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Friday - Keynote Speaker

Newspapers in the Time of Cholera: A Healthy Prescription for an Ailing Industry

Speaker:

James Moroney III, Publisher and CEO of Dallas Morning News; Executive Vice President of A. H. Belo Corporation

James Moroney III: You know, the title of this is "Newspapers in the Time of Cholera: A Healthy Prescription for an Ailing Industry," but Rosental, since you apparently have some connection with the ultimate manager, why don't you just make this whole thing better and I can forget this talk?

Rosental Calmon Alves: Oh, that's harder.

James Moroney III: Harder to do, okay. Let me know if that's available. I could short-circuit this conversation. No doubt all of you all have read the many, many stories about the newspaper industry. And let me caveat this by saying that I'm going to be talking about the U.S. newspaper industry. I know that around the world there are many places where the hard copy newspaper business is, frankly, quite healthy. If we go up into Canada, just across the northern border from here, the newspaper industry is quite, quite healthy in many places. So my remarks today are going to be about the U.S. newspaper industry. And when I use the term "news and information," I'm not also trying to be restrictive, I'm talking about sports and business and entertainment and so forth. But I don't want to do that mouthful each time, so I will just say, "news and information." The reason I think this is important, this topic of this transformation, because many of you all are in digital journalism and in the growth part, if you will, of the business or you're in the growth part of journalism, is because frankly the business that undergirds, if you will, all of the opportunity for journalism (at least in the U.S. again) to transform from the print medium that it has traditionally been into online is very dependent upon making this business of the hard copy newspaper last long enough in order to make that successful transition. And if we don't, then I don't know exactly what happens to the journalism, at least at the scale that we do it in the United States at newspaper companies.

We can continue to put out a newspaper full of wire reports as long as we have great companies like The New York Times to give us that wire information, or perhaps us in the newspaper business that support the AP have the AP. But if we're going to produce the kind of journalism that I'll talk about at the very end of this talk that's important, we need to figure out how to make this transformation from what has been a hard copy business, if you will, print on paper business into newsprint.

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So let me start by saying that if we're going to successfully make this transition, then you have to have an attitude that says you can get there. So if you have an attitude about our business today, the business that you are in, the industry that you are in, that is like this ... if this works, if this works, if it works. I'm holding it down really hard, Rosental. Let's see then.

Rosental Calmon Alves: Let me mess with it.

James Moroney III: We can do it. I should have started with, this is what I believe. This is, I believe, the most transformational period in the history of the U.S. newspaper industry. I think it will be roughly 2002 to 2012, and we're smack-dab right in the middle of it. When you read that last year the U.S. newspaper industry top line revenue declined by about 7.5% when you include online revenue, or 9.5% when you exclude online revenue, and you know that the run rate for the first two quarters of the year from reporting newspaper companies is roughly at the same run rate, you're talking about potentially in a 24-month period of time watching as much as 20% of the revenue of newspaper companies evaporate in a two-year period of time. That alone should make this statement true. Now, I don't know where the outcome is, and that's what we are going to talk about.

So my question is, is this how you see our industry today? I mean, is this your attitude? Are we on a sinking ship? Or, is your attitude more like this? [audience laughter] Well, let me say something. I believe this genuinely. And I'm not here to do, you know, a Southern Baptist tele-evangelical speech for you, but I do want to tell you that the attitude that you have, what you think you will become has a lot to do with what you become. If you think that it's... I don't know, gosh, I don't how to go backwards with this thing. Let's see. Well, anyway, yeah, there you go. If you think that's what business we're in, if that's where you think we're headed, then I would say, get on the lifeboat, it's over. It isn't going to get better. But if you have the passion, if you have the will, if you have the determination, if you really think we can change things, then I think we have the opportunity to have a very healthy future. But that's probably it for me. Culture. I could spend the whole day talking about culture, but culture starts with having an attitude that you can change things and that you can succeed.

Now, let me ask a question. How many people here are in the newspaper business? Raise your hands. Okay. All right. I want all of you all to take out a pen and a piece of paper. You still have paper, right? Because you're in the newspaper business. [audience laughter] Okay. I want you to take down these URL's, because if you're in the newspaper business, then you're in the business of managing decline. If you're in the newspaper business, you're in the business of managing decline. Now, however, if you are in the news and information business, if you're in the news and information business, then I think there is a very healthy future ahead of you. Because

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the demand for news and information is at an all time high. The market capitalization of these companies is testimony to the fact that the demand for news and information has never been greater and is only going to continue to grow. It's never stopped growing from the time that we first started putting out news and information in this country or anywhere else in the world. So if you're in the news and information business, you have a healthy future.

But let me ask you all some questions on an analogy basis. What business is this? Somebody tell me. It's the music business, right? It's not the vinyl business. It's not the eight-track business. Some of you are way too young. It's not the cassette business. It is not the CD business even. Today, you might say it's the MP3 business. But frankly, it's just the music business, right?

How about another one? What business is this? Photography? Images? It's not the film business. Because what's happened to film?

Let's do another one. What business is this? It's the communications business. It's the business of communicating with one another. We don't -- we're not going to see many of those around anymore. They are disappearing. It's going here or maybe it's going to Skype. It's going to all those kind of places.

Let's try another one. What business is this? It's what?

Audience Member: Entertainment.

James Moroney III: Yeah, entertainment business. It's bringing you movies to the home. Those are bringing you movies to the home. So I keep asking. Oh, what business is this? What, information? It could be entertainment.

Audience Member: Knowledge.

