

Navigating Newspapers to a Brighter Future

By Len Kubas

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I know in my gut that the current trend lines for printed daily newspapers can be changed. Decline is not preordained. Owners and managers can create a healthy future for their newspapers, and still be able to generate profits to invest in digital/ online.

Now, whether daily newspapers continue to prosper or are relegated to the museums of ancient linotypes and stereotyping equipment will depend on how they are managed in the next few years.

Based upon my and my team's experience working with newspapers, this essay provides recommendations for how you can create tomorrow's winning newspaper company.

Setting Course for the Future

Most media, communications, and advertising in the future will incorporate digital as the primary platform. The future of media and communications in the next few decades will not be "either - or" (either digital or analog), but rather some combination of both, along a continuum.

In the next ten to fifteen years, digital will most likely not fully supplant analog, just as jets have not totally eliminated prop-driven airplanes in aviation during the last 50 years. You, yourself, have probably flown on propeller regional planes one time or another in the last two years.

This essay deals primarily with newspapers published in North America. There are developments taking place in newspaper publishing in other parts of the world that run counter to the current trends in North America. Witness the burgeoning growth of paid newspapers in India, China, Latin America and Asia.

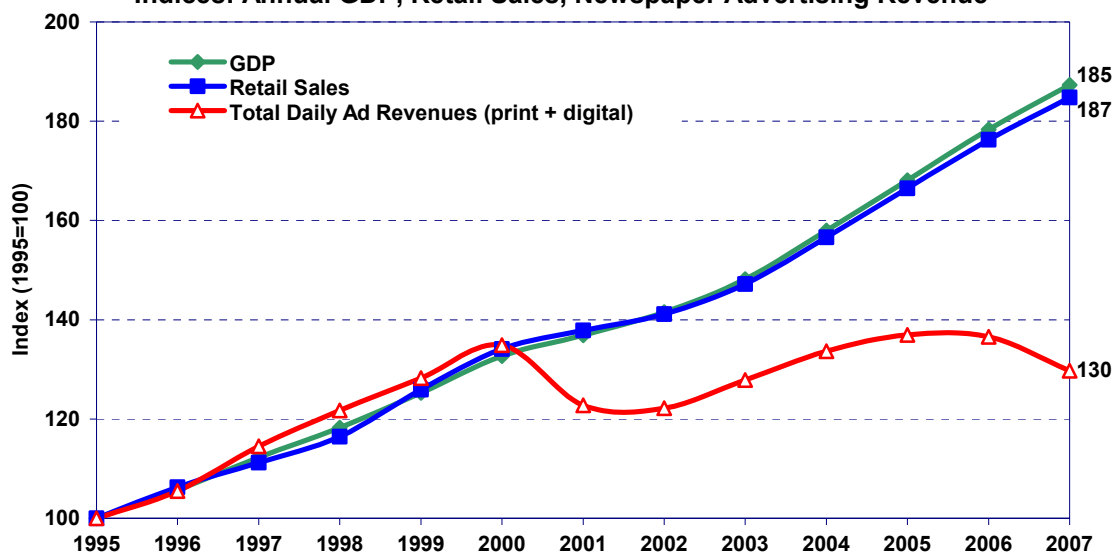
Newspapers Have Lost Altitude

U.S. dailies reached a "tipping point" in terms of revenue generation in early 2000. The following chart shows that for many years, daily ad revenues paralleled the nation's economic performance, as measured by Gross Domestic Product (GDP) and Retail Sales. But, in the second quarter of 2000, daily newspapers' ad revenue dropped precipitously. Since then dailies' growth rate seriously lagged economic performance, even during the strong expansionary periods in auto sales and real estate markets.

The advent of Web 2.0, combined with cyclical downturns in auto sales and real estate markets, has stretched the gap between dailies' ad revenue performance and economic growth. What does the future hold?

