

2006 – International Symposium on Online Journalism

Friday – Keynote Speaker

Cash Cows or Entrecote: The Influence of Interdependency on Physical and Virtual Newspapers

Speaker:

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ROSENAL ALVES: Thank you, Mark. So now, without further ado, we want to pass to our keynote speaker. I'd like to invite Robert Picard. Dr. Picard is one of the most important experts in the world in media economics and we are really privileged to have him here. He's the only person that I know that is full professor on three continents (laughter). He has to explain to us how he can do that. He is a professor in Sweden, where he directs the Media Management and Transformation Center in the Jnkping International Business School and he happens to also be a full professor in a university in the United States and a university in China. So somebody who can do that doesn't need more explanation or presentation or introduction. So we are very happy to have Robert Picard here. (Applause.)

ROBERT PICARD: Thank you very much it's a pleasure to be here. I have to admit that my wife is in biotechnology management so I heard about cloning very early in my life (laughter). That's probably some of the way I've managed to do some of the things (inaudible). I want to talk today, essentially, not about journalism or about technique because those of you that are here are much better prepared to do that than I am. But I want to talk about the business side and the issues that are developing in terms of understanding where media are taking us because of the opportunities that are occurring and growing daily in new types of distribution systems. It's kind of ridiculous today to talk about the idea of "new media" we really do need to work on a term along the way. I tend to use "digital services," or other such things, because I do a great deal of work with companies like Nokia and others who have no interest in the Internet as it is currently constructed, but have other interests along the way. But when we look at the last 10 years, and we look at the dramatic development of the distribution system of the Internet, it's certainly central to many of the things that are happening regardless of whether we're dealing with traditional Internet or dealing with mobile services or others.

We went through the course of this issue of the boom and the bust of the Internet services during the late '90s and there was a great deal of concern about that. And, particularly in journalism and other places there was a great deal of glee when this occurred and it reflected, in fact, a deep misunderstanding of the nature of new industries and businesses. And, in fact, there have been a number of studies since 2000 that really show that the failure rates for new companies in the Internet were exactly what you would expect for new companies and new industries: about half of all firms died within three years and about 75 percent of them within five years. The

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normal pattern you clear up the market, you find those that have better ideas, have better management, have a better understanding of customers and you put them together. So today what we have is a group of companies that are there and working in the field that have a fairly good understanding of what the potentials are and how to use them and we're seeing some very interesting growth and some very interesting initiative along that way. Now the future of newspapers, of course, is deeply wrapped up in this and we've had for decades predications that, in fact, we would have problems occurring because of declining audiences and that the digital technologies, in fact, would bring death to the companies they should have been dead five years ago, they should have been dead 10 years ago, depending on which forecasts you have looked at. What I want to argue today is that, in fact, the issue is not one of being print or digital, but in fact that they are inseparable for at least the midterm developments and that they will be intricately related and need each other for many years to come.

Now we all know that newspapers were incredibly profitable, particularly during the last three decades of the 20th century. And the reason this occurred was because of the growth of the advertising market. And if you look in real terms, in both North America and Europe, the average newspaper got two and a half times more money in real terms, adjusted for inflation, than it did in 1950. And there's just this incredible growth and flow of money into the industry. That growth is still occurring, which is something that I find very interesting because the newspaper industry has this sense of panic around it, that, in fact, it's a failing industry. It is an industry where growth is slow, it is an industry that has problems, but it's not yet anywhere near the point of failure. In fact, newspapers today are quintessential cash cows in business terms. And by that we mean they manage to produce large amounts of cash and large amounts of profits. Those profits are above those of chemical companies and pharmaceutical companies and even banks. And so we have to put them in some perspective here.

There are some issues, however, related to the capital structures and other such things that create problems for the industry, and that's really where the problems are occurring not in the basic underlying business model. But we have to be realistic. And that is, in fact, that the cow is getting older, and when cows get older, they produce less milk that's the realities of life, folks. Anybody that's come out of farming communities knows that there's a point at which you're feeding the cow and you're getting less milk than you're feeding it and we take it off to the abattoir and turn it into steak (laughter). We're not crazy and we have to be very realistic about that.