James Moroney III: Knowledge. We've got kindle^{[?]1}, right? And we've got more of those coming, right? So, why is it so hard? Why is it so hard for us to say we're not in the newspaper business? This is no more than a vehicle for transporting news and information in a particular format. It's no different than the eight-track tape. It's no different than the videotape. It's packaging. I got up in the morning and I used to drink orange juice made from frozen concentrate, and I read my newspaper. Like a perfect little Norman Rockwell breakfast, right? There is almost no frozen orange juice sold in America today, those concentrated, you know, frozen concentrate. But the consumption of orange juice is at an all time high. It's simply been repackaged for the way that people want to consume it, mostly in small plastic containers sitting in your refrigerator [that] you grab as you run out

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the door. That you hopefully may have either read your newspaper or you're going to pick it up as you drive out the driveway.

But the point is, we're confusing the packaging with the business that we're in. The business that we're in is the news and information business. And that is, again, about the cultural change that I believe simply has to happen at all levels of companies that today may still call themselves newspaper companies. At The Dallas Morning News, I keep telling our group, "We are not a newspaper company. We are a news and information company." We have to be a news and information company, because the newspaper business is a declining business. It is not going to stop the erosion of circulation. That's not going to happen unless you completely reinvent the newspaper, and I'll talk about that in just a second.

So let me just spend for a second a few moments on short-term things that newspaper companies can and I believe should do to help extend their runway, so that they can remain profitable long enough, so that they can continue to fund the innovation that has to happen [as] we transform ourselves into news and information companies in a digital era.

So first thing that I would tell you, you need to do: Decide on what the margin is going to be. It's going to be lower. And manage to it. The margins that newspaper businesses have had historically are not sustainable. They are not even -- we can't even return to them. So decide on what that lower margin is and manage to it.

Second, get rid of unprofitable circulation. We simply can't afford it any longer. We can't afford it. You need to monetize all your surplus capacity, especially in printing and in distribution. Today, The Dallas Morning News distributes The New York Times, and it distributes USA Today, and it distributes Financial Times, and it distributes Investors Business Daily. It even distributes the alternative paper The Dallas Observer. And it also, by the way... I'm sorry, it prints The Dallas Observer. And it also is going to begin to distribute the daily racing form. We have printing capacity. We have distribution capacity, and we've had the luxury of only distributing our own product. We can't afford that any longer. We need to use all of our idle capacity, whether that's in printing or distribution. At our brand-new headquarters in Riverside, California for our newspaper company there, we built a building anticipating this continual growth that was happening in the Southern California area. Guess what's happening today in Southern California? It's not growing. We had excess space on the fourth floor of that building. You know what we did? We rented it out to law firm. I said, "Why leave this space sitting up here? What are we waiting for? We can write a contract. If we need it, we can move them out." But that's idle capacity. Better than -- better than downsizing my newsroom, right? What's wrong with that? So we have these capacities. We've just got to be creative, and we've got to learn to use them.

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We need to model the elasticity for home delivery and for single copy pricing. You've already seen single copy pricing beginning to go up. You'll see much more. But it just happened, I think, here in Austin or they announced it, The Austin American Statesman. You'll see more of this happening. This has been a place that newspapers have historically not taken advantage of. There is pricing opportunities in home delivery and in single copy, where the growth in volume of sales or the decline in volume of sales will not be greater than the rising price percentage that you raise it. If you go from 50 cents to 75, you've raised the price by 50%. You will not see a 50% decline in the revenue, so there is some opportunity to raise profitability.

I know this sounds like heresy, but when you've been in a business that has been in a quasi-monopoly position, you have the opportunity to raise prices beyond what the market would bear. When you find yourself in great competition, you may have to decide that lowering your rates is what to do. Revenue is a function of two things: revenue times -- I'm sorry -- rate times volume. Rate times volume equals revenue, right? So if I lower my revenues and raise my volumes in proportion to one another, my revenue stays constant. The problem newspapers have today is that the volume in the newspapers, the volume of advertising is declining. Even if the rate is the same, revenue is going down. As volume declines, as many newspapers manage to news holds, what happened? News holds shrink because volume is going down. We need to get volume back in the newspaper. Advertising is an important part of newspaper's value proposition, and the less we have of it, the less we have of that part of the value proposition. So where possible, lower rates, raise volumes, and at least maintain revenues. And when you're losing 9% and 9% of your revenue in the last two years, maintaining revenue would be a good thing.

Finally, and use this all over the place, outsource where you can improve profitability or productivity while maintaining acceptable service levels, particularly in non-customer facing areas.

So these are just some things that newspapers, the hard-copy print, ink-on-paper business should be doing in order to grow profitability or create new profitability in a time where this transformation is happening, in order to, if you will, extend that runway that we have as companies to make this transformation into the digital era.

But that's short-term. So what does the future hold? I'm going to digress just a moment here and tell you what I believe is going to happen with newspapers somewhere out in the future. First of all, they are going to have to deemphasize the one-size-fits-all character. They may disaggregate, if we could figure out how to print and distribute them, so that the person get only the sections that they want. We've been working on that at The Morning News. It's very difficult logistically to do, but the consumers are interested in

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it. So I could print less newsprint and yet still keep the same number of total customers. Or, I've got to find a way to say, you know, the sections in my newspaper are no different than the lineup of a television station. You've got Good Morning America, and you've got the noon news, and you've got Oprah Winfrey, and you've got the ten o'clock news, and you've got Grey's Anatomy. I've got a Sports Section, and I've got a Lifestyle Section, and I've got a Business Section, and they all reach different consumers. If still media is bought on reach times frequency, I can give you a different reach and frequency by combining the different sections of the newspaper just like television stations use programming to create greater reach and frequency. So some kind of mass targeting is what I think has to happen.

