The News Landscape in 2014: Transformed or Diminished?
(Formulating a Game Plan for Survival in the Digital Era)

Penelope Muse Abernathy, Knight Chair, Digital Media Economics and Journalism
School of Journalism and Mass Communication, UNC at Chapel Hill

Richard Foster, Senior Faculty Fellow
School of Management, Yale University

In 1994, a few pioneering newsrooms began tiptoeing into the digital age, establishing rudimentary web sites and staking out a claim on the 21st century.[1]

Fifteen years later, with traditional news organizations besieged and threatened by the very technology that was supposed to usher in a golden age of communication, the destruction is all too apparent. The Internet and all that it has wrought – from immediacy to interconnectivity – have wreaked havoc on the revenue models of news organizations and rendered their cost structures antiquated and obsolete.

In describing the effects of "creative destruction"[2] on industries under assault, economists often invoke the image of a shoreline, battered by turbulent seas. As the waters begin to recede, what is most visible initially is the damage to the landscape. But, they stress, the retreating waters also leave behind the seeds of eventual economic revitalization.

With this in mind, we've tried to imagine a potential path toward renewal for battered news organizations, as well as speculate on what this means for the news landscape five years out, when the digital revolution will be a mere two decades old.

Specifically, we've looked to address issues raised in three books published this fall – and written from the perspectives of shareholder, journalist and economist. What, if anything, can be done, we've asked, to right the past missteps identified in *The Curse of the Mogul?*[3] Can "important and essential" journalism touted in *Losing The News*[4] be profitable in the future? Is it possible to reverse the diminished, commoditized and marginalized future for newspapers predicted in *Media Ownership and Concentration in America*[5]?

About the authors: *Our observations marry the work of two parallel paths of study. Richard Foster, retired senior partner and director of McKinsey & Company, analyzed the technology and financial services industries in his books, "Innovation: The Attacker's Advantage" and "Creative Destruction: Why Companies That Are Built to Last Underperform the Market." Penelope Muse Abernathy, longtime media executive, draws on several decades of research at UNC, delving into evolving media business models, as well as the historic role of journalism in informing public debate and holding government accountable.*

The potential path to an alternative future we've carved out is not for the faint-hearted or lazy news executive. Anyone who commits to the journey will need to make difficult choices and set a pace for change that may be uncomfortable and unprecedented. Not everyone who starts the race will cross the finish line. But, in contrast to the inaction or failed acquisition and growth strategies many media companies pursued over the last decade, it actually attacks the root of the problem and holds the promise of transformation and eventual survival in the 21st century.

Continuing on the current path, traditional news organizations are at great risk of meeting either a Hindu-style death of transformation, as they are acquired and merged with other corporations, or a Judeo-Christian demise, as they are shuttered and disappear entirely from the landscape.

The Shareholder Perspective: What's Been Lost and Who's "Winning" So Far

> *The explosion of digital media has had a significant impact on the media business, and not in a good way. The foundation of our approach is the simple insight that barriers to entry are the source of value creation for shareholders. Digital media systematically lowers the cost of entry into most markets – it is far easier to start a local Web site than a local newspaper. This cannot help but color our prognosis for the industry.*
>
> - *The Curse of the Mogul, Jonathan Knee, Bruce Greenwald, Ava Seave*

Although many news organizations started as family-run enterprises, most of the largest are publicly held. Therefore, examining shareholder return of these companies gives us one important perspective on what's been lost and must be recovered, if the companies are to attract investors once again.

Far from ushering in a golden age of profits for illustrious media brands, the Internet has destroyed existing business models, according to the authors of *The Curse of the Mogul*. They fault executives in media conglomerates such as Time Warner, News Corp, Viacom and Disney for pursuing expensive acquisition and globalization strategies that failed to address the problem – the elimination of barriers to entry that have historically protected the media conglomerates.

Tallying total shareholder return of these conglomerates from 1996 to 2006, *The Curse* found the media conglomerates averaged 2.5% return vs. 9% for the market as a whole (using the S&P 500 as a proxy.)[6]