Today the environment in which newspapers evolve and work is very different and, just to give a quick bit of context, today newspapers count for about 10 percent of the total (inaudible) value in media and related activities. Fifty years ago, that was about half the value that was created. So there's a huge amount of money being created by other kinds of activities, by other kinds of media and opportunities that have developed during this period and newspapers have become less important in the overall universe of what is happening. And that creates some very, very big challenges for the industry and we're all aware of those. Essentially, we have a

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mature industry that has stagnant markets and is worried about costs. And that is why we have concerns, for instance, of investors about whether in fact they will be able to recoup investments in the future. For investors, you either take money out as profits or you take money out of your investment by having the organization grow and develop over a period of time so that its assets become more valuable. Both are equally useful to investors. The problem for investors looking at the newspaper industry is growth is not an option in most of their minds because of what they see happening and because of the general lack of innovation in most newspaper companies today. They see, in fact, the great disruptions that are occurring in the audience and advertiser behaviors as new opportunities are developing and as new competitors for the time and money of advertisers and audiences come to play. And so we really face a position where newspaper companies have to think about "how are we going to survive in the future, but more important than just survival, how are we going to grow in the future." Because, if you can't grow, you will continue to shrink to the point that you are not able to attract the kind of capital you need and not be able to do the kind of activities that you need.

There are five trends that I think are absolutely critical for understanding the industry. The first is the erosion of the audience base. We have to be realistic: most people, and the average user of the newspaper for the 20th century, were not deeply concerned about news that's number one. Journalists hate to hear it, but most news content is not news never has been since about the 1890s. We have entertainment, we have lifestyle, we've got human interest stories, we've got comics, we've got various kinds of advice various things that are not news. Now, this has been an acceptable way to fund the underlying business of the newspaper because the business of the newspaper has not been, for more than a 100 years, providing content to consumers and selling it to them, but in fact selling consumers or readers to advertisers. And, as a result of it, the audience base is somewhat important because it is what you sell. It is the primary, underlying part of the business model. So even if they weren't reading news, if we could attract them with all of these other kinds of things that we do, it became important for the business model along the way.

The second, if course, is the erosion of the advertising base. And, in fact, advertisers don't care about newspapers, they don't love newspapers they love audiences, they love consumers. And so, as you've seen changes in consumer behavior and reader behavior, you see advertisers following. Now there are certain kinds of advertisers that have the options to go other places, and there's certain kinds that don't. And that has been somewhat useful along the way, but in general, we're seeing a declining advertising base. The kind of developments we're seeing in broadband capabilities and online I'm working in a country now where 80 percent of the homes have broadband into them, where digital television is a reality, where they're already turning off analog television, where the average home has four mobile phones in it, different devices even though two and a half people live in them there's some really interesting things happening in the world along the way. And what is happening is, essentially, we're creating choice and we're creating choice for those people that want to get to information and those people who want to provide advertising to people.

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And that creates a very, very big pressure on the existing business model that is there.

The other thing that's very clear as we look at newspapers and this is a hugely important trend is that stress levels are rising dramatically because resources have been pulled out, because people are working harder doing multiple tasks, and morale is plummeting in the face of this. This is not something new it is something that has been developing for about 15 years and getting worse year after year after year. This is critically important because if you are to provide products that allow you to grow as a company, and you're in a company that relies on content creation to be able to attract the audiences, you've got to have staff that are willing to work there and want to work there, and see a future. And at the moment, one of the critically problematic areas is that those people that actually create the content are the least satisfied people in newspapers, and that's hugely difficult.

Ultimately we have this problem the owners of capital, those who are funding, they're seeing more opportunities for asset growth and sustained process elsewhere. And one of the reasons that they're squeezing the newspapers these days is because the cow is still producing milk and they want to get out of it as much as they can in the short term. And so it leads to really difficult issues within the companies, and how they're going to have resources to develop new initiatives that will allow them to survive and grow. Now, really, as we look at the future we're dealing with issues of sustainability of newspapers as newspaper companies. And sustainability says, it really deals with those issues of how do you keep your current operations going, your current performance going, your current services going, but then also how do you innovate, rejuvenate, and develop yourself to survive and grow in the future. And this is where, in fact, most newspapers fall down dramatically thinking about how do we do the next step. They're pretty good at cutting budgets, but you can't grow and sustain yourself by continual cost cutting. That's not a way that you actually survive as a company. And so this issue of sustainability really is a critical concept for understanding the current situation of the newsroom and how it's going to position itself in the future with the variety of new kinds of services that it can offer along the way.