I think that you should think of newspapers in the future with more context, more perspective, and more analysis. Less who, what, when, and where. That's what the web can and does and will do, and the newspapers should be more about why. So think the economist or think the week. I believe that newspapers because of the scale that we have, because of the kinds of people we've been able to hire, have many subject matter experts. And these subject matter experts can bring perspective and context and analysis to the news and information, and that's what you'll be looking for in this lean back experience of reading a newspaper on the subway, in your home at the breakfast table, wherever you choose to consume a print edition newspaper. And I believe *that* in the future is where we need to go with newspapers, and we're taking some steps that way at The Dallas Morning News.

And then finally, not a surprise, originate local. This is particularly true for metropolitan newspapers like The Dallas Morning News. And then aggregate everything else. And I'm going to really talk about this point. It's sort of back to the future. I mean, newspapers historically have been the voice of the community. They've told the community something about itself every day. And then we began to make lots of money, and we had bureaus in different parts of the world, and we started expanding our mission. And there was nothing wrong with that, but I don't think we can afford that in these current times, so we've got to get back to doing what we historically did.

But let's talk about, you know, the long term, really what we have to do. And these are just three simple things. First of all, I mentioned this, you're going to have to build a culture that embraces change. In my opinion, you always have two things that are sometimes competing with one another: culture and strategy. Some people will tell you, "It's all about the strategy. Get the strategy right and you're going to win." Some people will tell you, "It's all about the culture. You get the culture right and you can have a mediocre strategy and you'll still win." I'm kind of more in that [latter] camp. You have *got* to get the culture right in order for a change strategy to work. If you don't have the culture right in your company and yet you come up with a brilliant and winning change strategy, it will probably fail. The status quo (my opinion) is the most awesome force on earth. And it's certainly the most

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awesome force in business. And it will fight change at every turn. And so until you have created a culture of change in your company, you won't really be able to make truly transformational change.

Secondly, I'm going to talk about this most today: Build a strategy based on super serving local niche audiences. And I'm going to talk about that some more. And then finally, if you believe this, then you've got to reorganize the company to execute on number two. Now, I can't take enough time today to go through all three of these, so I'm going to focus on number two: the strategy of super serving local niche audiences. And what I want to do is, I want to convince you of something. I want to sort of break down the idea that a metropolitan newspaper should focus on local. It's not new. You've heard it. You've read it. People have talked about it. They're analyzing it. They're doing it. But I want to go back and convince you why this is actually the right thing to do. And it applies to the news and information business, not the newspaper business. It's just as true online as it would be in print. And it goes back to talking about some of the very foundational reasons about what value is in the news and information business.

So let me deal with the three basic questions of strategy. First question: What are our core competencies? If you don't know what those are, you're probably not going to build a very winning strategy. Second: How do we create value for customers using our core competency? So once you know what they are, right, then the next thing to do is to use those core competencies to build value for consumers. You don't want, if you build value for consumers not using your core competencies, you've done a nice trick, but probably you won't be able to sustain that. And then of course, finally, in the, you know, interesting part: How can we have a sustainable competitive advantage using our core competencies in building value for customers? So if I've built the value, how can I turn that in a way that makes it a competitive advantage for me, so that I can sustain that in the marketplace and build a profitable business? This applies to virtually any business in the world. I know sometimes we think that our business is different and journalism is unusual and all of these things, but I really don't think that's true. I think you can apply these same fundamentals to the business of journalism.

So we have to start off with, what are our core competencies? So here's what I think they are. There's two of them. Originating and editing news and information that attracts audiences. Hardly a revelation, is it? But that's what I believe our primary core competency is. We originate news and information that attracts audiences. That's what we do better than anybody else does. That's at the root, if you will. At the foundation of our companies, that's what our business is. The second thing is that we monetize the value of those audiences for companies who want to sell goods and services to those audiences. Advertising. So again, most of our business model is built around this second part. I would have love to have been able to charge online and gone to a purely subscription based model and gotten out of this

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second part of that. That would be a very elegant and nice thing to do, but I don't think that is going to happen, at least not in anything that I can see out in the future. I don't believe that will take place. So that's what -- those are the two core competencies.

So if those are our core competencies, then how do we create value? In other words, what makes news and information valuable to people? How does value get imparted to news and information? And I think this is really critical in arriving at where we have to go. So here is what I believe is the formula for creating value for news and information. It has two axis, two elements: relevance and differentiation. If information is relevant to you, if news and information is relevant to you, it has some value to you. Or, if I flip that around and sort of put it the opposite, if news and information is irrelevant to you, then clearly it doesn't have any value to you. So the more relevant it is, the more valuable it should be to you. The second dimension of this is differentiation. If everybody has the same news and information, then it's basically a commodity, and it basically can't obtain much value in the marketplace. As we know, commodities basically just trade on price, and it becomes price competition, and it gets driven down. But if you're the *only* one with some kind of news and information, if you've got something that nobody else has, the value of that will go up. So the more differentiated your content is, the more relevant it is, the greater will be its value.

So in a high level way for news, I think international news for people, well, depending on where you live, whatever is international for you, has relevancy and is somewhat differentiated. There are some suppliers of international news, but not so many that in some ways it's not terribly differentiated. The story that I get from (sorry to say this) the New York Times or the AP or the Washington Post or CNN or whatever other place I get it, they're differentiated, but not always terribly so. If I go to national news for people in your home country, it becomes more relevant to you more often. Not always, but most often. And it also is, there are more suppliers. There's more ways to differentiate that news. So you know where I'm going. I believe that up this value chain, if you will, up this value curve is local.

