Science & Technology

Breaking News

Wall Street puts the squeeze on newspapers trying to move to the Internet.

By
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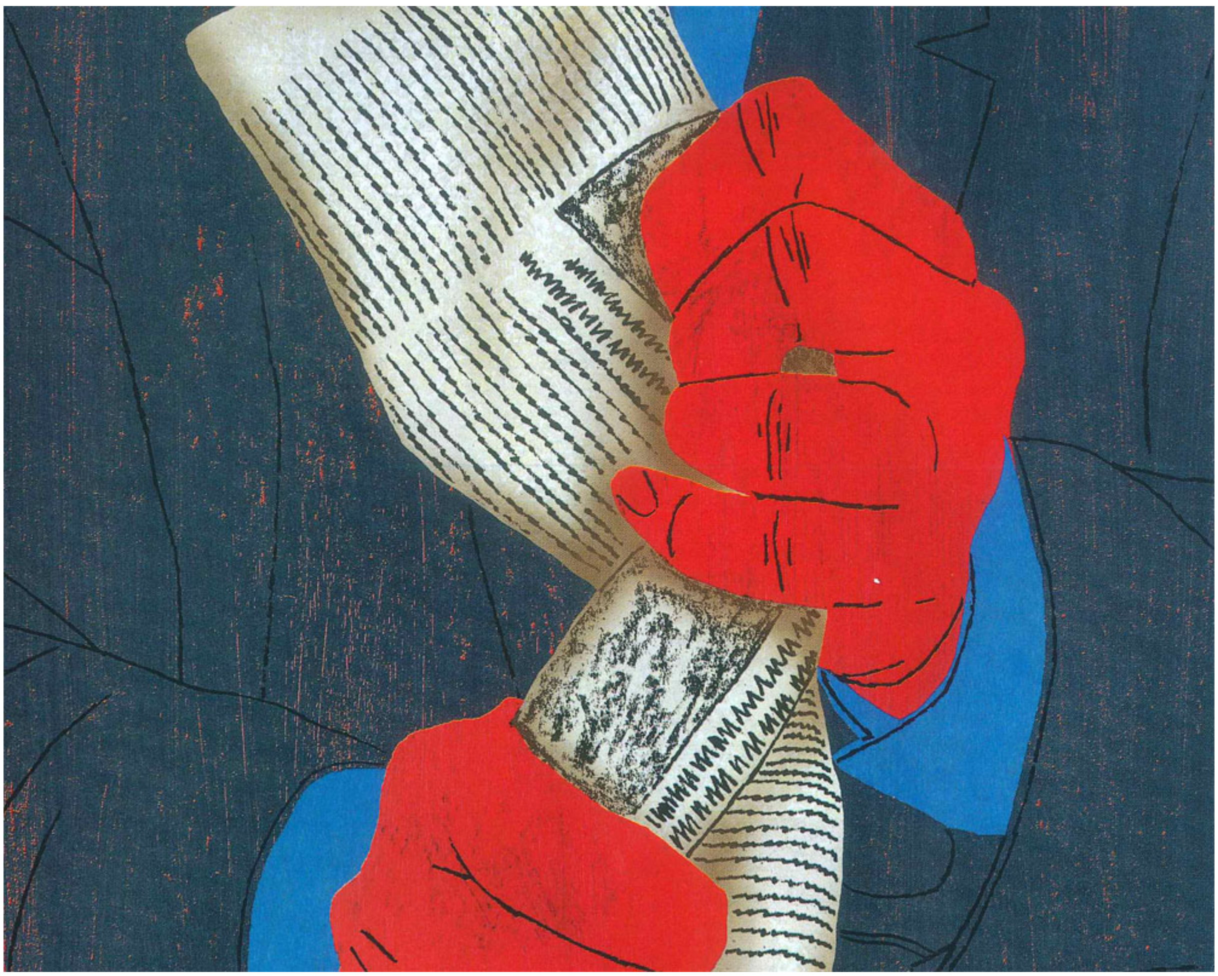
Spring 2007



Ken Orvidas

Executives at the *Los Angeles Times* took a hard look at their paper’s economic situation last autumn and didn’t like what they saw. Circulation was plummeting, advertising revenue was slipping, and shareholders were antsy. To shore up profits, they decided to slash costs.

