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# The Newspaper Industry in Crisis

Late in 2008 Arthur Sulzberger, Jr., chairman of The New York Times Company, grimaced after reading the latest installment of the "Punch-o-meter," a long-running series in Rupert Murdoch's tabloid *The New York Post* which chronicled *The New York Times'* management challenges and invariably featured a headshot of a bruised Sulzberger with an astonishingly large black eye. Earlier in the week *The Economist* wrote that the embattled Sulzberger had "come to embody the troubles of America's newspaper industry."[1] The day before New York Times management had informed employees that the company was selling a stake in its new $600 million headquarters building in Times Square to raise cash; one day earlier the venerable but over-leveraged Tribune Company, which published such renowned dailies as the *Chicago Tribune* and the *Los Angeles Times*, had filed for bankruptcy protection; The *Detroit Free Press* and the *Detroit News* had announced plans to limit home delivery to three days a week to reduce costs[2]; while the *Christian Science Monitor* had decided that it would be the first major newspaper to cease its print edition altogether.[3]

Sulzberger, along with his peers in the industry, was grappling with the impact of two forces -- changing social trends and increased competition from new media. Fewer and fewer people were reading newspapers; they had increasingly become a medium for older readers. The rise of the internet had created an alternative and immediate 24/7 access to news as well as strong competition for advertising revenue.

Looking at these trends, many industry observers had pronounced the "death of the newspaper" (See **Exhibit 1**). But Sulzberger felt that newspapers, given their strong brands and fact gathering and analytical capability, were well-placed to compete in the internet age. The words of his colleague, Bill Keller, executive editor of *The New York Times*, echoed in his ear, "Google News and Wikipedia don't have bureaus in Baghdad, or anywhere else. With a few exceptions, they do not, in the cold terminology of the 21st-century media business, create content. Wikipedia and Google aggregate information from, well, from us."[4] The real estate mogul and recent acquirer of the Tribune Company for $8.2 billion, Sam Zell, had put it more bluntly: "If all of the newspapers in America did not allow Google to steal their content, how profitable would Google be? Not very."[5]

## History of the Newspaper

The first recorded "newspaper" was commissioned under Julius Caesar in ancient Rome.[6] The *Acta Diurna, (Daily Events) Acta Senatus*, and *Acta Publica* were handwritten papers that chronicled

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Professor David Collis, Senior Lecturer Peter Olson and Research Associate Mary Furey prepared this note as the basis for class discussion.

military matters and punishments, government affairs, and public affairs, respectively.[7] These papers were posted prominently throughout the capital.

In 1447, Johann Gutenberg invented the printing press which enabled the mass production of news.[8] Printing was done on a leisurely schedule, dictated by noteworthy events. The first newssheet to be produced on a weekly basis was the Venetian *avisi* or *gazette* in 1566.[9] By the seventeenth century, newspapers were circulated on a weekly schedule in many parts of Europe.[10]

The industrial revolution in the nineteenth century produced two breakthrough technologies which enabled news reporting and distribution for a mass audience: the telegraph, which shortened the lead time for news stories from days or weeks to hours, and the railroad, which facilitated newspaper delivery to a broader geographical audience. The combination created the newspaper as it existed for nearly 150 years – the daily source of local, national, and international news made available by early morning to homes nationwide, and paid for primarily by revenue from advertisers attracted by access to a mass audience.

Typified by Cary Grant in *His Girl Friday*, the newspaper editor presided over a bustling newsroom of manic reporters rushing in with scoops, clattering typewriters and cries of "hold the front page!" as the feat of printing and distributing millions of newspapers to a strict daily schedule became a feature of 20th century life. The editorial content of the paper included foreign news, with extensive foreign dispatches from reporters stationed in capitals across the globe, as well as opinion pieces that had real impact on public policy; because of the lack of competing sources, the newspaper had an authority that no other sources of information could match. As a result, the newspaper industry became a highly profitable and influential business controlled by media barons such as Randolph Hearst and Lord Rothermere.

In the mid-twentieth century, newspapers had to contend with the rise of two new sources of mass media -- radio and television. No longer monopoly providers of the news, they had to compete for attention with these real-time formats. As radio and television audiences grew steadily, they became a favored way for advertisers to reach a mass audience, and as they attracted more listeners and viewers, they attracted a greater share of advertising revenue.

Towards the end of the century newspapers faced the introduction of another competitor: cable news, initially in the form of CNN founded by Ted Turner in 1980.[11] The rise of cable news coincided with the decline in newspaper circulation. Circulation of U.S. daily newspapers peaked in 1984, with a total of 63.3 million, which comprised 35.7 million morning papers and 27.6 million evening papers (See **Exhibit 2**)[12].

Cable television presented news in a suitable manner for time-pressed multi-taskers. In contrast to a newspaper, which presumed a moment of quiet concentration on the part of the reader, a cable news show assumed it had to compete for the readers' attention. Graphic, punchy images were interspersed with 30-second "sound bites" which conveyed the main story without going into distracting details. One key advantage of cable news was the ability to report on breaking events as they happened, as opposed to newspapers, which had to wait for the next day's edition. CNN's big breakthrough was its live reporting from Baghdad in the middle of the 1991 Gulf War. In 1993, 58% of respondents to a Pew survey said they read a newspaper the previous day, and 60% said they regularly watched the nightly network news. In 2008 more people said they watched cable news than those who said they read a newspaper the previous day or watched network news[13] (See **Exhibit 3**).

## Industry Economics

Newspaper revenues were derived from circulation and advertising, with the breakdown between the two shifting throughout time as circulation rates decreased. For example, in the 1970s, about 30% of revenue was generated from circulation and 70% from advertising. By 2000, the revenue breakdown was closer to 20% circulation and 80% advertising (See **Exhibit 4** for revenues and expenses for a typical newspaper).[14]

Newspapers had three sources of circulation revenue: single-copy sales, home delivery, and postal service delivery. Single-copy sales referred to papers that were sold to street vendors at wholesale prices. The vendors then sold the papers to the public at retail prices. Retail channels included newsstands, stores, newspaper boys, and street racks.[15] Home delivery referred to independent contractors who purchased papers at the wholesale rate and delivered them to people at their homes at the retail price. By the mid-twentieth century, the paper boy, who pedaled around suburban neighborhoods on his bicycle with a sack of newspapers, had become a cultural fixture.

Historically, some newspapers would put out two editions each day -- a morning and an afternoon version of the paper. Some newspapers, such as the U.K.'s *Evening Standard*, only published an afternoon edition. The advantage of the afternoon edition was that it could report on breaking news that occurred during the day as well as the closing stock market prices. However, with the rise of cable news and internet news sites, the advantage of the afternoon edition in reporting breaking news increasingly came under attack from new media sources.

Until the 1980s, most newspapers were local. Local papers covered fewer topics, and the staff size was smaller and paid less than those at national outfits. As a result, single copies and subscription rates were lower. The local papers relied on advertising specific to their locale, while national papers, such as *USA Today*, relied more heavily on display advertising, such as for airlines or hotel chains.