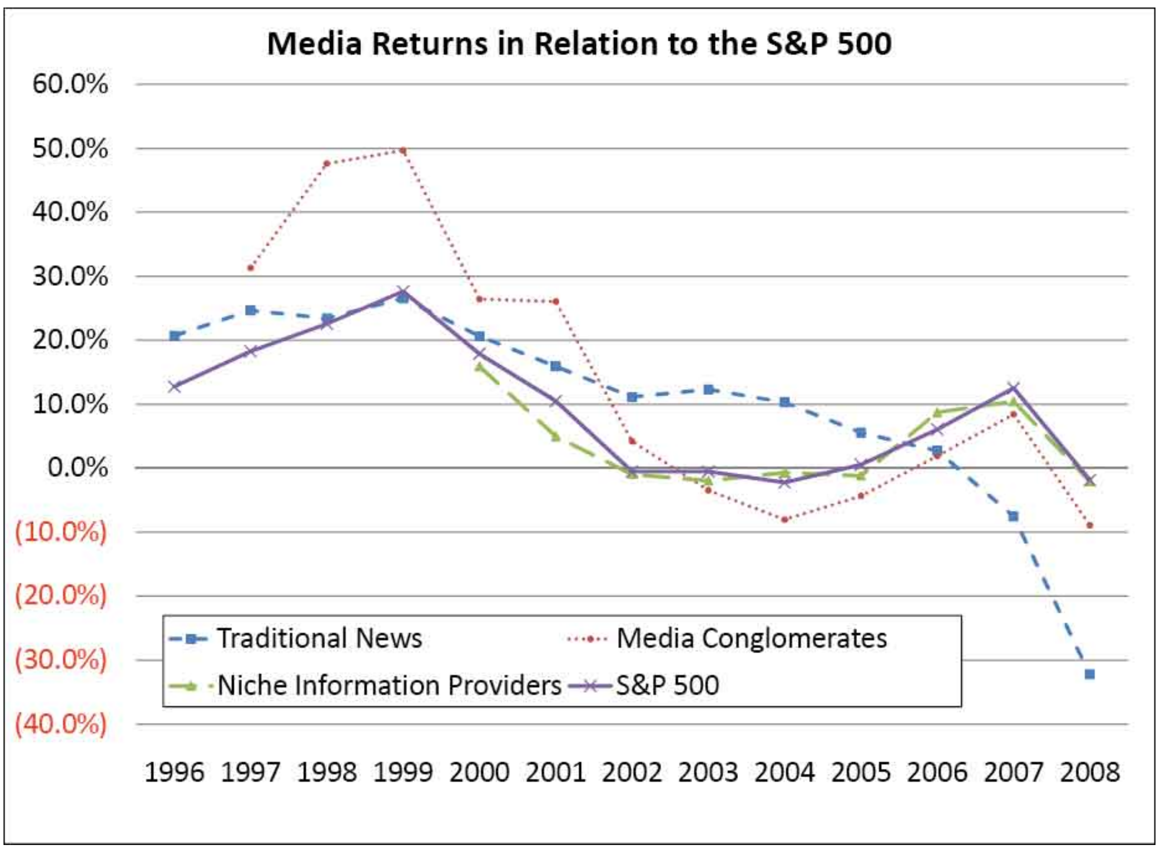
We've attempted to update their analysis through 2008 (taking into account the recent stock market correction), and focus specifically on the performance of traditional news companies – such as Gannett, McClatchy and the New York Times – which were not included in the analysis done in *The Curse*, even though, arguably, they are in more peril at the moment than the conglomerates.

We grouped 16 publicly traded companies into one of three categories – traditional news companies, media conglomerates and niche information providers – and compared their return from 1996 to 2008.

The changes to the news media landscape since 1996 are dramatic and mind-reeling, and include:

- The emergence of The New York Times as a national newspaper.
- The creation of the Fox News Channel and a host of cable news outlets.
- The "acquisition" of the old media company (Time Warner) by new media AOL.
- And the "death" of two of the largest newspaper chains – Times Mirror and Knight Ridder.

Instead of calculating an average 12-year-return, we found it much more informative to map the yearly returns (in the chart below)[7] as the market reacted to these changes.



This chart calculates total shareholder return, taking into account share price and dividends. For a list of companies and their individual performance, see the Appendix.

Even though the 10- and 12-year average for media conglomerates significantly trailed the S&P, Wall Street initially swooned over the growth and acquisition strategies of these companies. Then, they thought better of it, and soured on them. From 1996 to 2001, the average returns of the media conglomerate group far exceeded the S&P, but have trailed it since 2002.

Wall Street's affection for the traditional news organizations such as The New York Times, Gannett and McClatchy lasted much longer, and was steadier, driven by the view that newspapers, and local television stations, were de facto monopolies, with pricing leverage that resulted in operating margins of 20% or higher. Returns to shareholders of traditional news organizations matched or exceeded the S&P until 2006, and then suddenly, dropped off a cliff.

What caused both to fall? In the case of the media conglomerates, it was most likely buyer remorse over unrealistic expectations attached to the AOL Time Warner "merger" in 2000 – and, perhaps, a simultaneous realization that similar attempts by other conglomerates to "acquire" digital knowledge did not address operational and organizational issues raised by this disruptive innovation known as the Internet.

In contrast, the precipitous drop of traditional media companies in 2006 was most likely triggered by the unrest of shareholders in Knight Ridder and Tribune, who ultimately put both companies in play, and caused investors to take a hard look at the actions – or inactions – of the traditional media company. While the media moguls had spent the prior decade acquiring and "merging," the executives at traditional news companies had, for the most part, continued business as usual. The downward trend lines of everything from circulation to classified advertising most likely convinced investors that the Internet was dealing traditional news organizations a knock-out punch by simultaneously destroying barriers to entry, pricing leverage and entire categories of advertising.