But the paper's top editor, Dean Baquet '78CC, flat out refused to make cuts. And as he battled his bosses, Baquet complained publicly that the *Times*, which had shrunk its editorial staff from about 1200 to 940 over the previous five years, would seriously damage its product if it booted more reporters. Rather than liquidate its assets, Baquet argued, the *Times* ought to develop new revenue streams involving its Web site. The paper was still earning 20 cents on the dollar, so there was plenty of cash to reinvest.

That didn't seem likely. An internal report at the *Times* last year found that latimes.com was understaffed, poorly produced, and hence "virtually invisible." *The Times*, its own report stated, was "Web-stupid."

"It's a little odd to cut dramatically," Baquet would later tell an interviewer, "when you have a future to invest in that looks different and requires new skills."

The Times, which is owned by the Chicago-based Tribune Company chain, forced Baquet out in November and promptly laid off 85 more editors and reporters. When Baquet was hired by the *New York Times* as its Washington, D.C., bureau chief this January, he'd become something of a folk hero in journalism circles, a poster boy for editors thinking of standing up to corporate owners focused more on quarterly earnings than on quality reporting.

So was Baquet right? Do newspapers have a future to invest in? There's reason to be skeptical. The problems faced by the *Los Angeles Times* are endemic to the industry. Newspaper circulation in this country has dropped 25 percent over the past two decades, and the rate of decline is accelerating as more Americans get their news online. There's also the question of how newspapers will make money on the Internet. Papers traditionally rely on advertising for 80 percent of their revenue, and electronic ads are dirt cheap. All this uncertainty has caused newspaper companies to lose more than 30 percent of their stock value over the past two years. Newspaper CEOs, meanwhile, are chopping away at their staffs: Nearly 4000 editors and reporters, or 7 percent of the nation's total newspaper journalists, have lost their jobs since 2000. Foreign bureaus have been closed, Sunday magazines cut, and reporters overworked.

No one knows how newspapers are going to survive. But journalists and scholars increasingly are speaking out about what's at stake. Daily papers produce the lion's share of serious journalism in this country, they say, so their owners ought to encourage more creativity on the business side, and take whatever financial risks are necessary, to sustain their news-gathering operations. Moreover, if corporate owners doubt that newspapers can make money on the Internet, they should sell to more civic-minded interests willing to give them a fighting chance.

"Businesspeople need to understand that ownership of a news company involves special civic responsibilities," said former CBS News anchor Walter Cronkite at a Columbia conference on media reform February 8. "Cost cutting may be good for the bottom line in the short term, but it isn't necessarily good for the country or the health of the news business in the long term."

A Million Little Pieces

Newspapers have taken financial whacks before, most notably from radio in the 1920s and then from television in the decades after World War II. But the industry's best days still were ahead of it, with a wave of newspaper consolidation in the 1960s, '70s, and '80s giving surviving newspapers more resources. "And that typically meant better journalism," says Michael Hoyt, editor of *Columbia Journalism Review*. "That was the golden age of newspapers."

The Internet, however, threatens newspapers like nothing before. One in three Americans now reads news online every day. Newspaper circulation has dropped almost 7 percent nationally since 2004, in part because political blogs around that time exploded in popularity.

But declining readership isn't the real problem. In fact, many papers have actually boosted their total readership when including traffic to their Web sites. That's true especially for papers with sophisticated sites like the *New York Times* and the *Washington Post*, whose respective longtime owners, the Ochs-Sulzberger and the Graham families, have reportedly advocated passionately, and with considerable success, to shareholders for reinvestment in their Internet operations. Consider, too, the ubiquity of newspaper articles accessed on Yahoo!, Google, and blogs, and the picture that emerges isn't that Americans read less news, but that no one is picking up the tab.