A few newspapers, such as *The New York Times*, expanded nationwide by leasing press time from existing printing plants across the country to facilitate same-day home delivery. Sulzberger's reasoning was that home subscribers represented the most loyal readership base and that *The New York Times* had become America's leading national quality source of print news.

There were two types of newspapers: "tabloid" and "broadsheet." Historically, a tabloid newspaper, such as *The New York Post,* was printed in a much smaller, easier to read format, and relied on sensationalist headlines, short, punchy stories, and a steady diet of scandal, gossip, and sleaze. Broadsheet newspapers, such as *The New York Times,* were printed in a larger format, and relied on longer, more thoughtful articles on politics, business, and foreign affairs. However, with the decline in newspaper readership, the traditional distinctions began to blur as broadsheets adopted tactics from the tabloid playbook, such as moving to smaller formats, more celebrity coverage, and more sports news.

There were three parts to advertising revenue: classified, retail, and national (**Exhibit 5**). "Classified" was a broad category that included advertisements for help wanted, cars, and real estate. In the late 1990s, classified advertising accounted for approximately 40% of ad revenues for a newspaper and was the most profitable component of ad sales. Classified advertising, however, was the most affected by economic downturns.[16] Retail, or local, advertisements – including the mound of color flyers advertising the week's special deals that came with every Sunday paper - typically comprised half of total advertising revenues. The profitability of retail advertising had declined, in part due to shifts away from print promotion by print retailers and consolidation among retailers, like department stores. National display advertising, which included brand building campaigns, accounted for the remaining 10% of advertising.[17] National advertising was more profitable than retail, with national advertisers being charged rates that were on average 60% higher than those for local advertisers.[18]

Major expenditures for newspapers were paper and printing costs, which accounted for nearly 40% of revenues. Distribution, ad sales, and the editorial function comprised the remainder of the costs at around 10% to 15% of revenues each.[19] Information technology costs were small but rising as newspapers themselves switched to digital processes for even the most traditional functions of the journalist and the prepress operations. Economies of scale arose in printing (full color presses that could print millions of copies within the few hours allowed by the daily schedule cost tens of millions of dollars) and distribution. Coupled with the fact that advertisers went after the paper with the highest reach, the U.S. newspaper industry became characterized by local monopolies.

## The Rise of the Internet

The uneasy competitive equilibrium between radio, television, cable and newspapers lasted until the late 1990s and the rise of the internet which was perhaps the final nail in the coffin for newspapers. News – on whatever topic interested readers from politics, to celebrities and sports results, and often sourced from the newspapers themselves - was made available instantaneously and without charge over the web.

**Subscription** Young people drove the trend towards online news consumption. A 2004 survey commissioned by the Carnegie Corporation found that people between 18-34 got their daily news primarily from the internet and local television. Only 19% of those surveyed read a newspaper daily. According to the *Carnegie Reporter*, "the future of the U.S. news industry is threatened by the seemingly irrevocable move by young people away from traditional sources of news."[20] The average age of a print newspaper reader had reached fifty three.[21] (See **Exhibit 6**).

Accustomed to text messaging, Facebook, and video games, many young people wanted news on demand. According to Jeff Jarvis, journalist and blogger, "young people are more curious than ever but define news on their own terms. They get news where they want it, when they want it."[22] Journalists needed to report the facts, but they also had to tell people how to find and analyze the information, and they needed to provide updates on a continual basis.[23] Forty-four percent of people aged 18-34 checked websites like Yahoo for their news intake at least once a day.[24]

This drive toward online media led to changing attitudes towards news consumption. In its 2008 survey, the Pew Research Center concluded that most Americans (62%) look to the news to get a broad overview of top stories rather than detailed accounts (27%). Further, many people became what they classified as 'news grazers' – people who check the news at varying, rather than scheduled times during the day – often by simply using Google Search.[25] The possible exception was the weekend when consumers had more time available to read a newspaper. Circulation of weekend papers was accordingly holding up better than daily papers.

The picture was somewhat different outside of North America. Asia, and particularly the developing economies of China and India, registered growing paid-for circulation figures. (See **Exhibit 7**). Circulation of Paid-For Dailies declined in North America and Europe, but rose in Africa, South America and Asia.

**Advertising** From the 1960s to the 1980s, U.S. newspapers received around 30% of all advertising revenue.[26] With the rise of the internet, online advertising took market share away. In the U.S., the share of internet advertising expenditure increased from 3.4% in 1999 to 9.0% in 2007. In the

U.K., the online share increased from 2.8% in 2003 to 18.8% in 2007 (See **Exhibit 8**). As a result, in the U.S. in 2007, newspaper advertising revenues fell by 7%.[27] And this trend was even more pronounced overseas. In Switzerland and the Netherlands, newspapers lost half their classified advertising to the internet.[28]

Internet advertising had two main advantages over advertising in printed newspapers. First, it could be targeted to specific audiences, areas, or interest sectors, unlike a newspaper advertisement which reached all readers whatever their interest. Second, internet advertising could be tied to specific actions, for example pay per click, or pay per purchase, more directly tied to the value created for the advertiser. The share of internet advertising in the U.S. was expected to double from 2006 to 2010, surpassing advertising expenditures for newspapers, radio, and magazines.[29]

Classified advertisements were particularly hard hit by the internet. Craig Newmark founded Craigslist, a free, online classified-listings company, in San Francisco in 1995. By 2008 Craigslist featured local listings for jobs, housing, services, dating, etc., and as a discussion forum in 550 cities in 50 countries while employing a staff of only 25. [30] [31] With 12 billion page views per month the site displayed no graphics, just lists that linked to other lists. Unlike other online models, Craigslist did not feature any advertising, but made its money ($100 million in annual revenue) by charging employers and real estate brokers in certain cities for their listings.[32]

One category that was hit particularly hard was recruitment advertising, which in 2000 accounted for some 18% of all newspaper revenues. From a peak of $8.7 billion in 2000, print recruitment advertising revenues declined by over 50% to around $4 billion in 2007.[33] Online recruitment advertising garnered revenues of $3.5 billion in 2007, though some estimates put this as high as $6.7 billion. Companies such as Monster, Hot Jobs, and Ladders offered advertisers the promise of reaching a specific, targeted audience. And other online companies, such as Craigslist and Linked In, were also beginning to compete for recruitment revenues. In January 2008, *The Chicago Tribune* stopped including classified ads in its weekday papers, apart from a few pages on Tuesday, which were fashioned after Craigslist listings.[34]

Traditional print display advertising was replaced online by banner advertising or by sponsored advertising on sites like Google Search. Many of these advertisements were placed through advertising networks that sold the inventory of page views at very low rates.