During this period, only the niche information providers – such as Thomson Reuters, McGraw Hill, Reed Elsevier and Wolters Kluwer – consistently posted returns that mirrored the average return of the S&P.[8] Indeed, the authors of *The Curse* hold up the niche information providers (which serve business and professional markets) as the only wise media investment. It's a recommendation that may help financial planners and portfolio managers, but will, undoubtedly, disappoint journalists.

But are there lessons in dealing with the digital challenge that the niche information providers can offer, especially, to traditional news organizations?

Unlike the media conglomerates and traditional news organizations who sell to a mass audience, niche providers started the digital era with an advantage – delivering proprietary information, news or analytics to a specialized and well-defined group, such as the financial or health industries. This allowed them to maintain pricing leverage when more general interest news was being turned into a "commodity" by the Internet.

But, as the consistent returns of this group over the last decade suggest, Wall Street perceives the niche providers did not just retreat behind the barricades and wait for the storm to pass. Instead, the niche information providers kept pace with change in the market, updating their business models to reflect a new digital reality. This involved shedding legacy units and systems when appropriate, while developing new streams of revenue.

All of which suggests that if traditional news organizations are to "survive" and eventually thrive in this digital age, they need to radically change course and transform their century-old business model, following much of the same game plan used by the niche information providers – of shedding legacy costs as quickly as feasible, while simultaneously and aggressively re-building community and revenue online.

A Knock-Out Punch or a Game Plan for Surviving?

> *Traditional journalists have long believed that fact-based accountability news is the essential food supply of democracy. . . . The biggest worry is that this iron core is in jeopardy, largely because of the troubles plaguing the newspaper business. It is the nation's newspapers that provide the vast majority of iron core news. My own estimate is that 85 percent of professionally reported accountability news comes from newspapers.*
>
> - *Losing the News: The Future of News that Feeds Democracy, Alex Jones*

Research at the University of North Carolina in the 1970s established that newsrooms – in cities large and small – had the ability to affect and inform public debate of the issues on a daily basis, by selecting which stories made it onto the front page[9].

Even though the number of newspapers has declined steadily since the 1920s, the circulation of daily newspapers in the U.S. in 1994 – at the dawn of the digital age – hovered around an all-time high of 60 million[10]. This meant that the lone surviving newspapers in cities and towns across the country wielded significant ability both to "set the agenda" for public debate, as well as "set the rates" advertisers would have to pay to reach a specific market.

With the Internet destroying this de facto geographic monopoly, traditional news organizations – and especially daily newspapers – are disadvantaged in three ways:

1. They carry into the digital age huge costs associated with supporting a system of printing and distribution that essentially dates to the 19th century.
2. Their "geographic" market dominance and pricing power has been undermined by the Internet.
3. Especially in the larger markets, a good portion of the highest-margin advertising has been "lost" to online classified sites or search engines.

Therefore traditional news organizations that survive will need to play a three-pronged game of catch-up, focusing on:

- Shedding legacy costs as quickly as possible
- Re-creating community online – in an attempt to regain pricing leverage, and
- Building new online advertising revenue streams to replace the loss of traditional print categories.

Here's how each of these strategies play out – and why each must be pursued simultaneously – if traditional news organizations are to regain profitable margins that can support "iron core" journalism.

Shedding legacy costs as quickly as possible

In prior decades, the costs of purchasing a printing press and then creating a daily distribution system served as a barrier to entry. But*, this is the biggest advantage that digital start-ups have over traditional print publications*. In many newspapers, printing and distribution account for almost half of expenses.

These legacy systems are more than just a drain on the bottom line. They soak up funds that could be invested in new technology – and they divert management attention to issues of maintenance instead of transformation.

Despite extolling the advantages of digital distribution, newspaper publishers today remained yoked and committed to a two-century-old daily publishing cycle that delivers newsprint. Only the Wall Street Journal has made any significant attempt to migrate a sizeable portion of its readers to online-only delivery.

Why is this so difficult? First and foremost, newspapers have treated online editions, which typically account for less than 10% of total revenue, as poor step-children to print editions, and have invested accordingly, channeling funds to prop up the cash cow, so it continues giving until they can figure out a way to "manage" the digital shift without dealing a fatal financial blow to the entire organization.

As a result, few – if any – publishers have a game plan or timeline for transitioning a majority of their print readers to online delivery – even though several recent surveys of media usage indicate that readers are re-organizing their lives around the new technology – and leaving print behind.

Production and delivery of a viable paperless "substitute" requires totally rethinking the concept of a newspaper – shedding the broadsheet newspaper mindset, in favor of creating and designing a "digital" one that could be read on an e-reader, smart-phone or PDA equivalent, as well as a computer screen. However, traditional news sources wait for MIT or some other R&D unit to develop a "paradigm-shifting" (their words) technology that will deliver the newspaper on a reusable plastic sheet the size of a broadsheet. It takes both creativity and courage to boldly go where no publisher has gone before.

In the meantime, they focus on cuts around the edges – such as an across-the-board layoff of staff or a reduction in the space allotted to news in order to save on paper costs. Ironically, these cuts weaken the "iron core" (as Alex Jones calls it), damaging a news organization's ability to provide context and in-depth reporting on public policy issues.