Now when we deal with sustainability, we deal with issues of production forces and costs that are related there these are not actually significant problems for the newspapers today. We deal with market forces relating to the demand for the product or services and this is, of course, a huge challenge for the industry today, as many of the readers who aren't interested in news find that they like the sports better elsewhere, or find that the entertainment, activities and other things coming from television and online and games and things of that sort are more interesting to them outside of the newspaper. We have the issue of technological forces affecting the industry, and certainly all of you, the fact that you're here, means you understand the issues of availability of new technologies along the way. There are issues, of course, relating to social forces that can affect sustainability newspapers are not yet in most countries having problems in that regard.

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We have issues of managerial forces, and effectiveness, and the ability to lead the company where it needs to go. This was, in fact, one of the weakest positions that media have one of the problems of being a successful industry for a long time and not having to innovate products and services in a long time is you lose some of the entrepreneurial edge, and you lose the idea of innovation in the company and how to deal with it. And one of the joys of innovation is that it's accompanied by failure, and newspapers don't like failure because they've had 100 years of success. Don't change anything it works. So then when you have to say, "Well, we need to innovate, and do R&D, and try some things, and we're going to have some failures along the way" they say, "Oh, failures, see we should go back to what we were doing before and not think about the future." It's not only a newspaper industry problem it's been in other in other industries as well, but we have never, in the newspaper industry, spent much money on R&D. If you actually look from about the 1970s on, the average newspaper company spent less than one 10th of one percent of its budget on anything that could be classified as R&D. Contrast that to a company like Nokia, for instance, which spends nine percent of its budget on R&D year after year after year. You get a very different kind of internal environment there, and you get a very different kind of environment when it comes to experimenting with new opportunities in that kind of environment.

And, ultimately, there are protectionist forces that can get in there resistance to change, structural problems that get there and create difficulty (inaudible). For me, as I say, I really think that what is happening to us as an industry, in the newspaper industry, is the audience is this challenge. This audience that, for 100 years hasn't really like the newspaper but didn't have any place to go. The core reader is not the problem the core reader is still there. The core reader is not hard to keep most of them are fairly happy with the newspapers. The problem is they represent about a third of the potential readers. And we spend huge amounts of money in marketing and other such things to try to keep that other two-thirds that keeps wanting to go away from us and will come back to us with a good offer. But otherhand we're really seeing a change that is occurring and that is: we're seeing fewer and fewer people willing to read the newspaper; young people aren't picking up the newspaper along the line. If you're looking at who's left there, I've had a lot of interesting debates working for some companies wanting to project when the newspapers were going to be in trouble and they wanted to go to complicated formulas to do it. And I said, no, what you look at is not adoption tables and not adoption rates of new technologies. You just look at mortality tables and so you can tell when in fact these readers, the average age of readers, are going to be in trouble it's actually the cleanest and easy way to deal with it.

But we have this huge problem: the reader is changing. The reader is going away from us because this reader that didn't really care about the hard news is finding the soft things better someplace else. We also now have this huge issue of just having the newspaper be one of many choices along the way, and the problem that, when you look at consumers of media, they basically are starting to view all media and all communications devices as having the same functions for those that are less interested in the core activities of the industry. And so we're getting this huge

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competition for attention along the way and we clearly are seeing differences in patterns of media use between those people who grew up in a computerized age and those people that did not.

I was struck by the comments about remembering when computers came into the newsroom. When I was in the newsroom we went from letterpress to optical scan readers and we typed on selectory typewriters with that wonderful optical scan ball, and then would feed the paper back into the back room (laughter). The computer was a great advancement for us. When we actually see what happens and we look at the patterns of consumption, we basically see that over time we've had great changes in the percent of readers. Traditionally, as people grew older, more of them would pick up the newspaper. And there's been this kind of pattern that, as you settled into the community, as your children were born, as you became more connected to the community, more people read and then, up around 50 percent, you had a plateau that is occurring.