## Newspapers Fight Back

**Consolidation** In their heyday in the 1970's, 98% of U.S. newspapers were local monopolies,[35] with some companies achieving an operating margin anywhere between 20% and 40%.[36] The number of independent newspapers declined over time as big players weeded out the competition. Changes in technology and the relaxation of regulation of newspaper ownership accelerated the trend. In 1953, 1,300 of the 1,785 daily newspapers in the U.S. were owned by independent publishing families; by 1980, the number of independent newspapers was closer to 700.[37] By 1988, the business was dominated by about 12 large companies.[38]

Companies such as Gannett and Tribune had acquired many local papers and expanded their multimedia empires.[39] (See **Exhibit 9**) With 85 daily newspapers (each with its online version), and 900 non-daily publications in the U.S. market, Gannett was the largest U.S. newspaper owner, amassing 2006 revenues of $5.7 billion.[40] In the U.K., the company was also the second largest regional newspaper publisher both in print and online with 17 daily newspapers and 300 non-daily publications along with locally integrated web sites.[41]

Newspaper companies became part of media groups that operated radio and television stations and also leveraged their brand equity to diversify into other media, such as dating web sites. The New York Times Company operated the web site About.com and a classical radio station. In the U.K., *The Guardian* launched a dating site, SoulMates, with the notion that one could trust their site to find a kindred Labour-voting, educated member of the middle class (the stereotype of Guardian readers) more than Match.com.

**Cost-cutting** The most headline-grabbing way in which newspapers economized was through job cuts, which gained momentum in 2005. In October 2008, The Tribune Company, owner of *The Los Angeles Times* and *The Chicago Tribune,* announced that it was further reducing its *Los Angeles Times* newsroom headcount to one half of what it was in 2001.[42] That same month, The Gannett Company announced that it was eliminating 10% of its staff.[43] Staff cuts hit the editorial function hardest and were particularly heavy in the foreign and out of town bureaus. As staff was reduced, editors depended more heavily on wire services, such as the Associated Press, Reuters, and Bloomberg to provide foreign news. Even so, as one editor noted when asked to make another round of cuts, "I'm past bleeding – we're into amputation now."[44]

Editors also tried to reduce costs by focusing on content areas that took fewer journalists and less time. Unlike investigative reporting, which was time-intensive, editors focused on lifestyle sections, celebrity news, and sports. These topics were more appealing to younger readers, and were often featured in separate sections targeted to attract a particular market segment (See **Exhibit 10**). Of 95 papers that featured a science section in the 1980's, only 35 remained by 2008.[45]

Newspapers also reduced other costs. They cut the number of pages in the paper, reducing printing costs, in some cases moving to smaller formats, and reduced distribution costs by eliminating afternoon editions. They also disposed of fixed assets, as in the case of *The Record* in New Jersey, which sold their physical headquarters for a savings of $2.4 million a year in favor of "mobile journalism,"[46] or shared printing presses in order to economize on capital.

Since the passing of the 1970 Newspaper Preservation Act, many competing local newspapers have shared printing and distribution costs and some revenues under joint operating agreements. Despite observations that these agreements "have clearly had the effect of crippling the weaker paper,"[47] the trend had continued. The *Dallas Morning News* and the *Fort Worth Star-Telegram* were sharing local coverage as was the *Washington Post* and the *Baltimore Sun.* The *Tribune* was in talks with the *Washington Post* to close dozens of its foreign bureaus and instead pay the *Post* for its foreign coverage.[48] In the U.K., *The Guardian* and *The Telegraph* had historically shared printing presses, while the Dallas and Fort Worth papers were distributing each other's papers to cut costs. Gary Wortel, publisher of the Fort Worth paper noted of his local rival, "A decade ago it was a different world. I don't look at us as competitors anymore. Really our competition is with media fragmentation around the country and internationally."[49]

**Price increases** Perhaps in an attempt to milk loyal customers for whom reading the morning paper was a daily ritual, newspapers increased their cover prices. A daily copy of *The New York Times* cost 20¢ in 1978 and $1.50 in 2008, an increase of 3.2% per annum in real terms. *USA Today*, the most widely circulated national newspaper in the U.S., increased its cover price from 50¢ to 75¢ in 2006, and to $1 in 2008.

**Segmentation** To gain more readers, newspapers began segmenting their readership more finely and developing specific content based on the needs of each group. For example, *The Washington Post* tapped the commuter segment with the launch of its ad-free *Express.* The *New York Times* released publications such as Fashion Boston and Design New England to target specific audiences. Additionally the New York Times added additional sections such as "Circuits" which were designed to be more selective and therefore more attractive to advertisers.

**Free papers** According to *The Carnegie Reporter*, "the development of free papers represent[ed] the largest single media industry response yet to the readership collapse."[50] A free paper was a smaller, usually tabloid paper. This format was characterized by concise story-telling, easier-to-read print, and greater use of images and color versus the larger sheeted, multiple-columned, black and white version known as broadsheet. The smaller size meant free papers saved on printing and ink costs, and because the revenue model was advertising driven, they saved on the cost of operating a subscription and circulation department, while allocating a higher share of pages to advertisements than paid-for papers.

Free papers were circulated Monday through Friday and were on average 24 pages in length. Much of the content came from news agencies and third party sources which minimized the number of journalists needed on staff. Total staff of a typical *Metro,* the most popular free paper, was about 40, 20 of whom were journalists.[51] Select international, national, local news and sports were featured, along with a heavy helping of celebrity and entertainment news, crosswords and games that was designed to be read in a twenty minute commute. The paper was distributed at no cost to the consumer at transit hubs, such as subway stations. Because they targeted a highly sought after customer segment -- young professionals perhaps too busy to be susceptible to television or subscription newspaper advertising -- advertisers paid premium rates.[52] According to Chris Ma, publisher of *Express,* the *Washington Post*'s free paper, "We're reaching commuters who are infrequent or non-newspaper readers and building an advertising business at the same time."[53] The number of free newspapers increased to combined circulation of 41.04 million in 2007, representing a 173.2% over five years (**Exhibit 7**).[54]

**Online Strategy** Newspapers initially resisted going online because they did not want to lose subscription revenue by cannibalizing print circulation. As a result, many decided to charge a subscription for access to online content, or offered it only to print subscribers. The resulting "walled garden" strategy (creating a wall around proprietary content) quickly fell apart, and by 2000 most newspapers made their content available online without charge. Moreover, while some newspapers were actually early responders to the move online - the *San Jose Mercury News* and *USA Today* started their sites in 1995 - according to Jack Shafer of Slate.com, "from the beginning, newspapers sought to invent the Web in their own image by repurposing the copy, values, and temperament found in their ink-and-paper editions. Despite being early arrivals, despite having spent millions on manpower and hardware…every newspaper Web site is instantly identifiable as a newspaper Web site. By succeeding, they failed to invent the Web."[55]

By 2008, however, most newspapers had learned to take advantage of the internet. They were no longer tied to specific publishing deadlines, but could continually update content. They could also use multimedia, particularly video footage, rather than relying on print. They also had the ability to become portals, aggregating links to material on other sites and could tap into the power of social networks. Each of these possibilities involved content created outside the paper itself, whether by television networks, bloggers, or broader communities, and selected and to an extent validated by the brand of the newspaper. Newspaper companies were using their information to create verticals – specialized content areas to attract the readers who wanted to know more on a certain topic.