Local information is for most people most of the time what is most relevant to them. There is an old adage that goes something like, "The house that burned down next door is always inherently more interesting and important to somebody than an earthquake that killed a hundred people in a small country around the world [that] they can't find on a map." That may not sound very moral or ethical, but in fact in human behavior it's fairly true. People are interested in what's going on around them, what's going on in their neighborhood. So it's more relevant. And, of course, local news is inherently differentiated, right? What's local news in Dallas is not local news in Austin is not local news in Boise is not local news in Dubuque. I mean, it's just inherently differentiated. So when I'm trying to create value in the marketplace for a metropolitan newspaper, I say I've got a very great place

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to go. I'm going to go to local, because it is relevant, and I can differentiate it, and I can create value for it.

If we determine what our core competencies are, one of them is originating content, right? And one of the ways we create value with that content is by differentiating and making it relevant. Then how can we turn this into a competitive advantage so that we can create a profitable and sustainably profitable business in the marketplace? Well, I believe that the competitive advantage that a newspaper today has, if you will, is scale. It is the scale of our newsrooms that are our competitive advantage. Let me put another statement [up on the screen] that I believe is next. And if we use it correctly, it's sustainable. I don't know if this is going to come up next or not. I think it will. Yeah. At The Dallas Morning News, we employ more reporters than all of the local television stations in the Dallas/Fort Worth market *combined*. I have scale that gives me a competitive advantage in covering local news against not only an individual television station, which are about the only business that's still reporting local news and information, but I've got more than all of them put together. So the question then is, how do I use that scale to create a competitive advantage? Because scale, in and of itself, is only an advantage if you use it properly.

Let's go back in history for a moment and remember something that all of you know called the maginal line. Well, the maginal line had scale. There was plenty of resources being deployed across the entire front of France, but because it wasn't strong in any one place, it was weak in every place. And of course, we all know that Germany basically just rolled over the famous maginal line and found their way on into Paris. But Allies being a little bit smarter as time went on, they used their scale. They took this *massive* force and they deployed it across a fairly narrow section of land, some beaches on the Normandy Coast of France, and they overwhelmed the forces of the Third Reich that were there trying to guard those beaches. *They* used their scale to an advantage. France did not use their scale to create a competitive advantage. So what we have to learn from this is that we have to take our scale and use it to create a competitive advantage. And that's why we have to focus on local. We have to focus on local news and information.

So let me just go through some things The Dallas Morning News has done for the last four years as we've been working our way through this strategy in order to create a competitive advantage, bring it home to what we have to go do now going forward, and then I'll be done with a couple of last comments, and I'll take some questions.

Here are the things that we did. We closed all of our foreign bureaus except Mexico City, because for us in Dallas with the growing Hispanic population, we consider Mexico City and Mexico part of our local story. But we closed the rest of our foreign bureaus.

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We also downsized our Washington Bureau. I know that's, you know, heartbreaking to us and to other people, but you know what? I've got to take my forces and put them where I can create a competitive advantage. And I can't out-national The New York Times, The Wall Street Journal, and The Washington Post. I can't do it. I don't have the resources, and I can't play to win there. I still have a Washington Bureau. They really focus on the Texas delegation. But I'm not using them to cover general national news. I'm using the great reporters of The Wall Street Journal, The Washington Post, and others.

We got rid of our technology section. I'm not sure what's inherently local about technology. So we had a wonderful section, we had some brilliant journalists, but I couldn't afford to do it.

We got rid of three lifestyle sections. Oh, we got rid of three lifestyle sections. They were wonderful, interesting sections, they had a reasonable readership, but there was nothing inherently local about these lifestyle sections that I couldn't get from other brilliant writers. In other words, I could aggregate that information, I didn't need to originate it, and we got out of that business. And I will tell you, we dropped three daily lifestyle sections. We had seven different subjects we covered across the week. We now do only four. If we took ten cancellations, it was five more than I remember.

So we downsized our religion section. Again, there is some things local about this. We kept it as two pages in the paper, but at one time it was a separate section. We downsized there.

We took our sports. We have a wonderful sports section, a wonderful sports department, but they don't travel to games that don't have local and regional teams. We used to go to virtually every big game that there ever was, and we've sent lots of reporters to it. It was marvelous and wonderful. But I can't afford to do that. I can take an AP story on a game that doesn't involve a Texas-based team, and that's just fine for our readers.

I also eliminated circulation of the paper. We were being circulated in Oklahoma, Arkansas, and Texas down as far as Houston. We now only circulate within a hundred miles, the hard copy within a hundred miles of Dallas, except for Austin. And the reason we still circulate here is because the capitol is here. And part of our mission that I'll talk about, of course, is to influence the legislature and to inform the legislature. And if we don't have our hard copy paper here, even though they could go online, a lot of them don't or won't, so we're trying to ensure that they are looking [at] and reading our paper. So that's what we... Those are the things we stopped doing, but here are the things we started doing.

We took our metro section back in 2004 and we zoned it five ways. We have five live zoned editions of the Metropolitan Section, which allows each of

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those sections to more closely focus on a local part of our geography, so that we can get more granular local news and information into the paper.

We also zoned our editorial, if you will. These are all really consumer-generated opinion pages from those same five zones, and we've created local groups that turn over about every 18 months. And they are called "The Voices Of -- the Voices of Collin County." And we recruit them, we train them, if you will, a little bit, but they are their contributors, and they can contribute regularly to what is an opinion page about those local communities. So in a sense, we've zoned our editorial page as well. Not with, if you will, professionally generated journalism from our Editorial Board, but from edited opinion columns coming from people in the community.