Without a game plan for conversion of readers, the only way to attack these legacy costs directly is to eliminate unprofitable publishing days, following the example of the Detroit Free Press, which cut home delivery of the printed newspaper from seven to three days. The advantage of this approach is that it has the potential to impact the bottom line more significantly than other, more indirect tactics.

But unless news organizations simultaneously invest in re-imagining and re-inventing the online edition, there is no transformation of the traditional newspaper and the industry dies with its aging loyal readers, who pay an ever increasing price to receive the "last" printed copy of the newspaper.[11]

The tipping point – the point at which a new technology displaces an old one – occurs when a well-defined and sizeable segment of the population begins to organize daily life so as to take full advantage of the disruptive option. Surveys that compare media usage across generations have found that members of the Gen X or Millennial Generation (those who are under 25) are already adept at organizing their lives around the Internet and the cell phone.[12] The unprecedented average 10% yearly circulation decline posted recently by the nation's daily newspapers suggests that their parents are, also, learning to live without print, and reorganizing their lives around digital.

Staying on top of and ahead of this digital migration of readers is a strategic imperative for all traditional news organizations, even those in small, rural communities. As broadband and wireless options spread to the most remote communities in U.S., they, too, will experience a tipping point. Unlike their counterparts in large metro areas, they have the luxury of planning for the tipping point, instead of being surprised by it – provided they start preparing now for the inevitable which may come sooner than they imagine.

Which leads to the second prong of the game plan. . .

Re-creating community and communities online in an attempt to regain pricing leverage

In the pre-digital age, the newspaper aggregated content and "defined" community, usually around geographic or political boundaries. In the digital age, large search engines and commerce sites have supplanted the aggregation function and redefined community around special interests.

UNC media historian and theorist Donald Shaw has identified three stages in the life-cycle of a "mass medium," now playing out in the digital age, and affecting the ability of traditional news organizations to leverage pricing of both advertising and information.[13]

In the first stage, an innovator aggressively uses new technology to begin collecting and securing an audience, striving to reach critical mass. In the second stage this new medium reaches maximum market penetration – and profitability. And then, the large mass audience starts fragmenting into smaller communities, and the medium begins losing penetration, prestige and profitability.

"On the downward slide," he says in *The Rise and Fall of Mass Media*, "leaders understandably always try to return to the dominant position. . . .Initially, all commonly assume that only an 'adjustment' is needed to get audiences back. That always fails."

Instead, "creative leaders, once again, are needed to find ways to locate loyal audiences and to use technology to finds (ways) to reach these old and new audiences... History always allows leaders options, whether they use them sensibly or not."

In other words, media companies who survive a disruptive innovation have an ability to regroup, re-imagine the possibilities in this changed world order and then re-build, focusing on serving specialized audiences and communities, instead of one mass audience or community. They understand that there are basically two ways to gain pricing leverage with advertisers. One is to build a mass audience and provide reach ("eyeballs"). The other is to provide access to a highly desirable (affluent or young, for example) community or a well-defined one (that can be targeted along geographic or political boundaries).

In response to the introduction of television, successful magazines began serving specialized niches or interest groups, and charging advertisers a premium to reach those audiences.

In contrast, newspapers and broadcast news operations, for the most part, have tried to regain "dominance" in the digital age by reaching for eyeballs on their websites, and lost to the aggregators, such as Google, which have a significant advantage in attracting a mass audience.

Part of the issue is that newspapers, especially, have thought of themselves as reaching a "general interest" audience, instead of a "special" interest group – and have viewed themselves (and their websites) as supermarkets offering a wide and "democratic" array of news and information.

Fortunately, many news organizations already have a collection of communities residing on their websites – "online subscribers" to social networks or e-newsletters, for example – that can be tapped in the rebuilding effort. But to date, they have largely been treated as side ventures – with the primary attention of the news staffs still focused on preserving the old mass community and producing a one-size-fits-all news report, "pushed" out to a general interest audience.

A recent UNC survey of online "readers" of a website for a 60,000 circulation newspaper in eastern North Carolina found that more than a third of those responding said they "rarely" or "never" read the printed paper. The most popular and frequently visited features are a social network for military spouses and a section devoted to local prep sports. In the printed paper, these audiences would have been served by special sections – lifestyle or sports – that came behind the "main" news section. In the digital world, members of these self-identified special interests communities breeze right past the "home" page and head straight for their new home.[14]

All of this suggests that both large and small newspapers that survive will follow the example of the magazine industry and understand that they may be serving communities of special interests, as well as those built specifically around geographic issues (the hyper-local solutions). It suggests totally reorienting reporting – understanding that there will not be one A-1 story on the current health care debate, but instead several, aiming at the special concerns of those various communities – whether they be military spouses or local high school athletes[15].

Regardless of whether they are serving one community or many, successful news organizations in the digital age will need to use technology to create a compelling user experience online. A recent Duke University paper discussed how reporters and editors can make better use of technology to report on public affairs. [16] These new newsrooms may, in fact, be more labor-intensive than those of the 20th century, as reporters add to their repertoire the multiple tasks of aggregating and sharing, and editors make certain that all the communities served by the "newspaper" get "the news that feeds democracy."