Indeed, by 2007, in spite of falling print circulations, newspapers were actually reaching far more consumers that ever before. Newspaper web sites generated an average unique audience of over 30 million per month (See **Exhibit 11**). The amount of time that people spent on a newspaper's website averaged about 44 minutes per user per month, whereas the average reader spent 40 minutes with print each day.[56] The percentage of people going online for news three or more days a week rose from 13% in 1998 to 37% in 2008.[57]

While the move online presented great cost savings in manufacturing and distribution, Walter Hussman Jr., the publisher of the *Arkansas Democrat-Gazette* noted that newspapers generated $500 to $900 a year in revenues per print subscriber but only about $5 to $10 a year per unique website visitor. Despite increased viewership, the Internet still accounted for less than 10% of most newspapers' revenues. (See Table A).

**Table A**. Cost Structure Shift from Print to Online

| | Print[a] | Online |
|---|---|---|
| Manufacturing/Distribution | 60 | 2 |
| IT/Office | 8 | 3 |
| Sales/Marketing | 12 | 5 |
| Editorial | 20 | 25 |

[a] These estimates differ slightly from those given in Exhibit 4

Source: Adapted from Edward Roussel's presentation at City University of New York, October 2008.

With free access to the web site, subscription revenue disappeared, and while print CPMs (cost per thousand) of $100 were common, online CPMs ranged between $1 and $10 when they were available. Classified advertising was disappearing rapidly from online newspaper sites, and the banner advertising that was available to replace display and retail advertising received very low rates since there was a surfeit of such page views. It was believed that *Time* magazine online, for example, had one billion unsold page views each month. Moreover, most visitors came to a newspaper web site from another site, typically a news aggregator like Google News or Google Search, and they quickly clicked away from the newspaper site, leaving advertising revenue to the links on the site they had come from. Nor did internet advertising allow for any discrimination among audiences. Even if newspapers delivered a more upscale and educated consumer, they still received the same revenue per click from an advertiser as any other site.

To address these issues, some newspapers partnered with online companies. In November 2006, E.W. Scripps Co., Hearst Corp., and others joined together with Yahoo! Inc. to merge Yahoo's national audience and the local content of newspapers. As of June 2008, the consortium included 779 papers. In a similar vein, *The New York Times* and *The Washington Post* joined together with Google in a program whereby print ads would be sold by papers through Google's site, hoping to reach small advertisers. However, Google ended the program after a two year run because they weren't making any money. The New York Times also used AdReady, an alliance announced in June 2008 to allow advertisers with budgets between $100 and $10,000 to buy ad space on NYT.com.[58]

The net result of falling circulation, decreasing advertising revenue and increased competition was the rapid deterioration in newspaper profitability in developed countries. In the U.K., three of the four quality national papers had lost money since 2000. In the U.S., while many papers still turned in operating profits -- the average pretax profit margin in the first three months of 2008 was 11%[59] -- debt loads taken on when the business was more profitable could no longer be sustained (**Exhibit 12**). The bankruptcy of the Tribune group and the cessation of the print version of the *Christian Science Monitor*, were just two examples of such pressures.

## Alternative Newspaper Strategies around the World

**Norway: Schibsted** Schibsted, the Norwegian newspaper company, provided one example of how to transform the newspaper business model for the internet age. In 2007, Schibsted received 35% of its operating profits from its internet activities. The company had built a strong online brand with its newspaper site and used that to build other popular websites and set up an online search engine. Three quarters of traffic to its website came through their own home pages, rather than from other sites, like Google News or Yahoo, partly because Schibsted refused to let Google crawl its website. As EVP Sverre Munck noted, "if visitors come from Google to stories deep in the paper and then leave, Google gets the dollars and we get only cents, but if we can bring them in through the front page we can charge $25,000 for a 24-hour banner ad."[60] Word of its success has spread. Sverre Munck, the executive vice-president of its international business, said they regularly turned away visitors from foreign newspaper companies, "Otherwise we'd get several visits every month."[61] Some commentators viewed Schibsted's success as a reflection of its dominant position in the Norwegian-language market, which was unlikely to attract new entrants. Others contended that the Schibsted model of integrating online and print activities could be applied to any geographical region.

**India: The Times** *The Times of India* was the most popular daily paper in India, with circulation of 3.5 million in 2008.[62] In India, a country in which literacy rates and incomes were rapidly rising, being seen as a newspaper reader had become something of a status symbol. According to Rajesh Kalra, chief editor of Times Internet, the group affiliated with *The Times of India*, said, "anyone who can read or write is still looked at with a bit of awe" and that once one learns to read, "the first thing you want to do is be seen to be reading a newspaper."[63] Advertising revenues were rising at corresponding rates with annual growth of more than 18% per annum.[64]

**U.S.: Huffington Post** Founded by Arianna Huffington and Kenneth Lerer in May 2005, the Huffington Post, which touted itself as "the internet newspaper: news blogs video community," aggregated news sources, blogs, and multi-media and features news and commentary by prominent media and celebrities. While it had leftish leanings, a bipartisan view of the news was encouraged. On December 1, 2008, The Huffington Post announced that it had received $25 million in funding from Oak Investment Partners. HuffPost planned to use the money to grow the business, which included investing in its technology, infrastructure, and advertising, and for selected acquisitions.[65] Said Ariana Huffington, "Traditional media just need to realize that the online world isn't the enemy. In fact, it's the thing that will save them, if they fully embrace it."[66] With average monthly unique viewers of 4.5 million in September 2008, up 474% from one year prior[67], total staff ran at about fifty people since most content was provided by unpaid third parties. This was not without drawbacks since, as one observer noted, "user generated content is all the rage, but most of it totally sucks." Even Arianna Huffington admitted, "bloggers are not chewing on the news. They are spitting it out," and the *New York Times* continued to believe in the merits of the traditional journalism of "verification" by journalists on the ground, rather than the mere "assertion" of bloggers.[68] Indeed, total advertising revenue for the Huffington Post in the first eight months of 2008 was reputed to be $302,000.[69]

**Japan: The Yomiuri Shimbun** The Yomiuri Shimbun, founded in 1874, boasted the world's highest circulation.[1] The paper was privately-owned, and therefore not driven by short-term stock market considerations.

Japan's newspaper industry used a unique distribution system and business model whereby many newspaper companies delivered morning and evening papers directly to peoples' homes. This

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[1] Included morning and evening editions.

system had institutionalized newspapers as a necessary part of Japanese lifestyle and had built customer loyalty in the sector.[70] Commenting on the business model, Mr. Watanabe said, "Japanese newspapers are based on a unique business model – each copy contains ad inserts tailored for community-specific circulation on a daily basis. These particular ads are superior to the internet ad market in terms of sales."[71] Not immune to the internet's cannibalization of ad revenue, Tsuneo Watanabe, head of the paper, pointed to the paper's color ads as keeping the group profitable. Display ad prices also dropped by over 50% by the end of 2008.

