



## All the News That's Fit to ... Aggregate, Download, Blog: Are Newspapers Yesterday's News?

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The recent sale of Knight Ridder to McClatchy was one of those events that speak volumes about an entire industry. The newspaper business's long-term, seemingly inexorable decline is an old story that is hardly fodder for stop-the-presses, page-one play anymore. But in the same way that every misstep made by Ford or General Motors prompts a rash of stories and hand-wringing about the U.S. auto industry's disintegration, so does the Knight Ridder-McClatchy deal remind everyone of the wrenching changes that are transforming how people get their news.

In itself, the sale on March 12 of San Jose, Calif.-based Knight Ridder for \$4.5 billion in cash and stock and \$2 billion in assumed debt fell into the inherently newsworthy category. As the second largest newspaper concern in the United States prior to the sale, the fate of Knight Ridder's 32 properties was important to millions of readers and thousands of employees across the country. Equally newsworthy, and perhaps more stunning, was the immediate announcement by McClatchy, a newspaper chain based in Sacramento, Calif., that it would sell 12 of the papers it had just acquired, notably those located in regions of slow population growth. Among them are *The Philadelphia Inquirer*, *The Philadelphia Daily News*, *The San Jose Mercury News*, and papers in Minnesota, Ohio and Indiana.

Faculty members at Wharton and at journalism schools across the country say the Knight Ridder sale, which followed one of the most difficult years the industry has had -- declining circulation, job losses and falling stock prices -- markedly underscores the transformation sweeping the industry. Newspapers have two big strikes against them: They are in a mature industry (the first regularly published newspaper came out some 400 years ago in Europe) and they are a textbook example (stockbrokers are another) of an intermediary between sources of information and customers -- a role that is being increasingly challenged by the Internet.

To remain competitive in the coming years, these scholars say, daily newspapers will have to strengthen their efforts to attract younger readers, make more imaginative use of the Internet, and develop stories, mostly local in nature, that better meet the needs of readers who have thousands of news and information sources at their fingertips.

Wharton marketing professor [Peter S. Fader](#) holds out little hope that people will continue to buy physical newspapers in large numbers in years to come. He likens the Internet's assault on newspapers to the impact that digital downloading of music has had on compact discs: CD's still have appeal but they are no longer the sole, dominant medium they once were. "I still believe that there's a vital role for non-digital content in music," Fader suggests. "There's a lot to be said for owning a CD and putting it on



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the shelf and holding it in your hand. Some people say that same thing about newspapers. I'm not sure I agree with that. It may be true, but newspapers are transient. They have no archive value. I'm not going to add a newspaper to my collection. They are a nuisance to deal with, especially since we don't wrap fish anymore. When the Chicken Littles say, 'The sky is falling,' I think they're right."

Wharton management professor [Lawrence Hrebiniak](#) says newspapers have adapted and thrived during decades of competition from emerging media but are now being left reeling by a more intense level of competition from the Internet and cable television news. Newspapers themselves are to blame for a large part of the problem, having been flush with cash for years and thriving in large markets where they have often enjoyed monopoly status.

"If you look at the history of newspapers, they have been harassed for a long time [by emerging competitors]," Hrebiniak says. "Ever since the telegraph, radio and TV, everyone's been predicting the demise of newspapers. What have they done? They have adapted by being proactive. When TV and radio came along, newspapers bought them out. But I think the industry has matured to the point to where it has been a little lazy."

"It's a generally declining industry," adds [Joel Waldfogel](#), professor of business and public policy at Wharton. "If you look across ages of people, newspapers are much more heavily consumed by older consumers than younger consumers. A few papers have been able to distribute themselves in multiple places, the primary example being *The New York Times*. The *Times* has been able to keep circulation figures up through broader distribution, but that's not a strategy that will work for many papers."

### Mixed Economic Data

To say the newspaper industry is in decline, while true, does not tell the whole story. Circulation has indeed dropped in the aggregate, but most dailies remain quite profitable. Even *The Philadelphia Inquirer* makes money, just not as much as investors in Knight Ridder had wanted. Indeed, pressure from investors impatient with the profit margins of Knight Ridder papers and the parent company's soft stock price was the reason the chain was put up for auction.