The dilemma facing newspapers, experts say, is that the Internet has splintered the advertising market. Thousands of commercial Web sites compete fiercely for traffic, which drives down ad rates, a situation exacerbated by the low overhead of many popular sites, like MySpace, eBay, and YouTube. It could be assumed that if news sites drew a lot of traffic, they could charge premium rates, but here’s the rub: Internet companies like Google and Amazon draw ten times the traffic of the most popular news sites. So guess who’s in the driver’s seat when it comes to establishing rates? Also nettlesome to newspapers are classified ad sites like Monster.com, Craigslist, and Cars.com.

“That’s the crisis,” says news historian Michael Schudson, a professor at Columbia’s Graduate School of Journalism. “And I think it’s fair to say that journalism is in a crisis right now. Radio and television never disrupted newspapers’ fundamental economic base the way the Internet is doing. Classified ads, for example, have been extremely important to newspapers for a long time, and suddenly they’re drifting off into cyberspace.”

The online advertising market is growing rapidly—newspapers last year were able to double their electronic ad rates—but online ad revenues comprise just 6 percent of most newspapers’ revenue today and are not expected ever to match what print ads bring in now. So newspapers are in a precarious situation, using diminishing print earnings to nourish emerging Web operations. As Robert Kuttner points out in the April issue of *Columbia Journalism Review*, Internet readers today are worth so little to a newspaper in dollar terms, that even if a paper could shift its entire readership to its Web site and eliminate all printing costs, it would lose money.

Protecting Your Source

The *New York Times* and the *Washington Post* are demonstrating the best path forward for newspapers, experts say. They’ve weathered some lean years in order to invest heavily in their Web operations. The Post brings in 14 percent of its revenue through its Web site, which is staffed by a separate editorial unit of more than 100 people. The *Times* earns 8 percent of its revenue online and has almost 200 editors, writers, and designers who work on both the Web and the print publications. Like a handful of the best news Web sites, nytimes.com and washingtonpost.com are updated continuously and allow visitors to tailor the site to their interests and even to interact with reporters.

At a minimum, most news Web sites today incorporate some video and audio elements. Even that’s a big improvement. As recently as two years ago, many papers used their Web sites merely as a dumping ground for old print content, according to Tom Rosenstiel ’80JN, founding director of the nonprofit Project for Excellence in Journalism (PEJ). He says that prior to 2005 many news organizations were actually cutting more staff from their Web operations than from print. But newspapers were scared into getting more creative when print circulation dropped off dramatically beginning in early 2005.

“The focus of editorial and business expansion now is Web sites, and to a smaller extent niche publications aimed at ethnic groups and youths,” reads PEJ’s 2006 State of the News Media report, which is issued annually. “That’s where newspapers now enjoy revenue growth.”

At the Boston Globe , assistant managing editor Caleb Solomon ’80CC, ’81JN is using a common strategy to increase revenue: mining specific demographics for new readers. Last year, he suggested to his bosses that the *Globe* Web site publish continuous business news updates. It’s now one of the site’s hottest features. “I’m trying to increase the amount of business content we publish on multiple platforms, while maintaining the same journalism standards we’ve always had,” says Solomon, who is currently participating in a new executive leadership program at Columbia’s journalism school. (See sidebar on page 23.) “And I expect to do that with diminishing resources.”

That last point keeps Rosenstiel up at night. He says that even as newspapers are experimenting with new types of content and business models—some are entering cooperative agreements with Internet sites like HotJobs.com and Monster.com, for instance—their work is made difficult by budget cuts. More typical than the Washington Post or the New York Times , he says, is a paper like the Philadelphia Inquirer , which is trying to develop innovative Web content but is squeezed financially. This January, the paper laid off 71 people, or 17 percent of its total news staff, while expanding its Web staff from 8 to just 13.

“The big question,” Rosenstiel says, “is what will be left of our newsrooms by the time we figure out the economics online?” Shrinking budgets at newspapers around the country have already led to a thinning of news content. He says that, for instance, national coverage has deteriorated in quality because newspapers with Washington bureaus have fewer people to do enterprising work. “Thus we tend to see more accounts of the same handful of stories each day,” reads the PEJ 2006 report. “Such concentration of personnel around a few stories, in turn, has aided the efforts of newsmakers to control what the public knows.”