**Germany: Axel Springer Media Group and Bild** Europe's largest paper in terms of circulation, with 12 million readers per day, the infotainment tabloid BILD, provided a steady stream of profit for its parent. Unabashedly downmarket, Bild offered typical tabloid content, such as naked women and celebrity stories. With an 800 person editorial staff, Bild did not rely on newswires. Michael Paustian, Deputy Editor in Chief, cited the competitive German market as the reason Bild has been successful. "Bild has to prove itself at the kiosk every day."[72] The Bild brand had consciously been leveraged into other media, so that it was now carried on the world's biggest car magazine, and Europe's biggest sports and computer magazines and 71% of Germans read at least one of the Bild titles occasionally. The company also made much of Bild's transformation into the "first true multimedia brand."[73] Springer entered into a partnership with Deutsche Telekom, Germany's leading internet provider, and Vodafone Group the mobile phone provider. Bild Mobile provided unlimited web surfing to customers as long as they were on bild.de, which made it Germany's #1 mobile web news site.

**Europe: Mecom Group** David Montgomery, the chairman of the London-based Mecom Group, picked up more than 300 newspapers in five countries (Netherlands, Denmark, Germany, Poland, and Norway) during a 3-year acquisition spree and then imposed cost-cutting measures on each. He claimed the titles in his portfolio could withstand economic pressures as they did not rely on newsstand sales because subscription sales accounted for around 90% of most titles. Mr. Montgomery said "that transformation is at the core of our developments" and that "the old model of a single set of staff producing a single newspaper is simply not viable," Instead Mecom journalists worked across publications and platforms.[74] Unfortunately, with editorial staff salaries across continental Europe higher than the U.K. and fierce competition from free papers, Mecom lost almost 80% of its market capitalization in the 12 months to August 2008.[75]

**Sweden: Metro** Metro, a free daily newspaper, was launched in Sweden in February of 1995.[76] The paper was profitable within the first year, and grew to become the most widely read morning paper in Sweden. Since its initial success, Metro, which became an independent company in 2000, launched similar free editions in the capital cities of several other countries, including the Czech Republic in 1996, Hungary in 1998, Holland and Finland in 1999, and the U.S., Italy, Canada, Switzerland and the U.K. (among other countries) in 2000. While there had always been a small contingent of limited operations in the free daily market, the commercial success and rapid expansion of *Metro* forced the newspaper industry to take notice. However, by 2008, faced with competitive launches of free papers, Metro was struggling in certain markets. In 2008, the company cut its staff in Denmark; in January 2009, they shut down their operations in Spain.[77]

**South Korea: OhmyNews** Founded by political activist Oh Yeon Ho in 1999, OhmyNews, named after the popularized phrase Oh my God, represented a model of citizen journalism -- a model whereby ordinary citizens served as reporters who both generated and commented on content. OhmyNews used professional editors to filter stories and ensure accuracy. In September of2000, OhmyNews had 5,000 citizen reporters; in November 2001, it had 15,000. The site helped Roh Moo-Hyun beat his conservative running mate in the 2002 presidential election by giving supporters a channel to spread the word on the candidate and his policies in a one-sided, conservative media environment. Despite its popularity, the business model was threatened by competition from other sites that had cropped up since its launch, and its attempts to enter foreign markets had also proved unsuccessful. [78]

**Associated Press** The Associated Press (AP) was a joint venture owned by 1500 papers. The organization operated 243 bureaus in 97 countries and has retained over 4000 employees worldwide.[79] The AP was run as a nonprofit organization with revenue of $700 million in 2007 and net income of $24 million, an increase of 81% from 2006.[80] Its customers were 15,000 news outlets including 4,000 web sites, which provided 17% of its revenue.[81] Though Rex Rhoades, editor of a Maine newspaper noted, "sharing is just one effort to stick our finger in the dam. This isn't going to solve it all. You try where you can to make a small difference."[82] Many newspaper companies have raised issue with the AP's high and rigid pricing structure. In October of 2008, the AP offered a new pricing plan that would save members about 10% in the coming year. That same month, Tribune Co. cancelled their AP membership.[83]

## Conclusion

As he pondered the strategic options available to the New York Times, Sulzberger realized that the worsening economic crisis – newspaper advertising revenue fell 18% in the third quarter of 2008[84] - would only intensify the company's challenges and increase the calls for change.

A recent article in *The Atlantic* presented a scenario by which *The New York Times* could cease to exist come May 2009 as the paper was in danger of defaulting on $400 million in debt due at that time, with only $46 million of cash on hand. While Sulzberger had other options -- the company could sell off *The Boston Globe* or its stake in the Red Sox (in fact, the company had just confirmed it was trying to sell both its 18% stake in the sports franchise and part of its share in its headquarters)[85], the author posited that a move towards digital-only distribution was a likely step. Indeed, Nicholas Carson pointed out that the New York Times management could provide each of its subscribers a new Kindle (Amazon's electronic reading device) for half the cost of printing and delivering the paper over the course of a year.[86] However, according to estimates, an online only model would support only 20% of the Times' current staff, a reduction which threatened the fact-gathering and in-depth analysis the paper was known for.[87] Considering the fixed costs of a paper, Sulzberger wondered, when did it make sense to stop the presses?

Other observers were suggesting that newspapers should go back to charging for online content. Said Steven Brill, "Local papers should charge online because they don't have as many competitors for the good local reporting they do. Newspapers bought into the idea that the culture of the Internet is 'free,' or maybe they thought initially that online content was just an add-on to attract subscribers, but it hasn't turned out that way."[88] In keeping with the times, Walter Isaacson, former editor of *Time*, proposed "'micropayments,' or small fees that users pay for individual articles, akin to how iTunes charges per song."[89] Yet others believed that acting as the professional aggregators of amateur content was the way forward. According to Andrew Keen, "the next big thing on the internet -- Web 3.0 if you like -- will be a layer of professionally curated information sitting on top of amateur Web 2.0 layer."[90] Or could newspapers only be saved, as David Swensen and Michael Schmidt proposed in their January 2009 *New York Times* op-ed, by transforming into "nonprofit, endowed institutions – like colleges and universities[?]"[91] "Information is now a public service as much as it's a commodity. It should be thought of the same way as education and healthcare. It's one of those things you need to operate a civil society, and the market isn't doing it very well."[92]

**Exhibit 1** "Doomsday" Newspaper Headlines

"Newspapers Move to Outsource Foreign Coverage"
– The Wall Street Journal, 1/15/09

"Chicago-based Tribune Co. Files for Bankruptcy"
– The Daily Record, 12/9/08

"Red All Over"
-- Financial Times, 9/10/08

"End Times: Can America's Paper of Record Survive the Death of News print?
-- The Atlantic, 1/1/09

