroom resources, made staff reductions, and cut back on the product they produce. Concurrently stress levels in newsrooms and boardrooms rose while morale sunk to its lowest point ever.

There is a widespread sense that investors, as well as some newspaper owners and managers, are giving up on the industry. Knight Ridder could have fought for its survival, but there apparently was little fight left in its board or top company executives. The board sold the firm and its 32 newspapers to McClatchy for 4.5 billion dollars plus the assumption of two billion dollars in debt. McClatchy subsequently began selling off papers that were not in growth markets to private companies in the United States and Canada, including MediaNews Group, smaller newspaper groups such as Ogden Newspapers, Schurz Communications, and Black Press Ltd., and a private investor group formed specifically to acquire The Philadelphia Inquirer and Daily News. McClatchy accepted two billion dollars for 11 of the unwanted papers, covering 28 percent of its original purchase price and reducing the papers acquired by just one-third.

The secondary deals reduced the acquisition prices of the papers that McClatchy wanted, because the total asking price had undervalued the unwanted papers.

Why did McClatchy and others want to buy these papers when Knight Ridder no longer had the will to stay in the newspaper business? The primary reasons are these: The new owners believe in the papers' future; they determined the papers can be operated profitably without the management fees each paper previously paid to Knight Ridder, and they believe lower profit margins will still produce good returns on their investments.

Given this willingness to invest in newspapers, how can there be a capital crisis? And how can it exist in an industry that consistently produces above-average profits compared to other industries in which these same investors place their funds? Finally, how can there be a crisis in an industry in which journalists and media critics consistently characterize it as pleasing investors by providing high returns, sometimes to the detriment of how those who work at the paper are able to do their jobs?

NEWSPAPER GALLERY

Newsboy holding newspapers, St. Louis, Missouri. He stands by the lightpost with the front page in his hand, scowling at passing pedestrians who aren't buying his paper. May 1910. *Photo by Lewis W. Hine. National Archives/Courtesy Newseum.*

Lacking a Long-Term Vision

Although overall newspapers are highly profitable, publicly traded newspaper companies often show weakness in comparison with industries such as major drug manufacturers, telecommunications services, restaurants, resorts, department stores, property and casualty insurance firms, major aerospace and defense contractors, and hospitals. While newspapers tend to have better-than-average net profits and dividend yields and produce average returns on equity and average price/earnings ratios, they also tend to engage in short-term planning rather than developing longer-term strategic visions and promoting company development. Investors pressure them for short-term returns more than they do other types of companies that are able to articulate a vision of a sustainable future.

In many instances, management, journalists and industry critics appear to have a skewed vision of what it is that investors expect. About 90 percent of shares in newspaper companies today are held by institutional investors—pension and investment funds, insurance companies, and financial institutions. Although those who are critics of public ownership often accuse these institutions of only being interested in short-term profits, the truth actually lies somewhere else. What these investors are looking for is a good return on their money; to get that they are willing to trade short-term profit for long-term growth and stability. But most publicly traded newspaper companies offer no credible plans (or a vision) for anything beyond the delivery of higher-than-average quarterly profits. With this mentality in place, investors pressure boards and managers for high returns so that they can recoup their investments in a shorter period of time.

Newspapers have tried to improve their market conditions in recent years by altering journalistic content and its presentation, by improving customer service, and slightly altering their business models. These actions have been quite limited and relatively weak efforts to woo readers, soothe investors, and give the impression of active managerial responses to the changing environment. Few real innovations to expand markets, reach new audiences, or provide new products related to company growth and sustainability have actually been made. In short, such surface change has done little to alter negative investor perceptions of the industry.

Concurrent with these limited innovative efforts has been a constant and deleterious chipping away of resources within newspapers. But such measures are only effective if they are accompanied by strategy-driven reorganization and reconfiguration that produces new value, improves the quality of products and services, creates something new, and attracts new customers. Such enterprise is what appeals to investors. Yet newspaper executives are rarely engaged in this developmental part of the change process; instead cost cutting is their standard annual activity. This, however, abets uninterested investors by draining resources from newspapers they believe have a limited (or no) future and leaves newspaper enterprises without sufficient resources to renew themselves. The prospect of demise, coupled with the lack of strategic vision, becomes a self-fulfilling prophecy.

Creating Better Value

Investors' interest in newspapers is waning at a time when capital investment is very much needed as these companies transition themselves to compete in an era of new media. But many newspaper companies are confronting a crisis of value creation for investors because their ability to grow appears limited, consumption trends are poor, profits are expected to diminish in the future, and high levels of uncertainty surround these enterprises. For this situation to change, owners must demonstrate new value by demonstrating long-term stability while also creating new products and business models that emphasize their ability to establish connections (and interactivity) with readers using a range of different technologies.

Forward thinking requires newspaper companies to rethink their roles as creators and purveyors of information. Nowadays newspapers still try to provide something for everybody through a wide variety of features and sections; some of this is wanted by nearly everyone, but a lot is not wanted by many. Large amounts of material arrive on the pages from news services and syndicates but this same, or nearly identical material, is widely available in other places. Thus it is not surprising that the average reader doesn't bother with three-fourths of the newspaper content they've purchased; in time, consumers become unwilling to purchase them at all, especially when much of the content is available elsewhere for free and at a time when they want to read it.

To create lasting value, the business fundamentals of who they are, what they are, and how they serve readers and advertisers need to be examined by newspapers. What is offered in print must be unique and extremely relevant to the lives of readers. To do this might mean publishing not one but different types of newspapers for varied audiences in their markets. And because newspapers gain the attention of regular readers for only about three percent of their waking time, new delivery methods are necessary to entice customers at different parts of their day.

The challenge this presents to newspapers—and the level of capital investment that will be needed—will, of course, vary depending on whether the core market is national, regional or local. But if any of these newspapers are to survive, capital investment will be essential to their ability to function now and to innovate for future growth. To warrant investors' dollars, new revenue streams must be found; keeping revenues stable will not suffice. Achieving this, however, will call upon levels of creativity, innovation and entrepreneurship infrequently found in newspapers in recent years. An alternative is to find investors who regard newspapers as socially responsible investments and thus might be willing to produce lower profits. Similarly, there is the possibility of seeking private ownership structures that are not dependent upon the stock market. Or another alternative is to remove investors interested only in short-term financial gain by creating or supporting nonprofit newspapers or foundation ownership.

Whatever solutions are pursued, the industry's capital crisis will need to be addressed. It is fundamental to the other issues newspapers—and journalism—confront today. If ignored, the situation will only worsen. Concerted action is needed now for newspapers to secure a sustainable future. ■

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