Interestingly, today, despite all the changes that are going on, we're actually getting the same pattern. The problem is, it's much lower than the pattern in the past and it's peaking out in the 20s to 30 percent of the readership. And that really is a shift that is occurring that's a generational gap that can only be attributed to the fact that they have other places to go and that they don't see the newspaper as the primary source any longer. And so we have to be, in the newspaper industry, if we're in companies, saying, "What do we do about this?" Now we've spent billions trying to get them we've redesigned newspapers, we've done all kinds of luring to get new people in to read. It doesn't work they're just not interested. And all of the kinds of redesigns that have gone on, all the kinds of adding of color, all the kinds of changing the way we present the news it makes the papers better readable than ever before, nicer to look at, everything else. But it's not attracting the readers back. So we have to think carefully about the investments we're making in those kind of things and say, "Are we better off making the investments someplace else to attract the readers in a different way?"

If we look over the centuries, we basically started from a point where the readership was initially the aristocracy and the merchant classes. And then it was really urbanization and the Industrial Revolution that allowed the rise of the newspapers and people reading and willing to pay for them because they have money. Of course in the 20th century we had the rise of television that came along. And now we're sitting, looking ahead saying, "Where's it going to go, how far is it going to drop back down, and what does it mean?" Now, for those of us that are concerned about the economics and the survival of the industry, it basically says, "If we're moving away from a mass newspaper model, what do we have to do to have the kind of income levels we need to keep the whole process alive?" And it means that this business model of selling the audience to advertisers can no longer be a model based on a mass market and that is a huge change that comes in.

Now there are those who will tell you in five years the newspaper's dead, and other such things. I don't believe it. I do believe we're going to see a decline over the next

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20 to 25 years. But I believe that we're going to have a readership that's higher than it was three centuries ago simply because we have more education, more economic and social involvement by people generally, but that it certainly will come down. Now where we survive in that environment and how we survive in that environment depends on advertisers and what they're willing or not willing to do. The readers are going to have to pay more. Now those readers who are not core readers but are occasional readers the readers we've been losing they're going to walk away. But the core readers are going to have to pay more sometime in the future if they want to maintain the newspaper, simply because the advertisers will not do so.

And so really these advertising choices are quite critical. We have to realize that, in fact, newspapers have one of the largest shares of advertising expenditures in many developed nations it's still number one, and if it's not number one, it's pretty closely tied to number one. In many ways, the newspaper industry is in a better situation than television and some other industries of media because of its solidity along the way. Now the share of newspaper advertising is declining there's no question about that. But the real expenditures are growing because the pie is still growing, okay, and when you just look at share, you run into problems greatly along the way. You have to look at actually what money is flowing in. The growth rates are slowing. They are still now running about one percent above inflation on the average, so there's still life in the old cow and the milk is still coming out of the utter.

But we have to be realistic that, as it slows, it will plateau and move down. And those of us who follow these figures nationally and internationally on a regular basis are watching those growth rates very, very carefully because they've basically now plateaued (inaudible). And the only place that you're not seeing that right now is in Asia, where you're having tremendous growth of advertising and (inaudible.)

The other thing that's happening is that the sources of revenue are changing. Retail advertising is not as important as it was in the past it still is the primary thing. And for most of the last 20 years, classified advertising has been the driver of growth. The problem is, classified advertising is all going away not all going away, but a good portion of it is starting to go away. It is now, it appears, that it is the only category of advertising that will have sustained negative growth in the next five years. All the others appear to have growth projected. And that is, of course, hugely problematic.

If we look globally, we basically see very quickly that the rise has been in the Internet and in the television advertising that has been taking shares away a long time. If we look around the globe and we look at the Internet, because that's what we're particularly interested in today, the Internet's bringing in about three percent of total advertising expenditures. It's not a lot it's billions, there's money to be made there, but when we're talking about total advertising expenditures, it's not huge. It certainly has large growth rates each year, but that's not the issue. But there are some issues related to there that most traditional advertisers are not putting much money in the Internet. And, in fact, if you just look at where the money comes from you basically see that you're dealing with very few companies providing large amounts of the money that are going on to the Internet. And essentially the biggest

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users are coming from computer and software firms, financial firms, airlines, travel kind of activities, direct mail retailers, things of that sort (inaudible). These are not, for the most part, big competitors to newspaper advertising because these are not the kind of retailers that are the bread and butter of most newspapers (inaudible).