U.S. Daily Newspapers' Tipping Point: Q2 2000

Indices: Annual GDP, Retail Sales, Newspaper Advertising Revenue



Source: US Census Bureau, US Department of Commerce, NAA, and Kubas Consultants' Estimates

Looking at the above chart, the question is: "Are newspapers' current business practices capable of turning around the situation in today and tomorrow's uncertain economy?" Just what is the best way for newspapers to tackle intensifying competition from the Internet with its Google, Yahoo!, Monster, FaceBook and other attractors of audiences and revenues?

Managing by Margin

Since the early 1990s, publicly traded newspaper companies increased their average operating margins to the 20%+ range. Analysts, investors/owners, and managers seem to have accepted newspapers' above-average operating margins as a substitute for real revenue growth.

But even above-average margins are likely not enough to support high valuations or maintain stock prices indefinitely, as demonstrated by the steep declines in newspaper companies' share prices and market value of late.

Managing by margin becomes more challenging when the main method of boosting operating margin is by cutting costs. This sets into play the "Spiral of Doom," where revenue shortfalls result in both higher prices to customers and reduced volume at the newspaper. This usually leads to more and more cutbacks in marketing, product quality, and expenses, mainly through fewer staff.

Over time, this "Spiral of Doom" becomes a self-fulfilling prophecy, which in turn becomes increasingly difficult to disengage. If you survived the recession from spring, 2001 through late fall, 2001, you'll know what that's like. By many accounts, it looks like "Spiral of Doom" time again.

There are at least three dangers with the way daily newspapers manage by margin:

- First, it places a bone-bending strain on a business trying to manage decline, especially newspapers, with their high fixed cost structure. By its nature, decline is very difficult to manage and control, because declining companies or industries often lose important pricing leverage or bargaining power in the eyes of their customers.
- The second danger is the apparent lack of confidence by the industry's owners and operators. In early January, 2008, Lee Enterprises' management decided that investing some \$30-million to buy back stock and improve earnings per share was the best use of available funds, even though Lee's revenues were trending down.

In 2007, the president and chief marketing officer of Macy's corporate marketing told assembled newspaper executives that: "To win our ad dollars, [newspapers] have to be winning in the marketplace. But that is not the case."

Wow. When one of the largest newspaper advertisers in America tells senior newspaper executives that it's time to start winning, it really is time for newspaper executives to do something different. And that includes regaining collective confidence in the core product.

- The third danger with margin management practices is that they tend to work better when revenue grows. Financially savvy managers say that "you can't bank margins," nor can you "shrink your way to prosperity." They are right.

Going Digital

Almost every newspaper manager knows that digital revenue volume will be needed to counter declines in print revenues. But, considering recent developments and numbers reported by NAA and others, it seems unlikely that newspapers' online revenue streams will be able to replace the declines in print revenues.

For 2007, it is estimated that for U.S. daily newspapers collectively, online revenues represented about 8%-9% of total newspaper ad revenues. It is this percentage, this ratio, which highlights the crux of the problem.

For the next few years, the newspaper industry will require about 10%+ annual increases in online dollars just to offset each 1% decline in print revenues. If print ad revenues decline annually by 8%, as they have for some publishing groups, then online revenues will have to increase by about 80%, just to keep total revenues flat. How realistic is that? Even worse, dailies' online revenue growth rates have slowed from the 30%+ annually we saw in 2005 and 2006, according to NAA estimates.

Kubas Consultants believes that the solution, for both the short term and longer term, is to boost print ad revenues **as well as** to grow online revenues. Remember, it's not an "either - or" decision. Also, it's not just any print revenue, but profitable ad revenue. It is easy to sell something at or below cost. But is it good business?

Creating Tomorrow's Winning Newspaper Company

My team and I believe that newspapers can turn things around by applying new and better methods which harness the powers of the core print products along with online and digital. Tomorrow's newspapers need champions with a vision of growth.

Rekindle Confidence, Start Winning!