The papers that are losing the most readers and advertisers, and hence making the deepest budget cuts, Rosenstiel says, are those that do the best journalism—daily papers in medium- to large-size cities like Boston, San Francisco, Chicago, Dallas, and Philadelphia. That’s because their readers have more options today for national and international news, whereas small papers have a lock on local coverage, which is customarily all they produce.

And what’s bad for major newspapers is bad for the whole news pipeline. “The overwhelming majority of serious news that we get, whether from radio, TV, or the Internet, comes originally from newspapers, and increasingly from a very small number of newspapers,” says Columbia’s Schudson. “They’re the generators, the central heating system, of our information system.”

Aging Cash Cow

Despite their financial struggles, American newspapers are among the most profitable businesses in the world. That’s the result of industry consolidation, which gave many newspapers local monopolies, as well as cost-saving advances in printing, according to Schudson. Many U.S. newspapers made 20 to 25 cents on the dollar until a few years ago. The industry still posts profit margins of 18 percent, on average, more than most Fortune 500 companies.

So why all the layoffs? One reason is that most newspapers in the U.S. are owned by publicly traded chains. And public markets are designed to fuel growth industries and strangle those whose prospects dim. “It’s easy to blame Wall Street, but all Wall Street does is assess worth,” says Matthew Rhodes-Kropf, a Columbia business professor who teaches corporate finance. “How are newspapers going to make money? What's the demand now for serious news? Nobody knows, so papers are worth less now."

But is journalism just another industry, one whose fate should be trusted to the whims of the marketplace? Many journalists, scholars, and media reformers think not, and they are advocating for new forms of newspaper ownership. They hope that wealthy, civic-minded individuals will purchase papers or that philanthropies will get more involved in funding newsgathering projects or entire publications, in the way the nonprofit journalism think tank Poynter Institute bankrolls Florida's *St. Petersburg Times*.

"It's true that Wall Street has practically given up on newspapers," says Nicholas Lemann, dean of Columbia's Graduate School of Journalism. "And there is a sense now that the private market may actually value newspapers more, because the public market has undervalued them."

Several newspapers came off the public market last year when the giant paper chain McClatchy Company bought its competitor Knight Ridder, and subsequently sold 12 of its 32 new papers, including the *Philadelphia Inquirer* and the *San Jose Mercury News*, to various private newspaper chains, private equity firms, and rich individuals. And this April, billionaire Samuel Zell bought control of the Tribune Company, which owns the *Chicago Tribune* and other papers in addition to the *Los Angeles Times*, in a deal that takes the company private.

But newspapers that escape Wall Street might simply be "trading a set of demanding owners for demanding bank partners," according to Rosenstiel, since private companies still need to borrow money. The dream, however, is that forward-looking owners and investors will allow newspapers to redistribute resources to the Internet and accept some painful years during the transition. "What is unknown is whether these potential new private owners are motivated by public interest, a vision of growth online, having a high-profile hobby, like a sports team, or as an investment to be flipped for profit after aggressive cost-cutting," reads the PEJ 2007 annual report, which was released in March.

Michael Copps, a Federal Communications Commission official and an outspoken critic of FCC policies that allow media conglomeration, has even suggested that federal lawmakers consider legislation to protect the news media, such as involving tax incentives that encourage long-term investment. "Fiduciary responsibility to corporate stockholders is one thing, public-interest obligations to stakeholders is another," Copps said at February's Columbia media reform conference. "So far, stockholders have totally trumped stakeholders. This is not a sound investment in America's future. Building a media environment that truly reflects and truly nourishes our diversity and our democracy may be our nation's greatest challenge right now."

The thought that government intervention might be required to save newspapers is troubling to journalists, who have always regarded theirs as a populist calling. That the Internet's egalitarian marketplace might reduce demand for their noble work is a paradox of the technology. "We tend to want governments off our backs," said Lemann at the conference. "The idea that we might need new rules and structures to incentivize the best in journalism is not natural to us."