How, then, is the industry really doing? The difficulty in making a simple, terse assessment is expressed in *The State of the News Media 2006: An Annual Report on American Journalism*, released on March 13 by the Project for Excellence in Journalism, an organization that works to raise the standards of American journalism.

"For the newspaper industry, 2005 turned out to be a year of unpleasant surprises," the report states. "Every indicator, including the number of news staff members that the nation's best metro papers field every day, was on a steep downward path. Yet the picture heading into 2006 is ambiguous. Newspapers, by our reading of the evidence, are not headed for extinction by the end of the decade as some commentary has implied. But it is far from clear how to characterize what is going on. Is this the beginning of an orderly transition to a new set of business models in which the papers wholeheartedly follow many of their readers online? Or will newspapers inevitably shrink -- in their news effort and even physically -- leaving a dangerous void?"

Statistics laid out in the *State of the News Media* report paint a mixed picture of the economics of the newspaper industry. Circulation continues to weaken; for the six-month period ending September 30, 2005, dailies declined 2.6% and Sunday papers fell 3.1%. At the Tribune Company, America's second largest newspaper chain in terms of revenues, circulation revenue was down 7%. Moreover, circulation has declined as a percentage of the contribution it makes to the total mix of newspaper revenue. In 2005 the ratio was about 20% circulation to 80% advertising. In the mid-1980s the ratio was more like 30%-70%. Wall Street discontent was measured by the stock prices of newspaper companies, which fell about 20% last year.

But profit margins in 2005 were off only slightly compared with 2004, the report notes. Thirteen publicly traded newspaper companies saw their margins drop an average of 1.5 percentage points, to just below 20%. Moreover, the average pre-tax operating margin for these companies "was still higher than the high-flying pharmaceutical or oil industries," according to the report. "That figure, though, clearly did not impress investors, who now put little weight on profitability alone. Big profit margins on flat revenues, for example, suggest a stale industry to Wall Street. The investment community is now more focused on revenue growth (what they call the 'top line') and on the broader question of whether newspaper companies are nimble enough to invent new business models and find a way to grow in the Internet era."

"The industry is healthy by metrics such as profitability," says Rich Gordon, a professor at Northwestern University's Medill School of Journalism in Evanston, Ill. "At the same time, I would say the industry is in a crisis and it's not going to be easy to get out of that crisis. To emerge from it whole and unchanged is going to be impossible. It's a tough time. It's not immediately clear there is an easy [answer]."

Looked at broadly, the problem facing newspapers is like that of other media, such as TV and magazines. The mass media are shrinking and they are going to continue to shrink indefinitely, according to Gordon, a former reporter for *The Miami Herald* who headed the *Herald's* new media division for four years before joining Medill in 2000. "That's because they no longer have a monopoly or oligopoly positions in the marketplace. We got into a position in most major markets with one newspaper and three major networks and a couple of national magazines, and their model revolved around building the largest audiences and selling ads to reach the largest number of people. There's no way around that. Advertisers are unwilling to pay to reach people unlikely to become customers, so they are moving to targeted audiences. Put those two things together -- and add that classified advertising is the largest revenue stream for newspapers and this can be delivered much more cost effectively online -- and you have a confluence of factors that will make it difficult for newspapers to have a growth strategy. They may continue to be profitable, but there's no way they are going to grow."

Just how dependent dailies have been on classifieds was illustrated in a March 20 story in *The New York Times* about the difficulties facing *The San Jose Mercury News*, one of the former Knight Ridder papers that McClatchy now wants to sell. Revenue from help-wanted ads dropped to \$18 million in 2005 from a peak of \$118 million in 2000 as high-tech companies in Silicon Valley, themselves financially hobbled by the dot-com bust of 2000, turned to Internet firms like Craigslist.com and Monster.com to post job ads. Scott Herhold, a *Mercury News* columnist, told the *Times* that "Craigslist has disemboweled us in many ways."