In an interconnected, interactive age, members need to be able to connect in real time, access proprietary information and analysis organized around their special interests and talk back and to each other. (Amazon and Netflix, for example, have built loyalty and profitability around proprietary user-generated rating and recommendation systems.)

In the new world, news organizations become mini-aggregators, as well as creators, of information for these communities. And in rebuilding community, they follow the lead of the magazine industry and begin to regain pricing leverage with both advertisers and consumers – charging advertisers a premium to effectively target a desired community, and potentially charging consumers for access to proprietary information or analysis they cannot find anywhere else.

Journalists may worry that not all "news" executives who figure out the new business model will use the profits from one community to fund "iron core" journalism for all the communities they serve, thereby reinstituting the virtuous cycle that supported "the news that feeds democracy." But some publishers will, undoubtedly, make the calculation that building credibility in all the communities they serve ultimately makes better business sense – just as papers ranging in size from The New York Times to the Greenville (TN) Sun, the small Pulitzer-prize winning newspaper owned by Alex Jones's family, did in the 20th century.

Building New Online Advertising Revenue Streams

Ultimately, however, regaining pricing leverage only takes a news organization so far. Unless it can replace the loss of whole categories of print advertising with new online advertising revenue, then the ambitions of news organizations – their scale and, ultimately, their ability to influence public debate on important issues – will be limited.

With online display currently accounting for less than 10% of revenues, publishers need to look beyond display ads and move to aggressively establish competence in "new" and developing forms of advertising. These range from local search applications that have the potential to attract advertising dollars from Mom-and-Pop establishments to direct digital marketing campaigns aimed at online communities, some of which already reside on newspaper and television station websites.

With the Internet still in its infancy, we've so far witnessed the introduction of only one new form of advertising – search, which has grown to an estimated $18 billion in 2009, or roughly 40% of total Internet advertising dollars.[17] But with social networking poised to reach critical mass, and with cell phone and PDA capability expanding dramatically, we can expect – even predict – the emergence of several new forms of advertising in the short term.

Traditional industry logic holds that media companies play a "zero-sum game" – which means that when a "new" medium (such as the Internet) enters the market, it does not create new revenue streams, but instead, takes advertising dollars away from the players who are already on the court. In other words, every existing media company's "slice of the advertising revenue pie" gets reduced by the amount that the newcomer acquires.[18]

Research currently underway at the University of North Carolina seeks to test this logic – especially when there has been a disruptive innovation (such as the Internet) that creates new advertising opportunities and venues. In addition to tracking the growth of traditional advertising dollars estimated at $280 billion, this research will attempt to take into account "below the line" advertising – including mailed coupons, samples, competitions and loyalty programs. By some estimates, "below the line" is at least as large as the size of traditional media advertising and has been growing at almost twice the yearly rate.[19]

All this suggests that – at least for now – this may not be a "zero-sum game," and that traditional news companies who stay on top of the change and innovation in the digital world – especially those in the area of "below the line advertising" such as couponing, sampling and competitions (in which they have had long-standing expertise) – may be able to establish a competence that translates into significantly increased advertising revenue. At a minimum, staying on top of this phenomenon could potentially thwart other competitors – such as phone companies or video aggregators – from moving pre-emptively into the space.

Even if the advertising marketplace does ultimately revert to business as usual, with every medium fighting for a share of the same-sized pie, there is another reason to aggressively build online competence. Currently only 8% of traditional ad budgets in the U.S. are allocated to online[20] – even though a recent survey calculated that Americans consume roughly 30% of their content online[21].

If history is any indication, a more appropriate re-allocation of advertising dollars will occur in the not-too-distant future, and daily print newspapers, with declining readership and household penetration, are most likely to be losers.

The significant fall-off in advertising revenue over the past two years suggests time is of the essence for traditional media companies, which have historically depended primarily on advertising profits to support journalistic endeavors.

* * * * *

A word of caution: an enterprising executive may accomplish all three goals – of shedding legacy costs, recreating community and building new advertising categories – and not achieve the operating margins typical of news companies in the last quarter of the 20th century, since those profit levels were largely the result of being de facto geographic monopolies. As a result, some smaller public companies may become divisions within media conglomerates (following the Dow Jones example) or go private, shedding the individual publications that no longer bring either a technological or marketplace advantage.

Looking Ahead: The Winners and Potential Losers

> *In any commodity situation, the business strategy advice is to seek a differentiation of the product. . . .Such a future is not for everyone. Most news organizations will be unable to meet it. This means that in time, market leaders will emerge and drive traffic, advertising and hence larger budgets. . . . The structure of the newspaper industry will change over time into a few big national and international brands, smaller local and subject-matter satellites, and much greater market concentration.*
>
> - *Media Ownership and Concentration in America, Eli Noam*

Economists track trends and predict the future based on the assumption that organizations do not change or transform themselves easily. Eli Noam looks ahead and predicts "turbulent" and volatile days ahead for the once "stodgy" newspaper industry, as it adjusts to an era in which news has become a commodity and readers "do not have to pay" for it.