Ten years from now, will people in Dallas or Cincinnati or Pittsburgh pick up a local newspaper every morning? Will serious news Web sites create unifying public spaces, and therefore attract advertising? Or will people get their news packaged in altogether different ways, as addenda to child-care tips, electronic dating, and celebrity pics? All that's certain is that the market, with or without the softening touch of a patient publisher or government giveaway, will determine how much news we'll receive and how credible it will be.

The Value of Values

News executives today face tough managerial challenges as their organizations struggle to develop new sources of revenue. For instance, how do you convince editors and reporters to develop Web supplements to their stories? How long do you stick with a Web project if it doesn't pay off right away? And how do you protect journalistic integrity when editors are under pressure to boost profits?

To help newrooms address these kinds of issues, Columbia's Graduate School of Journalism recently launched the Punch Sulzberger Executive News Media Leadership Program. Named in honor of former *New York Times* publisher Arthur Ochs "Punch" Sulzberger '51CC, and endowed by a gift from his sisters, Dr. Judith Sulzberger, Marian S. Heiskell, and Ruth Holmberg, the 12-month program brings together editorial and business-side executives for intense management, business strategy, and technology training. The inaugural program began this January and includes 14 participants from the *New York Times*, the *Boston Globe*, the *Providence Journal*, the *Associated Press*, the *San Antonio Express News*, and several other news organizations.

Under the tutelage of management experts, participants carry out a project in their office that helps it adapt to the news industry's changing economics. "That might involve teaching staff to work in teams to develop multimedia content, creating new financial models, or managing the human aspects of change so their employees are comfortable with the process," says Arlene Morgan, a Columbia journalism professor who helped design the program.

By bringing together senior news editors and business executives, the program also encourages ethical forms of cooperation between the camps, says Douglas K. Smith, the program's director and a former partner in the global consulting firm McKinsey & Company.

"Over the past few decades, our market economy has evolved in a way that pursuing financial gain or upholding ethics is seen as an either-or proposition," says Smith, who has written extensively on business ethics. "But that's not the way newspapers used to operate. Back in the early 20th century, before you had a strict church-state divide between the business side and the newsroom, newspaper publishers approached their work with a built-in sense of ethics. But a tremendous distance eventually developed between the business side and the editorial side, and the latter became an artificial environment where financial concerns were regarded as almost sacrilegious.

"That's not sustainable, just as focusing strictly on money isn't sustainable, as Enron showed us," Smith continues. "I believe that profit concerns can be connected to journalistic values. There's going to be tension, but tension isn't a bad thing. In fact, it's the only way forward."

E-volving Jobs

It's an old adage that journalists know a little bit about everything. That's true now in the technological sense.

"News organizations are looking for young reporters who know the basics of digital photography, video, and audio, and who can pull together an entire multimedia package," says Ernest Sotomayor, director of career services at Columbia's Graduate School of Journalism. "Demand for those skills is increasing rapidly."

Columbia's new media journalism program, which was among the nation's first when launched in 1997, has seen applications double each of the past two years. With about 80 applicants for 20 spots next semester, the school is considering expanding the program. Its students, who receive in-depth training in Web design and multimedia production, as well as fundamentals in reporting and journalism ethics, are being recruited aggressively by traditional media companies, according to Sotomayor.

"It's not just newspapers that are going through the transition to the Internet," he says. "It's television news and radio stations, and magazines, too."

Starting this September, the journalism school also will teach basic video, audio, and Web design skills to all students in its master of science (MS) degree program, which includes print, magazine, and broadcast majors. Currently, only about half of the school's MS students choose courses that offer such training.

"There is a temptation right now among journalism educators to rush into teaching everybody how to use lots of software programs and pieces of physical equipment," says journalism school dean Nicholas Lemann. "And while we're moving dramatically in the right direction, we're also being careful not to simply teach new tools and declare victory.

"As news organizations move to the Internet, they'll still need people who can get hard-to-find information, understand complicated material, assess its veracity, and then present it clearly," he continues. "That demands a certain way of working and thinking, and a set of ethical principles that aren't specific to any media. And that's what we teach."

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