We also created in 2005 sixteen consumer-generated weekly tabs called "Neighbors" originally. We changed it "Neighbors Go" when we went online. They are obviously smaller geographic areas than even our metro zones. So each of our metro zones, it's a subset of that, so that we could get even more local information. And we're doing it through consumer-generated. There's one-and-one-half editors for every one of those 16 publications. It's now up to 17. We've actually added one more since we started. And this business became profitable in two years. And it's generated, you know, millions of dollars, I should say. I won't put the number out, but it's generating millions of dollars. It became profitable in less than 24 months.

Right after that, it was not too long after that, once we got the brand established, we went online, and we've created over 50 micro-sites, which are, again, even more granular than the 16 or 17 weekly tabs that come out, so that people could get to even more -- get to smaller communities. We gave them social tools. Actually developed it right here in Austin with Small World Labs. I don't know if you've come across them. They are a good organization here in Austin. They built the website for us, and they built the tools for us, so they can upload photos, they can upload video, they can create social networking kinds of things on each of these sites. They can kind of go do what they want. And these have all... The growth in this has also been very steady since it began, so then 54 or 55 sort of micro-sites.

We also put out a live -- a live arts and entertainment section, so that we could be a little more up-to-date on reporting about what happened last night in the arts scene. And this is seven days a week. We wanted to begin to stake our claim on the go-and-do the arts/entertainment, sort of cultural part of Dallas. And so while we had a section before, it wasn't a live section. It's now a live section, and we're now working on updating GuideLive.com, which is the online version of this, where we [are] completely reconstructing and rebuilding it.

We also launched a local high school sports tab weekly. And as you can imagine, not long, in fact, coincident with that, we also launched an online

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site, HS Game Time. This has become a tremendous success both in the paper and particularly online. We saw traffic grow, and I can't remember the number, maybe 50%, but on signing day -- on signing day for the high school athletes, the traffic on this site just went way up. So I believe we've made connections with parents and young people about where to go for the best news and information. And this, again, has consumer generated tools, if you will. A lot of it comes from the community, from the coaches, but our staff also does some coverage. We partner with WFAA, the ABC affiliate that used to be part of our company. We shoot some video; they shoot some video. This has become very popular. And I think, actually, there's also a version of this, HS Game Time Austin, here in Austin, associated with KVUE, our former sister station, the ABC affiliate, Channel 24, here in Austin.

Ah. We also increased the number of reporters dedicated to investigative and enterprise journalism focused particularly on local and regional stories. This is just a story that we have really worked hard on. I hope you've seen it somewhere: The Texas Youth Commission. What these people were doing was unconscionable. And every time we thought we had gotten to the bottom of it, yet, we found another horrible story of abuse of people in power over those that they were supposed to be taking care of. But we increased the amount of resources to investigative and enterprise, because at the height of relevancy in differentiating. Differentiation is enterprise journalism. It is by nature one of a kind or most likely one of a kind. And we found, of course, that if it's local and it's investigative and it's important, it becomes very, very relevant to people. So this is probably at the top of a chart of all -- I had a chart, but I just dropped it because it was too much information -- of all the kinds of local news you can do at the apex, if you will, of differentiation. And relevancy is important and good and meaningful enterprise journalism. So we added resources there.

We also added resources to our education team. In our research, we found out that people are very interested in education, local/regional education, state education, if you will, everything that applies to the educational system in Texas. And we added... This is actually an investigative piece that came out of that team, where we used statistical analysis to determine it was almost impossible for many of the schools to be scoring from a previous year in the low 25 percentile to the next year being in the 90th percentile, with the same kids only moving from 4th to 5th grade or 5th to 6th grade. We said, "What's going on? I mean, how did these kids become brilliant overnight?" It almost invariably has turned out that, of course, they were cheating. Usually, it's the teachers that are cheating for them or helping them to cheat. And we kept pushing this point hard, because of course the agency, the TEA, said, "Oh, no, no, no, no, that can't be happening." Well now, they've just passed legislation to do some things that you thought would be normal, like, let's have a monitor in the classroom who is not the teacher responsible for that particular class's performance. Because, as you know, we have rewards for schools and teachers who perform better, right? So there's an incentive for

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cheating that got put in the system. And unfortunately, the way things go, that's what happens.

So those are some of the things that we've been doing since about 2004 to focus ourselves. In fact, just a year ago we completely reorganized the newsroom and got away from some of the traditional ways newspaper newsrooms were organized to get ourselves focused on local. And it's perhaps a little arcane to go through organizational charts. I won't do it. But we literally took a completely different approach to how we look at the organization of our newsroom, both online and print, and reorganized it to get it focused more on local.

So what's next? For us what's next is we've got to even do better than we're doing. Even in local, I don't believe we can sustain ourselves and be all things to all people locally. We're going to have to choose things that we want to do locally, and we're going to have to pick some categories, and we're going to have to focus on those, and we're going to have to own them. We're going to have to do those better than anybody else can do them, and that probably means narrowing in a bit still what our range of coverage is going to be. And then once we choose those categories, we've got to reorganize the company to own them. My own opinion is that what we have to do and what you'll see us trying to do... And I'm borrowing a phrase from a man named Jeffrey Rapport, if you've come across him somewhere. But he uses this term, he says, "You've got to overwhelm the microcosm."

I believe today that's how we're going to win online. We're going to niche, and then we're going to niche the niche, and then we're going to niche the niche of the niche. We're going to create very deep, deep verticals. They are going to be verticals that are about a narrow subject. They're going to have some connection to local. They're going to have to have something about local. We're going to create content more deeply than anybody else has around that. We're going to aggregate everything else about that subject matter we possibly can. We're going to link out to everything imaginable, so that we want that person in Dallas/Fort Worth who says, "You know, I want to know about the energy business in Dallas." Well, there isn't going to be anything... Every company, every executive, every stock trend, what's been bought, what's been sold, I mean, whatever your mind can come up with, we're going to create what is specifically local about that subject. We're going to aggregate everything else about that subject matter, so that we have it all there in a very easy to find navigation taxonomy. And then we're going to be able to link out, you know, to every other thing we can possibly imagine. We're going to keep evolving it. We're going to have to pick those categories and then the subcategories of subcategories. We're going to create those very narrow sites. So you're going to go straight to this site. You're not going to go to DallasNews.com.