In his scenario, the "few big national and international brands" are the monster aggregators – such as Google and Yahoo. Today's national news organizations – The New York Times, USA Today, and the Wall Street Journal – have become "subject-matter satellites" (much like the niche information providers Thomson Reuters and Reed Elsevier in the public arena). Many of the major metro newspapers, saddled with significant debt, have disappeared entirely.

Is there an alternative future? Companies in the midst of such large-scale economic turmoil have traditionally had three options for coping. They can attempt to keep growing, changing the profitable bits and shedding the unprofitable operations. They can sell to a private equity firm, or "merge" with another similar company. Or they can declare bankruptcy – either reorganizing in a vastly different form, or liquidating assets and disappearing. (This last option may be the only one open to those companies that took on significant debt just prior to the downturn.)

From studying other industries in the throes of creative destruction, we know that the need for change often is easily discerned, but is exceedingly difficult to implement. Companies are reluctant to shutter legacy businesses, even after they've outlived their purpose, and thus, channel funds that could be used for renewal into propping up a dying one. Similarly, they fear cannibalizing existing products and delay introducing new ones, leaving the back door open for more agile competitors.

But some companies do manage to survive and thrive. Intel, for example, successfully transformed its business model, not once, but twice, over the last two decades of the 20th century. In 1984, then-CEO Gordon Moore (who is perhaps better known for articulating "Moore's law") and President Andy Grove concluded that they needed to exit the core memory processing business, known as DRAM, and reinvest in microprocessors. It was a difficult and even emotional decision since, as Grove remembers, "Intel equaled memories in all our minds. How could we give up our identity?"[22]

They resolved to eliminate the division only after asking themselves, "If we got kicked out and the board brought in a new CEO, what do you think he would do?"

That question provides some guidance to news executives who comprehend the need for change but don't know exactly where to start. Another form of the question: If you were building this business today, how would you do it?

The next question that follows is: How quickly do you need to change?

The average "lifespan" of a company on the S&P 500 has fallen in recent years from 20 years to roughly 16. Typically, a company does not disappear after 16 years, but is, instead, merged with or acquired by another company. This suggests, at a minimum, a publicly owned company needs to change at the rate and pace of the S&P, an average of at least 6% annually, if it is to remain independent.

But viewed from another perspective, we are now 16 years into the digital revolution. Traditional news organizations in small communities, which have not yet been fully “wired” and connected to broadband, may be able to plan for change at that rate.

However, national news brands and regional newspapers intent on “surviving” until 2014 will need to change much more quickly, if they want to go it alone. Or, alternatively, they will need to form networked “communities” with other organizations – a sort of news version of Hulu, the “portal” that aggregates online video content from Disney, News Corp. and NBCU.

Such a rate of change – or collaboration – would be unprecedented for the traditional news business.

But the alternative is the scenario laid out by Eli Noam. Either way, says Noam, “The likelihood that the structure of this medium will remain as before is nil.”

"What Should I Do Now?"

Having recognized that change is imperative, how does the CEO of a traditional news organization take the first step and both formulate a game plan, as well as a timeline, for implementing change? As senior partner and director at McKinsey & Company for 22 years, Richard Foster frequently advised executives in technology, health care and financial services, who were facing threats similar to those confronted today by traditional media. And the question was always the same: "What do I do about this tomorrow?" Here are his thoughts.

Q. Why is transformative change so difficult?

A. Although I'm very comfortable with numbers, I don't think that is all there is to business. I'm fascinated with the psychology of an organization, and how it changes, depending on what stage the company is in. In the first two stages – foundation and growth – the mentality of founders is very outward, as they try to figure out how the landscape is changing and how best to serve new or potential customers. As successful companies reach the third stage – dominance – the view starts shifting inward as companies naturally begin defending their legacy. By the fourth stage, there usually has been a hand-off to the next generation of leaders in the company and cultural lock-in has set in. In this stage, executives often fail to see potential competitors on the periphery, who could eat their lunch, because they are focused on the existing business and marketplace.

Q. *How does a CEO signal that change needs to occur now?*

A. Change needs to begin at the top with the CEO and the Executive Committee. Unfortunately, members of the Executive Committee often do not function as a "team" with common goals and accountability, but rather as a working group of individuals, each responsible for a separate business division, and each with separate goals and incentives. The best way around this is for the CEO to call everyone together on Monday morning, so to speak, and say something like this:

"We are not going to leave here until we decide to shut down, or at least stop funding, 10% of our current costs over the next year, focusing on our legacy costs. At the same time, I want to hear proposals by next week for at least three acquisitions or alliances that will accelerate our progress down the right path, very specifically focusing on the revenue side. We have been at this long enough. We collectively know enough. Now we have to act. "

Q. One caution in all this is that the new business model has not yet been firmly established. So how do you proceed to place bets and monitor change?