"US Newspapers on Life Support"
-- Crikey, 12/8/08

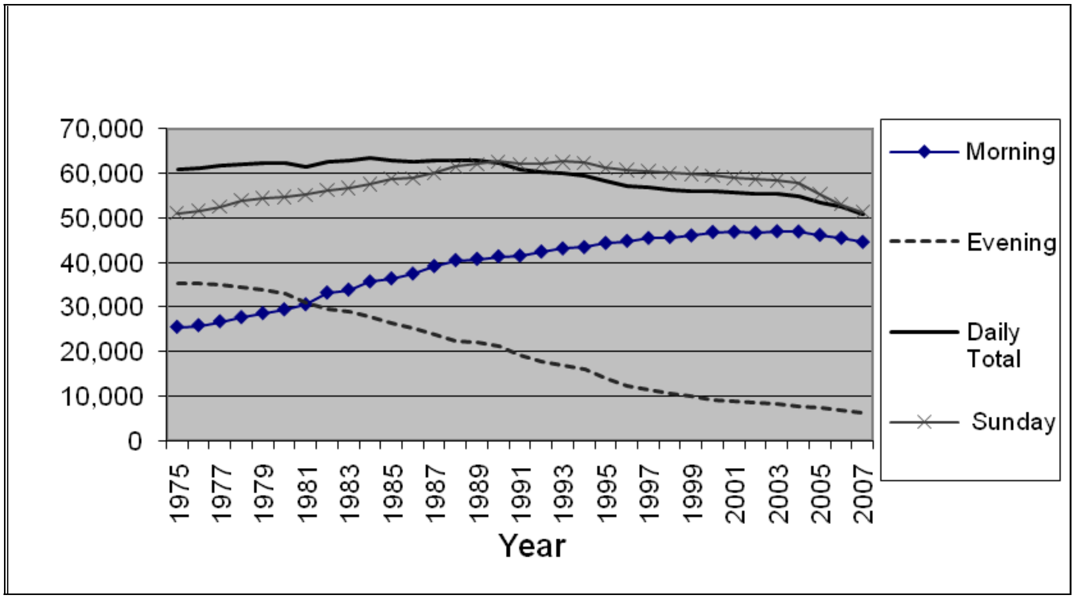
"Hearst Plans To Slash, Sell Or Shut Paper In Bay Area"
– The Wall Street Journal, 2/25/09

"Out of Print: The Death and Life of the American Newspaper"
– The New Yorker, 3/31/08

"Rocky Mountain News Closing After Friday Edition"
– AP, 2/26/09

Source: Various Newspapers, via Factiva, accessed October 2008 through March 2009.

**Exhibit 2** U.S. Newspaper Circulation Trends (000s)




Source: Compiled from Editor and Publisher International Yearbook, 2008, via www.naa.org, accessed December 2008.

**Exhibit 3** U.S. News Consumption by Media

| | 1993 | 1996 | 1998 | 2000 | 2002 | 2004 | 2006 | 2008 |
|---|---|---|---|---|---|---|---|---|
| *Listened/Read Yesterday* | % | % | % | % | % | % | % | % |
| Newspaper | 58* | 50 | 48 | 47 | 41 | 42 | 40 | 34 |
| Radio News | 47* | 44 | 49 | 43 | 41 | 40 | 36 | 35 |
| *Watch Regularly* | | | | | | | | |
| Cable TV News | -- | -- | -- | -- | 33 | 38 | 34 | 39 |
| Local TV News | 77 | 65 | 64 | 56 | 57 | 59 | 54 | 52 |
| Nightly Network News | 60 | 42 | 38 | 30 | 32 | 34 | 28 | 29 |
| Network Morning News | -- | -- | 23 | 20 | 22 | 22 | 23 | 22 |
| Online for News Three or More Days a Week | -- | 2** | 13 | 23 | 25 | 29 | 31 | 37 |

*From 1994; **From 1995

Source: Pew Research Center for the People & the Press, 2008, via http://people-press.org/report/444/news-media, accessed October 2008.

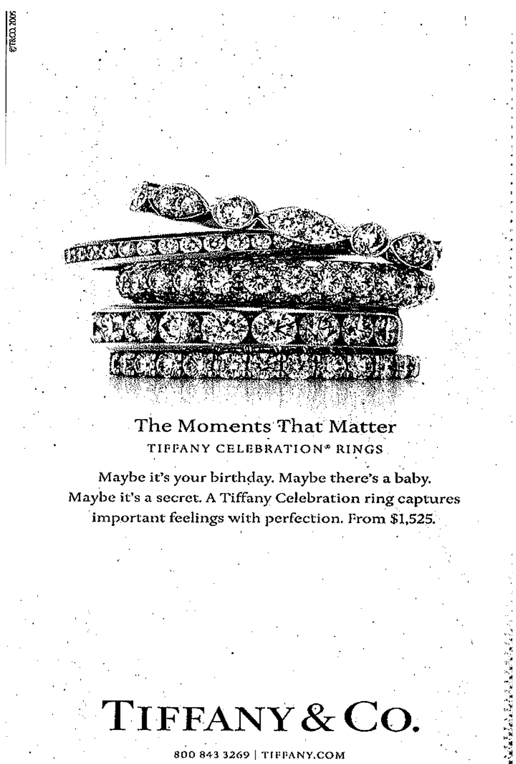
**Exhibit 4** Estimated Revenues and Costs for a Newspaper

| | |
|---|---|
| Revenue Components (%) | |
| Advertising | 80 |
| Classified | 32 |
| Retail | 40 |
| National | 8 |
| Newsstand | 17 |
| Subscription | 3 |
| Total | 100 |
| | |
| Costs (as % of Revenue) | |
| Advertising, Selling & Promotion | 12 |
| Editorial | 14 |
| Production | 20 |
| Distribution | 13 |
| Postage | 1 |
| Raw Materials | 18 |
| Administrative and other | 9 |
| Total | 87 |
| | |
| Operating Profit Margin | 13 |

Source: Adapted from Harold L Vogel, *Entertainment Industry Economics*, 7th Ed., p. 343.

**Exhibit 5** Examples of Display, Retail, and Classified Advertising


Retail



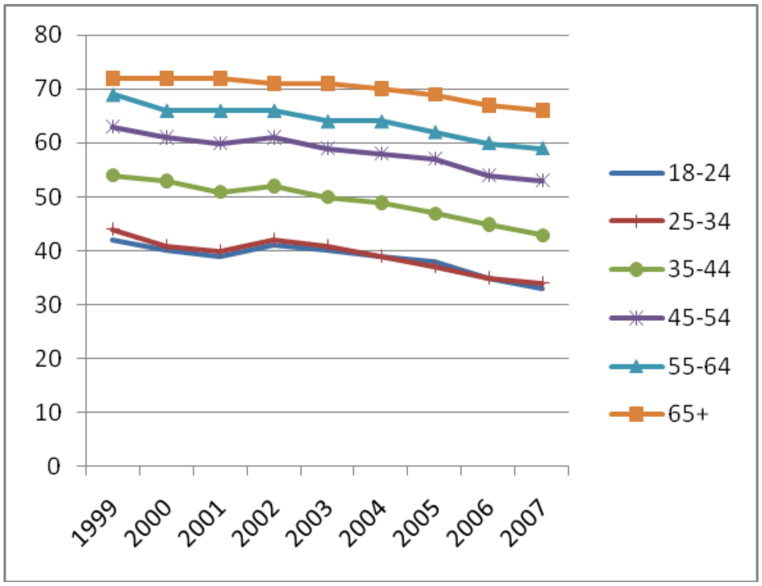

Display

**ATTRACTIVE WHITE MALE, 60**
Blue eyes, 5'7 1/2", 160 pounds, seeks intelligent woman for friendship and love. BOX 1387776

Classified

Source: Compiled from localsaver.com; *The Wall Street Journal*; NYT.com.