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I left a slide out, but I believe that DallasNews.com for all of its four million unique visitors a month and 40-million page views a month, which I'm proud of in a metropolitan newspaper sense, not compared to The New York Times, but, you know, it's old and clunky. I mean, it was great when I was doing Belo Interactive back in 1998, you know. God, ten years ago, or '99. I mean, it was great. But today it is a newspaper online. It is not a post search 2.0, God knows 3.0. It is not a website for that, and we've got to recognize it and determine what to do with it. It's still sort of an old model website. And I think what we're going to wind up doing, I believe, is, again, sort of disaggregating it. We may still have this sort of portal site called DallasNews.com, but I believe in a search here, what we've got to do is get people to what they want faster and more easily. And one of the ways you can do that is just narrow the vertical down, so that the information within that site is all relevant to what it is you're looking for, and you don't get these 18-million search returns, only five of which are really relevant to what it is that you [are searching for].

So we've got to pick those categories and use our core competency, which is originating news and information, okay? We've got to then know what the value proposition is. For us, it's the things that are inherently local, so granular that big organizations like The New York Times or The Wall Street Journal or the AP or so forth aren't going to come in and do them. So we're going to be the sole provider. God knows, television stations, as much as I love them, are never getting into the granular business. They don't have the resources. They have trapped themselves with very high margins. They are just not going to go back and create 450-person newsrooms in Dallas or in Austin or anyplace else. And then, we've got to use our scale wisely so that we can overwhelm these microcosms and give the customer everything they want out of these narrow niches. They come to us and they say, "I don't need to go anyplace else. Everything I want is either here on this site or they have made it easy and convenient for me to link out and find it." That's what I believe we have to do going forward to the future.

So the last thing I just want to end on is, you know, this is not easy. For any of you that are in the U.S. newspaper business, it is a really difficult time. We have all had to downsize in some ways, and you read about it every single day, and it is gut-wrenching. When you see the trends in top line revenue, you know the end isn't in sight. I have no visibility to when the revenue decline in newspapers will (and if it will) abate. I would sure like to hope so, but building strategy on hope is a very precarious thing to do. But the question is, why do we stay in this fight? Why do we stay in here? Why don't we just go do something like join a digital startup? You know that would be a lot of fun to do. There's millions and billions of dollars of venture capital out there. They are screaming for skills like many of you have in this room. I believe we stay in this business because I genuinely, genuinely believe that journalism, the kind of journalism that the U.S. newspaper business has done is absolutely essential to a well-functioning democracy.

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And this democracy that we have in this country is the reason we have the liberties that we enjoy in this country -- in this country that are guaranteed to us through the Constitution and through the Bill of Rights. The scale of the newsrooms of newspapers are the ones that have been doing this journalism. That is the reason that the free press is constitutionally guaranteed in the 1st Amendment to the Bill of Rights. It is the scale of the newspaper newsrooms, not that there hasn't been great journalism done by television news organizations and by network news, television news organizations. But day in and day out, in the local area and nationally, internationally, some of the greatest journalism is done only because of the scale of these newsrooms. And if this scale doesn't survive, if we keep cutting back the size of our newsrooms in this sort of effort to prop up profits, then we're going to take away the very competitive advantage, first of all, we have. It's good business sense. But we're also going to undermine what I believe the framers of the Constitution meant when they put a free press into the Bill of Rights.

This is Patrick Henry, and he says, "The liberties of a people never were or ever will be secured when the transactions of their rulers may be concealed from them." That's why they guaranteed in the Bill of Rights that the government could not abridge the free press. John Adams said this, "Our liberty as a free press is meant to ensure the protection of *all* the liberties -- all of the liberties constitutionally guaranteed." I believe John Adams completely understood the relationship of the free press to government, and that the rest of those liberties that our government imparts to us are ensured by a free press, but only by a free press that is robust enough to withstand, if you will, or to countervail the force of a very powerful, central government. And Rosental could do this much better than I can, but I will tell you this that I am almost certain about: You show me a country where there is a dictator who has been in power for a period of time and I will show you a country without a free press. You show me a country where the people in power are not freely elected by the people in that country and I'll almost always show you a country without a free press. And I am confident 100% that you show me a country where the citizens are constantly and continually abused by the people in power and there will be a country without a free press.

We have to make this transformation. It is important to the democracy and the liberties we enjoy in the United States. And by gosh, the Dallas Morning News is going to find out a way to get there. I hope all of you will too. And if you've got some great ideas, let's share them with one another, because we're all in this together.

Thank you.

[Applause.]

Rosental Calmon Alves: I think we have time for...

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James Moroney III: Yeah, I don't know if we have. I usually speak too long. So if there's any time or any questions...

Audience Member: [Inaudible.]

James Moroney III: Well, yeah. I don't know if this thing is working or not.

Audience Member: The mike is on. Oh, yeah.

James Moroney III: Can I get some water?

Richard Anderson: By the time you get down to your 54th level with your local, what population...?

Woman: Identify yourself.

Richard Anderson: Richard Anderson with Village Soup. What population are you getting down to at 54 market level?

James Moroney III: You mean at...?

Richard Anderson: 54th. You said you've got your...

James Moroney III: Oh, the micro-sites?

Richard Anderson: Yeah, the micro-sites.