A. There are two key "tipping points." The first comes when your customers change. The Executive Committee needs to have a dashboard for monitoring how their customers' behavior is changing to accommodate a disruptive technology. So, at that Monday morning meeting, the CEO needs to ask, "Have we lost – or are we in danger of losing – customers who drive advertising revenue? If so, how do we get them back?"

Q. Of course, the issue is that customer behavior may tip before you've figured out a new business model.

A. One of the key ways to understand and monitor these transitions is to "follow the money," as they say. The new media companies – like Google – are quite profitable. Profit drives growth for sure. The second tipping point occurs when the economics start to work in favor of the attacker. Then the attacker can cut prices and drive the defender back until the defender's balance sheet is consumed and it is bought out or forced into bankruptcy.

Anticipating tipping points can only come if the executives have knowledge of the existing (defending) and potential (attacking) new business models, and a clear understanding of what they are looking for – in other words, irreversible changes in customer behavior or economic power.

I end by reminding executives that if they do not lead, the next owner will.

Interviewed by Penelope Muse Abernathy

Endnotes

[1]Among the first online newspapers were the SF Gate.com of the *San Francisco Examiner-Chronicle* and Nando of the *Raleigh News and Observer*, both of which appeared in 1994.
[2] "Joseph Alois Schumpeter, the great Austrian-American economist of the 1930s and '40s, called this process of creation and removal 'the gales of creative destruction,'" write Richard Foster and Sarah Kaplan in *Creative Destruction: Why Companies That Are Built to Last Underperform the Market – and How to Successfully Transform Them*.
[3] *The Curse of the Mogul: What's Wrong with the World's Leading Media Companies*? by Jonathan Knee, Bruce Greenwald and Ava Seave, examines individual media businesses in terms of their financial performance, which often falls vastly short of their public images of power.
[4] *Losing the News: The Future of the News that Feeds Democracy* by Alex S. Jones, argues that the decline of the American newspaper is resulting in a public focus towards sensationalist and entertainment news, which corrodes the iron core of information that supports a thriving democracy.
[5] *Media Ownership and Concentration in America* by Eli M. Noam, analyzes media concentrations and technological trends over the past 25 years to understand the nature of American information sources and whether private ownership sways public opinion or threatens an informed democratic debate.
[6] Knee, et.al. p. 8.
[7]Capital IQ (Electronic Database): Standard and Poor's. Yearly returns on media outlets from Dec. 31, 1996 – Dec. 31, 2008. https://www.capitaliq.com/main/datafeeds.asp (accessed October 2009).
[8] Knee, et.al. p. 30.
[9] McCombs, Maxwell E. and Donald L. Shaw. 1972. "The Agenda-Setting Function of Mass Media." In *Public Opinion Quarterly* 36:176-187.
[10] NAA, 2004. "Facts About Newspapers: A Statistical Summary of the Newspaper Industry, US Daily Newspaper Circulation." http://www.naa.org/info/facts04/circulation-daily.html.
[11] Extrapolating circulation trend lines in the 1990s, Philip Meyer in his book, *The Vanishing Newspaper: Saving Journalism in the Information Age*, calculated "the last reader recycles the last printed paper in April 2040."
[12] Deloitte LLP, 2009. "Deloitte's State of the Media Democracy Survey, Third Edition. http://www.deloitte.com/view/en_US/us/Industries/Media-Entertainment/article/526d1ec6f6001210VgnVCM100000ba42f00aRCRD.htm.
[13] Donald L. Shaw, "The Rise and Fall of the Mass Media: Roles of Technology and Leadership," The Roy W. Howard Project at Indiana University School of Journalism, Bloomington, Indiana, 1991.
[14] Parker, Lucia A. "Coming Back for More: The Importance of Reader Loyalty for the FayObserver.com," School of Journalism and Mass Communication, University of North Carolina at Chapel Hill, 2009.
[15] American Press Institute, 2008. Making the Leap Beyond 'Newspaper Companies,', Newspaper Next 2.0 http://www.newspapernext.org/2008/12.
[16] Hamilton, James T. and Fred Tuner, 2009. *Accountability Through Algorithm, Developing the Field of Computational Journalism."* A Center for Advanced Study in the Behavioral Sciences Summer Workshop July 27 – 31. Duke University in association with Stanford University.
[17] Coen, Robert J. 2007. *Insider's Report*: *Robert Coen Presentation on Advertising Expenditures, December 2007.* Universal McCann's: New York.
[18] Maxwell E. McCombs articulated a theory of relative constancy for both advertising and consumer spending on media in his article "Mass Media in the Market Place" in *Journalism Monographs 17-24, 1-103,* 1972.
[19] The Winterberry Group, *Tracking the Trends: A Comparison of Above-the-Line & Below-the-Line Expenditure Trends*, New York, New York, 2009. A sponsored report from the V12 Group, January 2009 at www.12group.com (accessed October 2009).
[20] Barclay's Capital Internet Data Book, October 2009.
[21] Blodget, Henry, 2009. Mary Meeker's Awesome Internet Presentation from Web 2.0, Economy + Internet Trends October 20, 2009, Web 2.0 Summit – San Francisco. The Business Insider. http://www.businessinsider.com/henry-blodget-mary-meekers-internet-presentation-from-web-20-2009-10
[22] Foster, *Creative Destruction*, p. 132.