But the migration of classified is problematic and the migration is occurring in two ways. One of which its occurring is to sites specifically for classified advertising; the other is that many countries' automobile dealers associations and real estate associations are creating their own online sites. And that's taking huge amounts of advertising out of what used to be in the newspaper simply because it's cheaper and easier for them to do that themselves than to pay the cost of the advertising. So there are problems in those classified areas.

Now, from the business perspective, as we look at these, you basically have some choices when the market is changing or shifting. You can a market share for a company that's either growing or declining; you can have a market growth for the product or service that's growing or declining. If you've got a market that's growing and it's getting increasing market share however you measure it, and you're getting high growth, your biggest problems as a company are how do you keep quality in there and how do you manage that growth so you can sustain it. This is one of the problems, for instance, that many of the companies on the Internet are really struggling with in huge ways to try to make it work. If you've got the market growing but you're not getting share as a company, you make your product better and you market it better that's your strategy, essentially. If you've got increasing market share but you're not growing, you've got to innovate you've got to have strategic planning; you've got to be looking for how do you diversify the company, what do you do along the way because the general product category is going down but you're doing well. Or you can be in a situation where everything's going bad for you, which means you either develop, or you get out. That's essentially your choice. For most newspaper companies today, you have some companies that are working in the right hand sector, but most are over here. Essentially they're not innovating and they've got to be deciding, "What are we going to do?" And this is the one where, in fact, the investors of public companies are saying give us cash give us 20 percent returns because we don't believe that you're going to do anything to improve your situation; we believe that you're going to sit there, wither, and die, and we're going to lose our investments. So we want as much cash out and as soon as the milk stops flowing, they're going to sell their shares. And this is the huge problem for most newspaper companies these days: "where do we go?"

So if, on either of these, we're a company and we know we've got to develop our products, that means we can do certain things: we can improve the existing products, we can reposition the products, we can get new products and services along the line, we can go completely to something new do that's nothing we've ever done before there are lots of choices. We've seen a lot of effort in newspaper companies to do redesign and content changes to try to improve the existing product. But that's not going to solve the problems that the industry faces. We've seen some repositioning, we've seen a lot of emphasis on brand development, and a

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lot of efforts trying to contrast the features of newspapers to other competitors. That's helpful, but it's not going to solve the problems.

We're now seeing all of the kind of movement into mobile services, cross-media activities of others, as a means of trying to extend the lines and provide new avenues for services. These are not yet, as we all know, producing a lot of money for very many companies and there are some reasons why that occurs that we'll talk about later. The other is to go outside and get new services, and this is why we've seen the development of the free newspapers and the specialty newspaper—the newspapers of sports, the newspapers aimed at mature people, the newspapers aimed at particular neighborhoods, and other such things, are trying to establish things that are not the same as the daily paper. These are having some effects and working in some locations, and so, for some media companies these are quite useful. The free newspaper—about a third of them have failed, which runs in line with what you would expect of new businesses. But many of them are actually working and working quite well, not because they're cannibalizing the core readers but because they're getting those readers that were drifting away anyhow (inaudible).

And then the other thing is to move into completely new products and services. And we see a lot of newspaper companies that are doing this, that are moving into other kinds of activities that are not directly related to the newspaper but have something related to their understanding of the business. And so we see a lot of different kinds of new distribution of other kinds of products and services, a lot of advertising services that go beyond the newspaper advertising (inaudible).

Now I don't want to say that things are completely bad here because there actually is some protection that exists. The main protection is: those core readers aren't going away. They're sticking with us along the way. And one of the reasons you can see that they're not going is television network news viewing, for instance, in the United States is half of what it was 20 years ago. Newspapers don't have that level of problem yet—it's a huge problem for others. Cable TV news—the average ratings for cable TV news are under one percent share, so that's not a serious issue along the way. When we actually dissect the numbers of Internet, and you actually look at it, only about 10 percent of Internet use involves news and news headlines use is the most.

When you look at these numbers and tear apart the numbers, and people are saying, "oh, 30 to 40 percent, we get our news from the Internet," what they mean is they've read the headlines. When they get to the MSN or the Google or Yahoo portal that's the first headline—they don't click through it at huge rates. There are those that do. The New York Times, for instance, is now getting close to two million—about 1.9 million unique visitors a day along the way. The average visitor reads one story, so we're not dealing with substitution of serious readers, but some people are coming through on a regular basis because there's some stories they want more on than what they get in their other activities.