James Moroney III: Okay. The Metro sections are anywhere from about 65,000 to 100,000 homes. The Neighbors print sections are 15- to 30,000. And then you're down in those 50,000 -- the 50-plus sites can be just a few thousand. You're into a neighborhood. It may not even be a municipally incorporated neighborhood. It may be a neighborhood by platting of the real estate and they have a colloquial name for themselves, like Lakewood or Bluff View in Dallas, that are not Highland Park and University Park municipalities, but just, you know, areas where people live. So it's meant to be a neighborhood. In fact, you know, with the social networking tools, it may be that it's a -- you can go in there and create the Garden Club of Lakewood and then you can link in with other garden clubs that are created on the site and so on and so on. Other questions.

Bob Rivard: Good morning, Jim. Bob Rivard with the Express-News.

James Moroney III: Hey, Bob, how are you?

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Bob Rivard: Good. Good to see you. Great presentation. So let me indulge you in a hypothetical. You're walking down to the newsroom, the editor and managing editor and sports editor in the corner office, and you walk in and the editor says, "Boss, who do you have in the Final 4?" And you say, "You know, I kind of lost interest when UT lost. I'm kind of like everybody else in town, I guess." And the editor kind of looks at you with a little panic and goes, "Well, wait a minute. That's our big story this week. We haven't lost interest. As a matter of fact, we're sending quite a crew down to San Antonio. We've got two consecutive games Saturday, so we've got two sets of reporters, two columnists, photographers at each end of the court. They'll be filing in the 45 minutes between the two games. And by the way, we're going to blog it, Jim. We are all over it! So, um, I guess we're sending about 12 people." And you kind of pause and say, "What's that going to cost?" "Well, that's going to cost about \$25,000, Jim."

James Moroney III: We're you in the room with Bob and me?

[Audience laughter.]

Bob Rivard: Now, this is happening at every paper in Texas, to be fair.

James Moroney III: Yeah.

Bob Rivard: And it would be happening at my paper if the Final 4 were in Dallas instead of San Antonio. But I am guessing, I don't know, that you'll be there in force, Houston will be there in force, Austin and Fort Worth. And one of the compelling arguments they'll make to their publishers is that, "We don't want to put Buck Harvey of the Express News or his picture in the Dallas Morning News. That's not our brand. Buck is great, but he's down there. We want *our* voices, *our* people, that *our* readers know there. And it's going to cost some money." Is it local? We say, "Yes." You say, "Maybe not." So what will we see? And how do you...? As we all move from closing or reducing our foreign bureaus and Washington bureaus, and now we're into, who's generating content? And are we going out in the state, in the nation, in the world and duplicating content elsewhere? Do you want to read AP's Final 4 coverage and save the money for your local efforts, or do you want to give your editor the green light and say, "I can understand culture is only at a certain rate. Readership only changes at a certain rate. Have a great time this weekend."?

James Moroney III: Well, [chuckles], let me give you one analogy that I can speak to directly, and then at the risk of not knowing how many people we're sending and finding out that I'm wrong, I won't -- but I'll answer the question the way that I think, what we should be doing. We won a Pulitzer Prize, which I'm very happy about, for coverage of Katrina, from our photography staff. I was at the Southern Newspaper Publishers Association and they were showing photos from Katrina, and I noticed that about every

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third photo was the Dallas Morning News. I mean, AP got one, and maybe San Antonio got one, Times...[unintelligible]...and New Orleans got a couple. Then I said, "Bob, how many photographers did we have in New Orleans?" And the number might have -- was in the teens, I think. I mean, whatever it was, it had to be double digits. And so, you know, that's good. We produced a great series of pictures. Won the Pulitzer Prize. I was happy about that. But I looked at Bob and I said, "You know, I don't think today in this model we're going to be sending, you know, the sort of first column into New Orleans." That, for us, that is not what truly is a local story. The local story would be the evacuees coming from New Orleans to Dallas. That's a local story. And maybe we need to go down there and trace that migration. But I don't know that we're just going to cover it, you know, the way that we did the first time, if we were to have a Katrina II, even if it was, you know, in and around the Gulf Coast area, not too far from where we live.

What I would say today to Bob, though we haven't had that [conversation] -- (Bob Mong, I'm sorry, our editor at the paper, or George Rodrigue, the managing editor) -- is, "It's not a local story for us. What we do need to do is send down our subject matter experts." So our best college basketball or basketball reporters or columnists. And let them provide context and analysis and perspective, but we don't need to write the game summary. We don't need to take the pictures. Because we can get those pictures from you or from the AP or from many of the other services. And so let's save our powder and let's redeploy it towards something else. Now, I have the wonderful distinction of having this great sports department that's won, you know, more winners of the Triple Crown than any sports department in the country. And I'm proud of them, and I think that they probably feel like, "Boy, if we don't cover this well enough, are we going to lose that distinction?" I don't know. And I say this, and I know this is going to come back and haunt me, but I don't know that getting focused on awards is what really we need to be focused on.

We need to be focused on doing important journalism that is meaningful to our communities. We need to be focused on what our customers really need and want from us. And I use those things differently. Some things they want from us; some things I think we still need to give them even they don't know they want them. That sounds sort of old and arrogant, but I think we have a responsibility to do some of that.

I don't know in this case, and I'll go back and find out. It'll be interesting. I'm not going to countermand the decision by any means, but I'll see how many people we have going down there. I hope I'll find that it's fewer than last year and that it's closer to columnists and not just straight, you know, who, what, when and where reporting.

Bob Rivard: Well, don't tell Bob Mong...

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James Moroney III: But I'm sure I'll be wrong.

Bob Rivard: Don't tell Bob Mong I'm the one that asked the question.