### **Benchmark or Bellweather**

Jacqui Banaszynski, a professor at the University of Missouri School of Journalism in Columbia, Mo., and former associate managing editor of *The Seattle Times*, says the Knight Ridder sale is a major milepost in the profound changes sweeping the industry. "Knight Ridder is so large and it covered so much of the country, I think you have to look at it as a benchmark or bellwether," she says. "It's interesting, and not insignificant, that when McClatchy bought it they made an immediate decision to jettison some of the properties. McClatchy has always been known as being a fairly smart strategic company business-wise, and this seems consistent with that."

The big question for newspaper companies, Banaszynski continues, "is 'How long are people willing to invest in and support the traditional newspaper model while they figure out what the next iteration of content providers [will be] ... and how to make money on it?' Another big question is, 'How large a profit margin will [newspapers] have to make during that period?'"

Edward J. Trayes, a professor in the journalism department at Temple University in Philadelphia, has seen many changes in newspapers and reading habits since he joined Temple's faculty in 1967. Like his colleagues, he cites all the major reasons for declining newspaper readership, including the burgeoning

information streams that beckon to computer savvy readers. But he says little things can mean a lot, too.

For instance, it seems that many younger commuters he sees on the train each morning prefer to listen to iPods on their way to work rather than peruse the *Inquirer*, he says. Other commuters simply do not want to get their hands and clothes dirty from handling newsprint -- a shortcoming that publishers have never been able to eliminate. In addition, as a mobile society, fewer homeowners want the hassle of dealing with vacation stops, especially if the circulation department falls down on the job and fails to halt delivery of the paper.

"Starts and stops are very tough for newspapers; they don't manage it well," Traves notes. "Who wants papers piling up outside the house when they're not there? It's a calling card [for burglars]." And then there is the need to recycle all those papers that pile up around the house during the week. In the end, many busy customers just cancel their subscriptions.

So, what is the industry to do going forward? Faculty members offer the following advice to newspapers struggling in an uncertain environment: Papers are not going to disappear, but executives must recognize that the fat and happy days are gone; in stock-market terminology, don't fight the tape. More than ever, think smaller staffs, local coverage and, perhaps most important, younger readers. Don't dumb down, but take the needs of your readers into account much more than you ever have in deciding what makes a story. Accept cultural change in the newsroom; the role of the editor as all-powerful intermediary is waning in the eyes of Internet-savvy readers. Think multiple distribution channels; cyberspace is as much a friend as a competitor. Recognize that the reader's time is valuable but also remember that analysis and narrative storytelling -- not just facts and figures -- remain in demand.

For their part, newspaper shareholders should be willing to accept lower profit margins to give editors, reporters and ad executives the opportunity to make the changes necessary to adjust to the brave new world of delivering news and information. Wharton's Hrebiniak says it is not uncommon for boards of directors in other businesses to take a long-term view and provide such breathing room in times of turmoil. Traves, the Temple professor, agrees: "Maybe the model down the road will be to have ... more local autonomy instead of corporate pushing, have more trust in managers on the local level and give them more of an opportunity to do what they feel they need to do."

Wharton's Waldfoegel, who has studied the news business, says newspapers remain "well poised" to take advantage of the Internet because reporters and editors have already created, for their print editions, the content needed to be posted online. "Pre-existing content producers are big on the web since they are already writing stories. From an early date, they have been attractive sites."

But newspapers have been struggling to figure out how to make more money than they already are from their online operations, Waldfoegel adds. All are selling advertising but only a few are charging subscription fees. *The Wall Street Journal* has done so since it launched WSJ.com, and *The New York Times*, with its Times Select option, started charging readers fees several months ago for access to certain areas of its website.

Still, some key questions have yet to be answered definitively: Will charging for online access simply cause readers to shift to free news sites? Does posting content free of charge mean that readers abandon the print edition? Or does it entice them to go out and buy the hard copy from the newsstand or to start home delivery?

Waldfoegel says daily newspapers also must find a way to increase the quantity and quality of local coverage. "In the last 10 to 15 years, we've had huge growth in national media," he notes. "Consumers can clearly get better national coverage [from sources other than their local paper]. What newspapers have done and have to continue to do is offer more local coverage. That's the way dailies try to stay relevant."