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So what we see if we look at the core reader is that the core reader is supplementing what they get in their chosen online kind of activities along the way rather than going away. If we look at the advertising, there is some protection there as well. The protection is the fact that the advertisers that use newspapers most are retail advertisers, and retail advertising is really linked to very specific localities because you've got to be within a certain number of miles of where your customers are for the retail trading area that exists for each store, much less for the metropolitan areas. And the kind of messages that retailers do not fit very well in other kind of media their formats, the kind of information you have to have, doesn't work very well. If you look, for instance, at Internet advertising and contrast it to newspaper advertising, Internet advertising is very, very good for brand development, for loyalty campaigns, for other such things, but is not very good for inducing people to buy a specific product at a specific store at a specific time, so you get some protection that comes from that.

The other protection has to do with just the role the newspapers play. All news production in the world is dependent on newspapers they are the basis of the way all news agencies exist, they provide the funding for the news agencies, but they also are the primary provider of news for news agencies. So if you wipe out, all of a sudden, the newspapers, where does anybody get their news? The fundamental problem of news is that you have to have lots of feet on the ground running around here and there to find out what's going on, to get the photographs, to get the story, to see what the information is. It is that basis that exists today only in the newspapers. It's been wiped out of television for the most part; it has never developed well in the online environment; and it's been wiped out in many of the news agencies themselves by cutting bureaus, by cutting staff. So there's this huge problem of, you can't just transfer news and say, "we'll do it all online," because of the number of bodies that are necessary. But what we have seen is commentary and discussion of the news moving very well onto online because you can borrow, then, the information from the news and then move online with those kind of things, and that works quite, quite well.

So when you look at, in fact, mobile news and other such things, you seriously see the developments happening rapidly. When we look today really at the opportunities in online and other activities, we are no longer really talking about competing news operations, with the exception of a few small, local sites where a few people have gotten together to cover the community in a different way. But what we're seeing is a change on bigger sites and the way that news is being used. Initially, newspaper companies and executives said, "Oh my, we're going to have these wonderful sites, we're going to make a lot of money, it's going to be great, they're going to be free-standing." And they expected them to be profitable from the first year. That's a wonderful expectation of somebody that's never started a business (laughter). That's the problem of being a stable industry for so long is they suddenly wanted profits immediately. Well, anybody that's started a business knows that you're going to have a number of years where you're investing more than you're going to get out of it.

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What we see now is, I think, a dose of reality in that people are beginning to understand that you're not creating separate, free-standing products that you are creating the potential for new revenue streams, that you are creating the potential for new ways of contacting audiences in a way you couldn't before so that instead of being part of their life for 20 minutes a day, you can be part of their life at different parts of the day. And so we're seeing an understanding that many of the online operations, in fact, have a lot of issues related to branding and the connections to the audience that will try to keep the core from going elsewhere. And part of this, now, is seen in the blending of print and online newspaper operations. Initially, many newspapers kept them separate and that's pretty normal in an industry where you see something as a destructive technology, where it has different values, it has concerns to the people that are working in it they will normally set it up as a separate operation. We're now seeing them being blended more and more across the world.

And we see also now some things being created that are, in fact, not co-branded with the newspaper that are, in fact, completely separate as new initiatives. And these are, in fact, very healthy by comparison to where we were in this industry 10 years ago.

All right, now we get to the real issues of when do newspapers get hurt. I'm often asked to project these and I don't project any more on forecasts of these things very well, simply because we're dealing with human behavior. And one of the real difficulties of dealing with human behavior is that humans tend to behave as they damn well please. Even in carefully controlled conditions, folks. You put them in the army, they're going to do what they want to do anybody that's been a non-commissioned officer knows that. If you put them in prison, correctional guards will tell you that they get into all kinds of trouble. You can't control people. So we can't really tell what they're going to do. But the newspaper industry gets hurt badly when the readers and the advertisers switch. And it's not too bad now but it's moving along. So what we can expect is that we will continue this kind of incremental changes and funding of other kinds of services in the years to come. And that means that the newspapers are going to have to change their business strategies along the way, incrementally with them, as these things occur. So it means that newspaper companies have to deal with it now.