James Moroney III: Yeah. Well, my guess is now he can find out. He'll go to YouTube and find it. But I thank you, Bob. It's an important point, because the amount... I will say this, too. The amount of resources we're dedicating this year to the presidential race is less than it was four years ago, because four years ago, we could make a case that this was local. It was George Bush. He's a Texan. He was the governor. And there was much, therefore, perhaps more intense interest. We're still covering it. I just did a talk with Wayne Slater yesterday, and he was traveling with McCain. We have people, but we don't have as many people doing the presidential race as we did four years ago.

Audience Member: Next question.

Paula Poindexter: Paula Poindexter, School of Journalism here at UT-Austin. I'm going to have to challenge you on the Katrina story.

James Moroney III: Okay.

Paula Poindexter: Because this is an example. You're saying, "Okay, it's not local, so we don't need to cover it." But at the same time that you tell us about what's relevant. I mean, that particular story was relevant, you know, to every American in this country.

James Moroney III: Right.

Paula Poindexter: That particular story was relevant when you talk about the role of the press and why the press -- free press is in the Constitution, the Bill of Rights, and so forth. So I think to just kind of take this attitude that a publisher might take that, okay, is it, you know, let's check the boxes here? You know, it's local, or, it's a national story, it's international. So if it doesn't qualify because it's a (quote), "not a local story," then I think that you have a problem in terms of, what is your responsibility to provide the type of journalism that really supports the idea that we are in the Constitution?

James Moroney III: Let me ask you a question. It's 1937. Do you think the Dallas Morning News was going to drive a bunch of people down to New Orleans? Well, let me ask you this question. 1900, the worst hurricane in the history of the -- the greatest natural disaster in the history of the United States. Did the Dallas Morning News send a bunch of reporters down to Galveston to cover that or was our business to cover Dallas?

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Paula Poindexter: Well, I think that's totally irrelevant. I mean, this is 2008 and so we're talking about a world -- it is a completely different world. It is a transformed world in terms of media.

James Moroney III: Right.

Paula Poindexter: I mean, we didn't have the access that we had at that time. And the thing is, if it had not been for the media, then we would not have known the truth about Katrina. We would not... You know, when the President is saying that, "Oh, yeah, you know, you're doing a good job," talking about his FEMA Director, then how would we know that he's not doing a good job? How would we know that the Bush Administration did not do a good job? The reason we knew that was because of the media. And I will also say that, uh, because Louisiana is a neighbor and because so many people from Louisiana, you know, came to Texas, looked to us, looked to this state, you know, to help in this tragic situation. I mean, this was a tragedy that really opened the eyes of the United States and the world to what was going on. And so I think you have to be very careful about just saying, "Well, okay, it's not local, so we don't need to cover it," because that is going to diminish you and your organization as a leader in journalism. And so I think you need to stop and think about that.

James Moroney III: Well, again, remember what I said. I said we wouldn't send...

Paula Poindexter: You may decide back that \$15-million that you gave us based on what I just said! [laughing]

James Moroney III: What I said was, "We wouldn't send as many people down to cover Katrina as we did if it happened again." We sent down more reporters, more photographers than perhaps any media in the country, including The New York Times, including The Washington Post, and I wouldn't do that again.

Paula Poindexter: Yeah, but you also said, if we can play back the webcast, if that's possible, but you also said it wasn't a local story, so it really didn't qualify based on your new criteria.

James Moroney III: Right.

Paula Poindexter: And I'm just saying that we have to be careful.

James Moroney III: And I said, "If there is the local dimension to that story. The people," I said, "that come evacuating out of New Orleans to Dallas becomes then, therefore, a local story." But I'm going to tell you, and I appreciate where you're headed, but newspapers today better make some choices about what they cover and how they cover it. If we spread ourselves

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too thinly, we are not going to succeed. And as much as I and you agree on the subject of what newspapers mean to this country, what I'm going to tell you is, they are not going to be around at the scale that they are today, and that's going to be the great tragedy. And you can blame it on business, and you can blame it on publishers. What I'm trying to do is save the scale of the Dallas Morning News, not destroy it.

Paula Poindexter: I know Rosental wants to cut me off. Let me just say one last thing. But you just told us that you're no longer in the newspaper business. You told us that you are now in the news and information business.

James Moroney III: That's right.

Paula Poindexter: And the other problem with this is that if you make this your, "This is how we're operating, how we're doing business," that your reporters are going to be reluctant to suggest these enterprise stories and these investigative stories that they should be covering, because you've already said that, you know, "If it's not local, then we're not going to cover it." And thank you very much.

James Moroney III: Well, you're welcome, but I want to...

Paula Poindexter: Excellent presentation.

James Moroney III: I do want to finish and say this. The Dallas Morning News won a Pulitzer Prize a number of years ago for a story that was a marvelous and important story to be told, and it was overseas, and it had nothing to do with Dallas, but it was a great social and travesty. And it was a great story to tell, and I'm proud that we told it. But I'm going to tell you, and I just mean this sincerely, and I'm sorry if you and I disagree about this, but if a reporter came today and said, "There is a story over in Somalia and it's a great story that needs to be told, and it is important to the future of Somalia," I'm going to say, "No, we're not going to do that story, because I don't have the resources to go over and do that." And I will also tell you, unfortunately or fortunately, depending on which way you want to look at it, there is enough corruption, enough abuse, enough power in Dallas/Fort Worth, North Texas, and Texas to keep us busy for the rest of our lives! And we have -- we are the only ones that are going to do those stories! No one is going to do the Tex^[?] abuse story if we don't do it. No one is going to do the tax story if we don't do it. No one is going to do the...[recording stops].