

# Advertising Age<sup>®</sup>

## Newspapers: Down but Not Out

**Viewpoint: Jason Klein, President-CEO of the**

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The death knell for newspapers has been sounded too quickly. Newspapers are suffering from a confluence of factors, but many of their woes are self-imposed and have solutions, albeit painful ones. Newspapers have an enduring place in today's fragmented media world. The industry's survival depends on curing its structural ills and reshaping a new strategy for post-recession recovery.

### **Cutting away the deadwood**

Like millions of American homeowners, many newspaper companies are buried in debt. It was piled on with the anticipation of never-ending profit growth and readily accepted by bankers and optimistic buyers. Tribune Co., the Minneapolis Star Tribune, and the Philadelphia Inquirer and Daily News are already in Chapter 11 bankruptcy, and a number of other major companies will fall soon. They were not capitalized to survive a severe recession; Chapter 11 will provide them with a capital structure to see them through to a better economy.

The big U.S. air carriers have survived Chapter 11, and the big newspapers will too. Industry EBITDA (earnings before interest, tax, depreciation and amortization) margins are 14% to 16%, according to a recent J.P. Morgan analysis of public newspaper companies. While that's well below the peak of 25%, newspaper companies are generally still reasonably profitable.

The double whammy of excess debt and a severe recession exposes the broader structural issue of excess industry capacity: There are still too many newspapers in America. The newspaper industry will inevitably consolidate further. This is not a new phenomenon. When Horace Greeley published the New York Tribune in 1841, there were 12 papers in New York City jockeying for position. There were 1,773 daily newspapers in 1973, and at last count there are 1,422. The demise of afternoon papers accounts for the entire drop, as 886 of them have folded or shifted to the morning.

### **Consolidation**

The core reality is that economics heavily favor one large newspaper per city -- one reporting staff, one advertising sales staff, one management and long, efficient printing runs. The surviving lead paper will pick up circulation and advertisers and get a boost in financial viability.

This consolidation is not necessarily bad for readers or advertisers. While editorial variety in newspaper coverage will suffer, that is less important today with so many bloggers getting their views across. Advertisers will cheer large, unduplicated reach and simpler buying. Market forces will keep ad rates in check. Moreover, it is important to both readers and advertisers to see the medium on a sounder structural footing.

Consolidation will be painful, but it is inevitable. There are 500 markets in the U.S. While the largest markets can support several newspapers, most can't. Many big markets, including San Francisco, Philadelphia, Minneapolis,



Tampa and Dallas, are clearly over-newspapered. If the average number of papers per market drops from two and a half to two, more than 250 newspapers would be absorbed by larger publishers.

The problem is partly government-induced. The Nixon-era Newspaper Preservation Act of 1970 promoted the formation of Joint Operating Agreements between competing papers. JOA markets such as Denver, Seattle and Detroit would be better served now by a single, large paper, and anti-trust enforcement should not stand in the way of that.

The newspaper industry that emerges from this recession will need all its strength to combat the single most pressing long-term threat to its business model: the conversion of readers to the web, and the impact of that on newspaper advertising, which is 80% of newspaper revenue.

### **Finding a solution**

The industry has pursued strategies to capitalize on the web for years. Hearst, Times Mirror and Knight Ridder were founding investors in Netscape, and CareerBuilder and Cars.com were founded by newspaper companies. They knew classified was doomed and tried to hedge their bets. Since then, newspapers have built their online audience to 75 million monthly unique visitors and are rivaled only by the portals in their local reach.

The problem is that nothing has generated enough revenue to offset the profit loss from the erosion of print advertising. The industry is coming to grips with the reality that online advertising, as it exists now, will never come close replacing print advertising. The gospel of free online content is being questioned, and publishers are groping for new model.

They won't find it in viewing the web as a stand-alone business. The web will never support the kind of newsroom investment that's needed to cover local markets.

### **Beyond free content**

Newspaper publishers keep talking about the value of their content and the need to spread it across all distribution formats. Why not charge for it that way? One price, access across formats, print and digital. Readers pay for the content and can access it however they chose. Contrary to some impressions, newspapers' largest expense is people, not paper. A single price model would stem the decline of print subscriptions and increase the quality of the online audience.

That doesn't mean walking away from free online content. Some content would still be outside of the pay wall to attract news grazers, especially those outside of the home market.

Newspaper print advertising is still massive -- about \$25 billion, even excluding classified. One of the enduring truths of the business is that newspaper advertising drives retail sales and results. The problem is that price increases and circulation declines have advertisers questioning the cost and return on investment. A one-price model will help build back the value for advertisers.

### **The next round**

If there is a bell tolling for newspapers, it's not a death knell; it's the beginning of a new round of their evolution. The forces of creative destruction will work to consolidate 1,422 daily newspapers into a more manageable number. And companies will dig themselves out from under their mountains of debt. Let the next round begin.

## **ABOUT THE AUTHOR**

**Jason Klein** is president-CEO of Newspaper National Network, a sales and marketing partnership of 25 major newspaper companies.