One of the reasons that we're not going to move as rapidly as some people think is that there's too many choices and too many options for the consumer. We're asking consumers to make an awful lot of expenditures both for hardware and software. We're asking them to build up huge banks of equipment and huge banks of programming to go on that equipment along the way. And if we forget those things that are in the developmental stage and really look at what exists today if everybody were to pick them up, they'd have to triple their household expenditures for media and (inaudible).

Now, any economist that looks at this gets really worried because the only time you get shifts like this are in times of famine, or war, or floods, or some sort of catastrophe where you have to shift large portions of your income because you now

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are back to dealing with food, shelter, and clothing. So for most of us looking at this, we understand that over time, there will be shifts and people will pick up more and more, but not everybody is going to pick up everything. That's not the way people behave (inaudible).

So we're at a point today where, in fact, the newspapers are not going to be able to grow out of their situation with their current products that they're going to have to adjust to the environment. Clearly they're going to have to plan to transition to new products and services. The way to do that, first, is the defensive movement into new media to keep others from dominating it. And many have done that. But defensive strategies are not very good for the midterm and long term for a company. You have to go into an offensive strategy of really seeking new businesses, and really seeking growth doing something else. This is where we see a lot of things currently lacking in many companies and the way they're approaching. So, when we look at where change is occurring, and how it's going to occur, and how rapidly this is going to occur, I believe that it's fairly clear that it's going to be shorter in national and big metropolitan newspapers than in smaller, local newspapers.

And there's some reasons for that. If you look at local newspapers, most of the local newspapers have really loyal readers. They tend not to have the big churn in local newspapers. They tend to have retail advertisers that aren't sought by national media or by new media, they tend to be the exclusive provider of information for their communities if you wipe out the local news, you're not going to get it coming from the wire services or coming on the Internet from someplace else, unless they are replaced by a local news site of some sort. So you don't have digital media and others pressuring them in the same way. The national and metro newspapers, though, have really serious problems, part of which are cost-based because of the cost of production and distribution. And they are really the ones that are being targeted by online publications and portals. They are the ones where they're going after not only their advertisers but their readers as well. Much of what they provide is duplicated in other media because when you actually look, particularly at large metro newspapers, they only produce about 15 percent of their own content. The rest comes in from services or other such things, and that creates a huge problem for them. National newspapers tend to produce a higher portion of their own content, but then they syndicate it and provide it out, so it's available on many of these other news sources so it creates some problems along the way. So we have some difficulties.

So the real question for publishers is how fast they have to change and how to plan that change that is the issue and we're in a situation where the sacrifice, if you keep worrying about the money and move too rapidly, you in fact turn the cow into entree when it could have produced milk for many years to come. And that created a huge problem because we have to be able to keep the cow alive to make the transition along the way, simply because we need the content, the structure, the organization of one to transfer to the other.

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Now from the financial side it's a fairly simple issue of when do you call in the butcher. As we said, the cow gets old and stops giving milk, and it's the tendency of many people to think that as soon as the cost of production exceeds the cost of maintaining the cow we're going to send it off to the butcher. The problem is and you see it in this way, that we're going to see a decline in income from the print side over a period of time. The cost of the print side will go down slightly because you're not printing as many papers or you're making cuts along the way. And so there's this conventional view that we'll take the cow to the slaughter when that happens. That can't work because of the interdependencies that are necessary as we move into new kinds of operations along the line. So what we are really going to see is revenue from new media operations going up at some point, and then the revenue from the combined operations going down because we're losing all of the red line going down in that situation. And that means that the cost of the combined operation someplace reached the point where we need to do it, but it's not at the same point where the print revenues get (inaudible).

For all of us then, we have a period of time in which to start changing and developing the situation, changing and developing the strategies and the operations to make it work. And for those of you that are working with new media activities, one has to concern oneself more and more with how do we in fact lose the revenues from the operations to be part of this transition along the way and that is, of course, the biggest challenge that everybody faces. Thank you.

ROSENAL ALVES: Thank you very much. We're going to pass immediately to the next panel. And Robert Picard was kind enough to agree to sit in the next panel, so he's going to answer questions along with the panelists in a few minutes. So I would like to invite Vin and Gary to come, and Lorraine is going to chair this panel now. We don't have the person from The Daily Telegraph that is in the program. She was not able to come, unfortunately. So this will fit well because this panel is a very good segue for what has been talked about up to now. So it's going to be sort of a continuation so, stay where you are and enjoy the panel.