Banaszynski of the University of Missouri stresses that there simply is no single "magic bullet" that will wipe away the problems of the newspaper business. Yes, local coverage will be necessary but it will not come easily or cheaply for big-city dailies. "One of the things newspapers have been trying to do is this mantra of 'local, local, local,'" she says. But if local news is going to be something that readers cannot get anywhere else, "you have to get to the granular level. You need bodies and resources, and that's expensive."

Banaszynski says the roughest road ahead may be for those mid-size newspapers caught between the major dailies and the small town and suburban papers. The truly big papers with the deepest pockets -- *The New York Times*, *The Wall Street Journal*, *USA Today* and perhaps *The Los Angeles Times* -- have such deep benches that they will be able to appeal to readers largely on the basis of their national and international coverage, she says. The small papers, in turn, will have a lock on their markets because they make no pretense of offering anything but deep local coverage and have no competition on that score.

But papers like *The Philadelphia Inquirer* are in a bind; they can be neither *The New York Times* nor a truly local paper because they lack the staff to fulfill either role. "It's those regional and metro papers that were such a force that are now the ones in the biggest trouble," Banaszynski says. "*The Philadelphia Inquirer* can't be local enough to be truly local" for readers who want to know "what happens right up my street."

### Targeting Young Consumers

Gordon of the Medill School suggests that newspapers, to thrive, will have to develop portfolios of media products. One newspaper that has done well with this approach is *The Arizona Republic*, which Gordon says has 11 discrete product lines, including print and Internet news editions, direct mail products, and magazines. "What they can show is that with an array of products they have a significantly larger audience aggregate than any one of their products has," Gordon explains. "That's the model for success."

But Gordon adds that the *Republic* has a critical advantage that many other newspapers do not: It is in a Sun Belt market with a growing population. "That," he says, "enables them to have money to invest in new initiatives."

Wharton's Fader says a key challenge for newspaper websites is "engaging the reader in ways they couldn't do before, whether that means giving interesting pathways through the content to make it stickier or coming up with features that just couldn't exist in the ink and paper world. But it's still an enormous uphill struggle and the economics just don't favor them. In the medium-term, there's no way they can make the same revenue online as they do with their print editions. I do not think there's any kind of cross-channel synergy. The website isn't going to make somebody say, 'Hey, I'm going to buy today's paper.'"

Perhaps more than anything else, appealing to younger consumers is essential to the future of newspapers, but those readers are more likely to be more attracted by the newspapers' websites than by their traditional print editions. "If you look at data on readership, you can go back 100 years and each generation has read newspapers less than the generation that came before it," according to Gordon. "When I got into the business in the early 1980s, we recognized that younger people read less, but we felt it was a life-stage issue, and that as they got older [and had to pay] mortgages and taxes, they would increase their readership. But that's not the way things occurred. Usage patterns are set by the early 20s and they don't change over time."

Despite the transformation of the newspaper business, not many people think broadsheets and tabloids

will disappear. Even if many hard-news stories have become commoditized, daily papers have few competitors in providing thoughtful analysis and opinion. And even in the digital age, there remains a hunger on the part of readers for stories -- told well with powerful narrative force -- that help explain the world they live in.

Michele Weldon, a veteran feature writer and now an assistant professor at the Medill School, has just finished writing a book titled, *Everyman News: How and Why American Newspapers Changed Forever*. In it, she details how newspapers in markets coast to coast are increasingly using "anecdotal and humanistic" leads in page-one stories, both features and hard-news pieces.

"Newspapers will never win the time race," Weldon says. By the time readers get their papers, they pretty much know the news, and newspapers have already been beaten by TV, radio and bloggers. As a result, newspapers "have to provide news more in-depth or somehow [make it] more appealing. Readership studies have shown that people are interested in reading localized stories or human-interest stories. So newspapers have begun to featurize the news."

Is narrative storytelling a harbinger of things to come? "It can be," Weldon responds. Some people say reliance on narratives represents little more than dumbing down to readers and is part of "a last-ditch effort to save the industry." Others, however, "say this is what's going to save newspapers," she notes. "Some people contend that it's a good thing. It will [give] people a reason to read newspapers because they can't get this content" anywhere else. And a good narrative can hold a reader's attention regardless of whether the medium used is newsprint, a website or podcasting. Says Weldon: "We've got to stop worrying about how the news is delivered."

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