Jack and Suzy Welch, in their Business Week feature, The Welch Way of August 6, 2007, state that: *"The only choice for any organization, be it a company or a country, that wants to repair a damaged reputation ...[is to] start winning!"*

American dailies' newspapers' revenue losses and continuing declines in volume, market share and jobs, along with the negative coverage they generate, are tarnishing newspapers' reputation and may be eroding our ability to compete. The message that all stakeholders will want to hear from newspaper industry leaders is one of confidence in the core products, a pledge to grow print revenues and volume, and a solid plan for integrating digital operations.

Henry Ford was quoted as saying:

"Whether you believe you can, or you can't... You are absolutely right!"

As a newspaper manager, it is time for you to "believe you can" by revitalizing their belief in the value of newspapers and by planning to win in both print and digital. Kubas Consultants' definition of a winning newspaper is one that grows profitable revenues and volume, rather than sustaining artificially high operating margins with cost cutting.

Focus on New Performance Measures

About 45 years ago, Sam Walton changed retailing by opening the first Wal-Mart store. His success was based on charging slightly smaller markups than most competitors, which created higher sales volume. Total margin dollars counted for more than the margin in percentage terms did.

The example of Wal-Mart accepting lower operating margins to produce higher sales volume is one that should resonate with most newspaper managers. High prices inevitably constrain volume and revenues. In the past, how have your advertisers responded to ongoing annual rate hikes? By increasing their lineage for the coming year?

The rules of media businesses are being rewritten daily by new competitors, sharper buyers and empowered consumers. Google Print Ads is fundamentally changing the ad buying process. Newspapers must adopt smarter ways to package, price and sell advertising or risk being marginalized by the very advertisers they once relied on.

Reinforce The Value of Newspapers

Value is a relative measure that is determined by the buyer rather than by the seller. A product or service is not worth what you think it is but how much the customer is willing to pay for it. You probably know that not all readers, households, Zips, sections, positions, products, and advertising space are equally valuable to every advertiser.

Newspapers must reinforce their real value to customers by:

- Moving away from commodity pricing, where the focus is mainly on rate;
- Improving niche pricing and segmentation techniques;
- Producing compelling research to show the benefits that newspapers deliver;
- Using technology to make it easier to buy and sell advertising; and
- Becoming more flexible and accommodating by giving advertisers what they want.

Expand Newspapers' Horizons

We're told that goldfish seldom grow larger because their size is ultimately constrained by the physical size of their goldfish bowl. Could this statement also be applied to newspapers?

Consider just a few examples to expand newspapers' horizons:

▪ Free Newspapers

The rapid expansion of free newspapers worldwide—dailies, weeklies and specialized publications—signals growing interest in this business model.

Another approach is for free newspapers to focus on specific content like finance or sports and/or target discrete audiences like “Moms.” Gannett is a master at this.

Home delivery of free daily newspapers is a variation of the free business model that offers advertisers a different way of reaching specific audiences.

▪ Compact Newspapers

Compact formats are more likely to appeal to younger and female readers than conventional broadsheets. The preference for compact formats is no longer mere speculation, because it has been validated by reputable research and actual results around the world, including The Guardian in the UK and Gazet Van Antwerpen in Belgium.

In 2006, Kubas Consultants helped to convert a group of three daily newspapers from broadsheet to compact format and to improve how advertising was priced, packaged, and sold. Comments from the publisher, readers, and advertisers included:

“I'm still getting many positive comments, here's another example.” [Publisher]

“Sir: Hurrah and Olé, smaller IS better! First and foremost the new body font makes it easier to read. Secondly the smaller size is more manageable both sitting and reclining. The topics are presented with insight as to reader interest and in the same order each day. All these are pluses for us and we offer our congratulations to you.” [Subscriber]

“Thanks to Visual Impact Pricing, my business has taken off with a bang! The sales representative presented me with their new advertising initiative and I can contest “IT REALLY WORKS!” To achieve maximum exposure I advertised a 3.3” x 2.5” in the daily and the TMC, FOUR times a week for one month.” Their readers, MY CUSTOMERS, had many opportunities to know about my product, see my great pricing, learn about my services and most important, where I’m at!