**Exhibit 6** Newspaper Readership by Age (by % of Respondents)




Source: Scarborough Research Data Survey as cited by Pew Research Center's 2008 Project for Excellence in Journalism, State of the News Media 2008 via www.stateofthenewsmedia.org, accessed December 2008.

**Exhibit 7** Global Newspaper Circulation

| **Circulation of Paid-For Dailies (000)** | **2003** | **2004** | **2005** | **2006** | **2007** |
|---|---|---|---|---|---|
| Africa | 8,532 | 8,583 | 8,632 | 8,745 | 8,702 |
| North America | 68,832 | 68,369 | 66,973 | 65,843 | 64,437 |
| South America | 12,985 | 13,238 | 13,536 | 14,154 | 15,105 |
| Asia | 297,436 | 308,557 | 317,058 | 331,817 | 347,561 |
| Australia & Oceania | 3,884 | 3,853 | 3,797 | 3,877 | 3,711 |
| Europe | 94,832 | 93,599 | 93,854 | 94,413 | 92,678 |
| | | | | | |
| Circulation of Free Dailies (000) | | | | | |
| Africa | 65 | 65 | 65 | 65 | 183 |
| North America | 1,966 | 2,917 | 4,206 | 4,869 | 5,307 |
| South America | 802 | 524 | 552 | 841 | 917 |
| Asia | 2,017 | 3,892 | 5,020 | 5,843 | 7,193 |
| Australia & Oceania | 180 | 180 | 180 | 271 | 340 |
| Europe | 9,992 | 11,140 | 15,106 | 22,291 | 26,151 |

Source: Compiled from *World Press Trends 2008*, World Association of Newspapers, Paris: ZenithOptimedia, 2008.

**Exhibit 8** Advertising Expenditure Shares (%)

| Year | Country | Newspapers | Magazines | TV | Radio | Cinema | Outdoor | Internet |
|---|---|---|---|---|---|---|---|---|
| 1999 | US | 32.5 | 11.6 | 35.2 | 13.8 | -- | 3.4 | 3.4 |
| | UK | 39.5 | 17.1 | 32.5 | 4.1 | 1.1 | 5.3 | 0.4 |
| | India | 49.5 | -- | 39.5 | 2.4 | 0.4 | 8.1 | 0.1 |
| 2003 | US | 30.4 | 14.0 | 33.9 | 12.9 | 0.2 | 3.3 | 5.1 |
| | UK | 39.7 | 14.9 | 30.4 | 4.3 | 1.5 | 6.4 | 2.8 |
| | India | 47.2 | 6.2 | 37.5 | 2.5 | 0.6 | 5.6 | 0.3 |
| 2007 | US | 27.9 | 14.3 | 32.8 | 11.8 | 0.3 | 3.9 | 9.0 |
| | UK | 31.1 | 11.9 | 26.6 | 3.7 | 1.3 | 6.7 | 18.8 |
| | India | 38.2 | 5.5 | 44.5 | 3.1 | 1.4 | 5.3 | 2.0 |

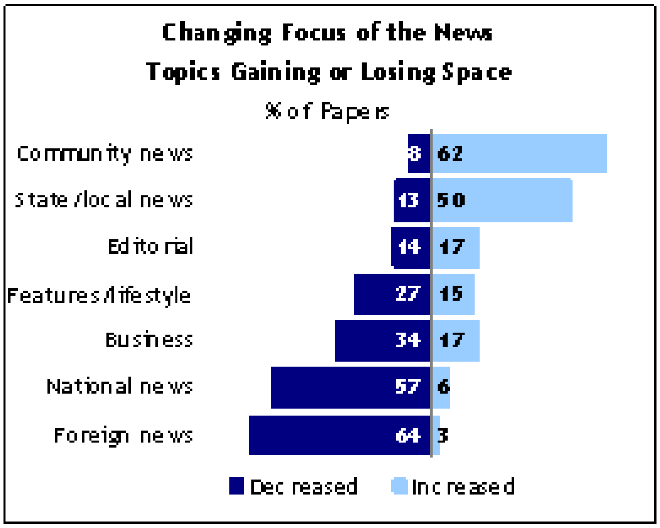
Source: Compiled from *World Press Trends 2008* and *World Press Trends 2004* , World Association of Newspapers, Paris: ZenithOptimedia, 2004 and 2008.

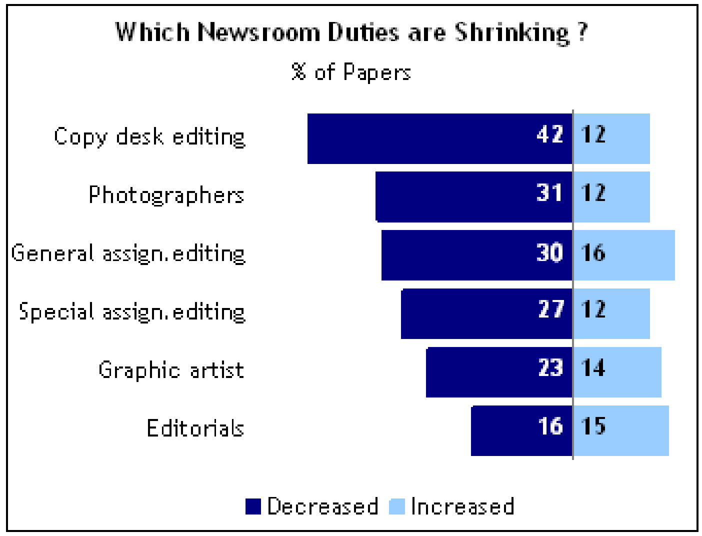
**Exhibit 9** U.S. Newspaper Groups and Interests

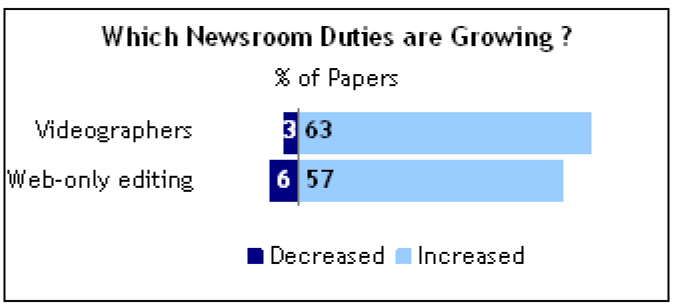
| Company | Type | National | Local | TV | Magazines | Radio | Internet | Sports Teams |
|---|---|---|---|---|---|---|---|---|
| Advance Pub. | Private | | √ | √ | √ | | √ | |
| Gannett Co. | Public | √ | √ | √ | | | √ | |
| News Corp. | Public (but controlled by Rupert Murdoch) | √ | √ | √ | √ | √ | √ | √ |
| New York Times Co. | Public (but controlled by Sulzberger family) | √ | √ | √ | | √ | √ | √ |
| Tribune Co. | Private | | √ | √ | | √ | √ | |
| McClatchy Co. | Public | | √ | | | | √ | |
| E.W. Scripps Co. | Public | | √ | √ | | | | |