“The advertising plan is as easy as 1, 2, 3. First I made an annual advertising commitment which gave me a significant discount incentive that will work for me all year on every single ad. Next I planned my advertising strategy with a qualified sales representative who developed the plan and now I’m enjoying the success by watching customers come through my door.” [Advertiser]

- **Modular Ad Units**

Newspapers are probably the only medium in the world that still accepts virtually all sizes and shapes of advertising. Modular sizing is an innovation that can improve both revenues and operating costs, especially when combined with other ad pricing elements, including VIP (Visual Impact Pricing). Modular ad units were part of the program Kubas Consultants developed for the newspaper referred to above.

- **More and Better Color**

It seems that many newspapers still price color as if it were 1967, when color was indeed difficult, complicated and expensive. Today, properly priced color can be a formidable competitive weapon that makes the newspaper more interesting and gives the advertising more impact.

- **'Lite' Papers**

In Europe, many publishers are repurposing editorial content from the main newspaper to create a smaller, compact and lower priced version designed for a younger reader demographic.

- **Other Niche Publications**

The growing roster of targeted or niche publications that are published by daily newspapers includes alternate newspapers, ethnic or Hispanic newspapers, community newspapers and specialty publications covering topics such as parenting, food, décor, etc.

Niche print publishing is clearly one of newspapers' real competitive advantages in the marketplace that should be exploited more aggressively. (Remember Gannett's Mom program mentioned previously.)

Navigating To A Brighter Future

So what do you, as a newspaper manager, have to do to ensure a safe and profitable journey to the future? "Doing more of the same" will certainly not work. Trite but true. What follows is our vision of one path that newspapers can follow to future success and prosperity.

More Than One Paper Per Market

To date, American daily newspapers have tended to share a number of common operating practices. One such practice is that of publishing one daily newspaper per market. There are only a few markets in America where there are multiple daily newspapers. Most daily newspapers operate in quasi-monopolistic isolation in their chosen market.

However, one homogeneous daily newspaper may no longer be sufficient, even for smaller markets. The competition is no longer the other daily in town, but niche publications, the Internet, community newspapers, other publications and other media operations. The real competition is for readers' time and attention.

We recommend publishing more, and different types of print products in each market—even if you are the only daily in town.

Better Advertising Practices

Newspapers, large and small, need profitable advertising to survive and grow. Advertising support depends on delivering the right audience and suitable exposure in order to produce measurable results for advertisers at a reasonable cost.

Advertisers are demanding simpler and less complex pricing, more transparency, recognition for all their spending with the newspaper, and demonstrably better results or improved ROI.

Meeting these demands requires change, but the resulting benefits are worth it.

Regain Pricing Leverage

It seems as if some daily newspapers have lost their pricing leverage or negotiating power.

When producing ad revenue becomes a function of having to accept a "take it or leave it" low-ball offer or bid from advertisers or agents like Google and Yahoo!, then newspapers may find themselves on a slippery slope. The end result is a devastating loss of bargaining power with less ability for newspapers to control their destiny—in print or online.

Our newspaper of the future will operate with more disciplined pricing practices. The World Association of Newspapers' (WAN) *Shaping the Future of the Newspaper Report 6.3: Advertising Best Practices*, states that: *"The time when newspaper publishers really need strong controls of pricing policy is when under pressure (real or perceived)."* We agree.

Paid Circulation And Controlled Distribution

In the near future, the conventional "paid" daily newspaper will have to co-exist with controlled distribution ("free") newspapers. As an example, look at Manchester, NH. These new newspapers will be precisely targeted to defined audiences, specific households, sub-zips or even to unique offices or commercial complexes.

Newspapers must become more receptive to composite paid and controlled distribution because:

- The cost of a daily's paid circulation operations (acquisition, delivery, customer service, verification, etc.) has been increasing faster than net paid circulation revenues. Today, the cost of running a paid daily's circulation department might be greater than all of the net circulation revenue collected, and that's just to keep "paid circulation" from declining too dramatically.
- Today's conventional paid circulation model may not be delivering enough of the right kinds of readers. The audience of most paid newspapers is aging faster than the population, with relatively fewer young families among a paid daily's readership base. Free distribution may provide a better opportunity to deliver desired audience characteristics to advertisers.
- In North America today, preprint distribution revenues represent about half of all daily retail advertising revenues, and are almost equivalent to the net circulation revenues at some dailies.

Most preprint advertisers are interested in reaching productive households: those in growing markets with a high concentration of younger families. Could newspapers generate more revenues by delivering more preprints to more desirable households with highly targeted distribution strategies? Yes.

We have developed an index of market potential or market attractiveness for advertisers, called, the Market Potential Index (MPI). We encourage newspapers to use it to create premium preprint packages which distribute to only the most attractive Zips in a market.

Your newspaper of the future will probably incorporate a combination of paid and free copies. Desirable households and audiences will receive a complimentary copy, sometimes by request, while other households can pay for their copy, if they wish. This has already occurred in a number of markets, including East Valley (Phoenix), AZ.

The Role of Research

Research will definitely play a larger role in tomorrow's newspapers. New research techniques will be required to measure and aggregate audiences across different platforms and channels. It will become more important for newspapers to demonstrate the results of advertising in print, since the instantaneous tracking of mouse clicks doesn't work as well for print.

Newspapers in Europe, and now increasingly in North America, are relying on online reader panels to measure readership of editorial and advertising content, as well as to obtain qualitative measures of this content.

As newspapers move to multiple platforms such as printed dailies plus online, mobile, video, local paid search and niche or targeted publications, they will have to use innovative research to capture, verify and package aggregated audience data.

The biggest challenge for research will be managing the transition from circulation data to standardized audience measurement systems. It can be done.

Compact Formats and Modular Units

Newspapers must start planning now for smaller physical dimensions. Readers universally prefer smaller, compact formats.

Our newspapers of the future, with some notable exceptions, will no longer be broadsheets. Conventional broadsheets are increasingly being converted to compact formats, or are being reduced to as narrow as 11 inches (approx. 31 cm) in width.

Reducing page width for broadsheets is really just an interim step to converting to a more compact format, based on modular units. Maybe US dailies should be increasing their web widths to produce longer tabloids, rather than narrowing them to produce skinnier broadsheets. We expect that many North American newspapers will convert to compact format within five years.

Offering modular ad units with compact formats can improve revenues because the page becomes the standard ad unit. Newspapers then sell modular advertising based on a page and portions-of-a-page units, rather than by inches, scc, mm or agate lines. Experience has shown that advertisers generally welcome modular ad units, especially when combined with lower costs, because advertisers are really buying impact, and not inches or discrete space.

Owning What Matters

Outsourcing certain operations will become more prevalent for tomorrow's newspapers. During the previous century, daily newspapers developed a management philosophy that was based on owning as much of the total publishing process as possible. This included a "trophy" building, massive production equipment and presses, a large contingent of employees and equipment in all departments, including trucks and delivery, and in some cases even investing in newsprint manufacturing.

Tomorrow's newspapers will own only what really matters: the editorial, technical and sales talent that is needed to develop and market competitive products and services. Demand for better quality printing and reproduction will encourage more outsourcing of production such as The San Francisco Chronicle, Montreal's La Presse and The Toronto Globe and Mail have opted for.

Some major metro newspapers are already outsourcing their circulation delivery and ad makeup, while preprint distribution to non-subscribers has been contracted to many suppliers, including American Color and the Post Office (USPS.)