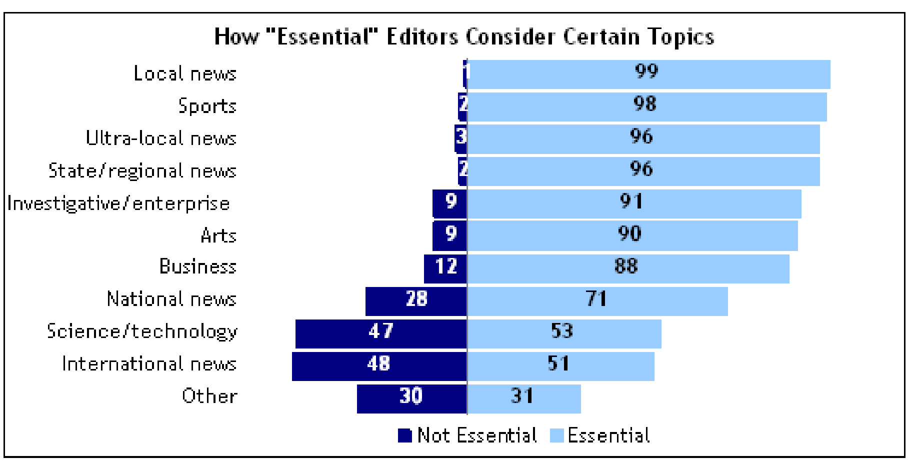
Source: Compiled from company web sites.

**Exhibit 10** Newspaper Content Changes



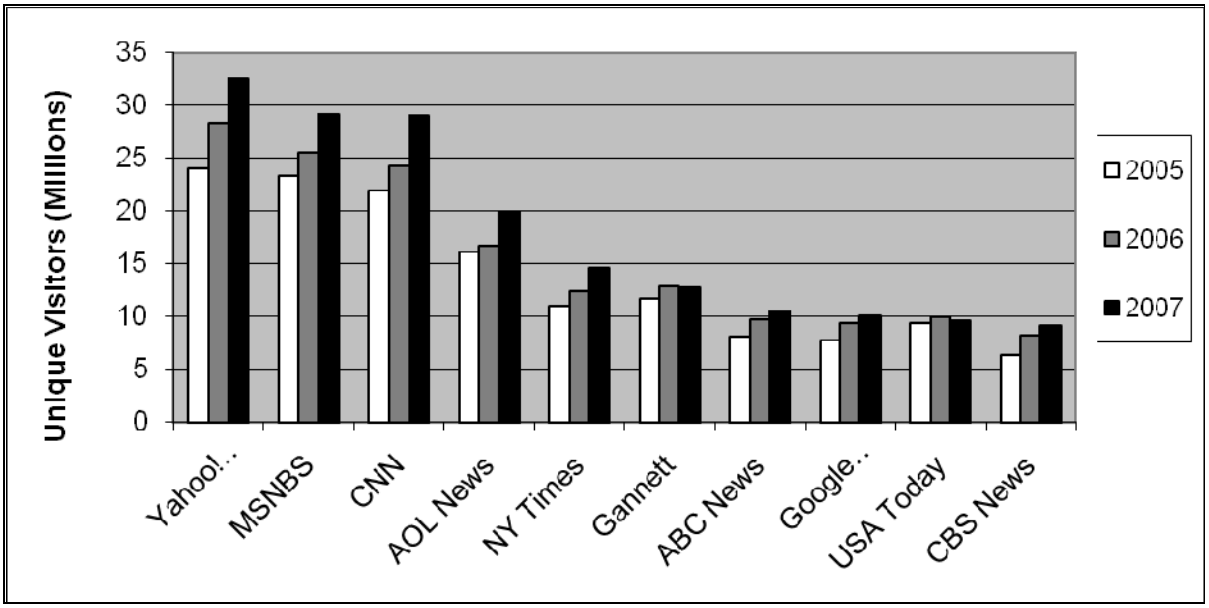



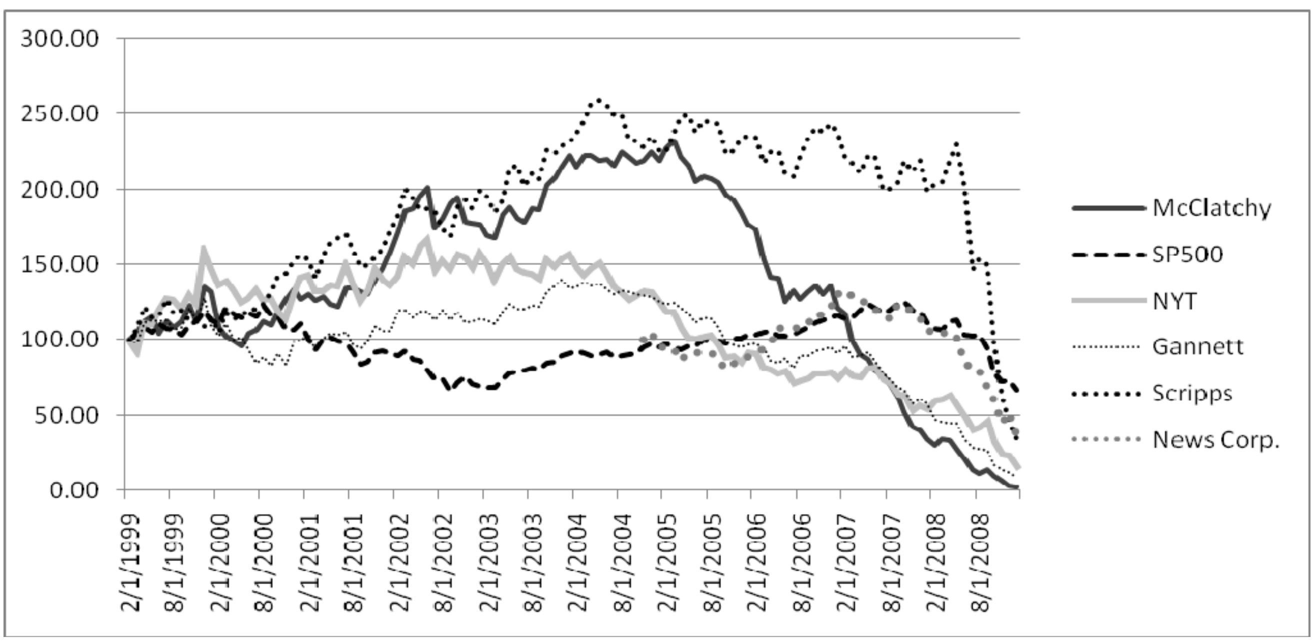

Source: The Pew Research Center's Project for Excellence in Journalism "State of the News Media 2008" via http://www.stateofthemedia.org/2008/narrative_special_newsroom.php?cat=2&media=13,accessed December 2008.

**Exhibit 11** Top 10 U.S. News Sites Ranked by Monthly Average Unique Visitors




Source: Nielsen Online as cited by Journalism.org, "The State of the News Media 2008: An Annual Report on American Journalism," March 17, 2008.

**Exhibit 12** U.S. Newspaper Co. Stock Prices

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