We believe that in the future, more newspapers will be operating with the Metro free daily philosophy (“rent what you don’t have to own”), rather than with the traditional daily newspapers’ full “ownership of resources” philosophy. The cost of entry for publishing a newspaper has become more affordable to a greater number of potential publishers. Just look at the increasing number of free dailies across the US. In the future, resourcefulness will matter more than resources.

Another important development is the dismantling of publicly-traded newspaper companies and larger private groups. The Tribune Company going private may be the leading edge of a new trend in newspaper ownership.

Beyond Daily

There will be more, different print newspapers published, but not necessarily on every day of the week. Newspaper companies will produce different publications and offer digital platforms for special interests, for specific geographies, or targeted at particular lifestyles and activities on different days of the week. The era of just one newspaper serving all sectors of a community every day is fast fading. As the Internet becomes a real-time news and information portal, fixed daily print and deliver schedules won’t be as important.

Major metro dailies will start transforming their extensive zone editions that are printed and distributed as part of the regular run of press operations to free-standing publications that reach a larger, targeted audience and capture more and different advertisers than those that are currently being served by the paid daily.

Digital First

“Digital,” the final topic we discuss for our newspaper of the future, is probably the most important. Digital will become the driving force for tomorrow’s newspapers’ content, operations, and revenues.

Going digital reminds me of an old adage: *“Says Easy, Does Hard.”* What this means is that while most managers will agree that digital and online are crucial to newspapers’ future success, there is little consensus as to how to make digital work in the short-term, while managing the transition in revenue streams over time.

Overlaying this difficult transition is the ongoing slippage in high yield print revenues, which is only partially being replaced with digital revenues, as mentioned on page 3.

Transforming newspapers’ business model involves changing behaviors and beliefs as well as successfully implementing new strategies and tactics. According to Matt Asay (InfoWorld, Nov. 26, 2006): *“Business model innovation is essentially a human problem. People don’t like change, particularly when the old ways have yielded so much success in the past.”*

In becoming digital-first operations, newspapers can learn from industry leaders. There are a number of examples of newspaper companies that have adapted very well to the online world while setting an example for others. They include Schibsted, in Norway, Asahi Shimbun in Japan, The Guardian News & Media in the UK, Dow Jones/The Wall Street Journal, Cox Enterprises and The Tampa Tribune/TBO.com/WFLA. There are many more newspaper companies making progress by introducing digital into their operations.

The goal is not necessarily to duplicate the operations and practices of these and other industry-leading companies, but to understand and then adapt how they think about the future and how they manage change.

Schibsted’s Chief Executive, Kjell Aamot, describes his company’s approach: *“Publishing houses should be content providers to consumers and advertisers—reinvesting the value from traditional media into new media segments for growth.”*

The key phrase in Mr. Aamot’s description is “growth.”

Burn the Boats?

The major challenge for companies or industries wanting to reinvent their business models in the face of disruptive change is that in order to move forward, most will have to abandon any hope of retreating to what worked so well before. This is because the profits from the new way of doing business may not be as great as those generated by previous strategies or business models.

While Spanish explorer Hernan Cortes' decision in the year 1518 to burn the boats on arriving in Mexico may have been the right solution at the time—i.e. *really* motivate his “employees” to commit to the new environment—Kubas Consultants’ vision for your newspaper of tomorrow does not foresee abandoning print.

Newspaper managers like you must become more courageous and more innovative. Make your printed newspapers better and more resilient, starting today. This is the only sure way to produce the necessary funding you need for your newspaper’s digital future.

Len Kubas (len@kubas.com) is President of Kubas Consultants, a team of specialists in newspaper pricing structures, revenue development, and publishing strategies. Len has worked in editorial, circulation, production, advertising, marketing and corporate planning for newspapers. Kubas Consultants helps newspaper companies all over the world to implement new publishing and revenue generation strategies. For more information, visit www.kubas.com.

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