BIBLIOGRAPHY

American Press Institute. "Making the Leap Beyond 'Newspaper Companies'" *Newspaper Next 2.0*, 2008 < http://www.newspapernext.org/2008/12> (accessed October 2009).

Bachman, S.L., Thompson, Terri, ed. *Writing about Business: the New Columbia Knight-Bagehot Guide to Economics and Business Journalism*. New York: Columbia University Press, 2001.

Barclay's Capital, *Internet Data Book*, October 2009.

Blodget, Henry. "Mary Meeker's Awesome Internet Presentation from Web 2.0, Economy + Internet Trends October 20, 2009 Web 2.0 Summit – San Francisco." *The Business Insider*. <http://www.businessinsider.com/henry-blodget-mary-meekers-internet-presentation-from-web-20-2009-10> (accessed October 2009).

Capital IQ (Electronic Database): Standard and Poor's . Yearly returns on media outlets from Dec. 31, 1996 – Dec. 31, 2008. <https://www.capitaliq.com/main/datafeeds.asp> (accessed October 2009).

Coen, Robert J. "Insider's Report: Robert Coen Presentation on Advertising Expenditures, December 2007." Universal McCann's: New York, 2007.

Deloitte LLP. *Deloitte's State of the Media Democracy Survey*, Third Edition. <http://www.deloitte.com/view/en_US/us/Industries/Media-Entertainment/article/526d1ec6f6001210VgnVCM100000ba42f00aRCRD.htm>, (accessed October 2009).

Dupagne, Michel."A Theoretical and Methodological Critique of the Principle of Relative Constancy." *Communication Theory*, 7:53-76, 1997.

Egol, Matthew, Harry Hawkes and Greg Springs. 2009. *Reinventing Print Media: Four new strategies offer a path to future profits for today's troubled newspaper and magazine companies*. Strategy-business.com, Issue 56. <http://www.strategy-business.com/issue56-autumn2009> (accessed October 2009).

Foster, Richard. *Innovation: The Attacker's Advantage.* Orangeville, Ontario: Summit Books, 1986.

Foster, Richard and Sarah Kaplan. *Creative Destruction: Why Companies That Are Built to Last Underperform the Market – And How to Successfully Transform Them*. New York: Double Day, 2001.

Hamilton, James T. *All the News That's Fit to Sell: How the Market Transforms Information Into News.* Princeton: Princeton University Press, 2004.

Hamilton, James T. and Fred Tuner. “Accountability Through Algorithm, Developing the Field of Computational Journalism.” A Center for Advanced Study in the Behavioral Sciences Summer Workshop. Duke University in association with Stanford University. 27 – 31, Jul. 2009.

Hoskins, Colin, Stuart McFayden, and Adam Finn. *Media Economics: Applying Economics to New and Traditional Media.* London: Sage Publications, Inc., 2004.

Jones, Alex. *Losing the News: The Future of the News That Feeds Democracy.* Oxford: Oxford University Press, 2009.

Knee, Jonathan, Bruce C. Greenwald, and Ava Seave. *The Curse of the Mogul: What's Wrong with the World's Leading Companies*. London: Penguin Group, 2009.

Knight Commission on the Information Needs of Communities in a Democracy, Informing Communities: Sustaining Democracy in the Digital Age, Washington, D.C.: The Aspen Institute, October 2009. <http://www.aspeninstitute.org> (accessed October 2009).

McCombs, Maxwell E. “Mass Media in the Market Place.” *Journalism Monographs* (1972) 17-24: 1-103.

McCombs, Maxwell E. and Donald L. Shaw. “The Agenda-Setting Function of Mass Media.” *Public Opinion Quarterly* (1972) 36:176-187.

McCombs, Maxwell E. “The Relative Constancy Approach to Consumer Spending for Media.” *Journal of Media Economics* (1992) 5:2:43-52.

McCombs, Maxwell E., Donald L. Shaw, and David Weaver. *Communication and Democracy: Exploring the Intellectual Frontiers in Agenda-Setting Theory*. Mahwah, NJ: Lawrence Erlbaum Associates, 1997.

Meyer, Philip. *The Vanishing Newspaper: Saving Journalism in the Information Age*. Columbia, Missouri: University of Missouri Press, 2009.

NAA. “Facts About Newspapers: A Statistical Summary of the Newspaper Industry, US Daily Newspaper Circulation.” <http://www.naa.org/info/facts04/circulation-daily.html>, 2004 (accessed October 2009).

Noam, Eli M. *Media Ownership and Concentration in America*. Oxford: Oxford University Press, 2009.

Shaw, Donald L. *The Rise and Fall of the Mass Media: Roles of Technology and Leadership*. The Roy W. Howard Project, School of Journalism, Indiana University Bloomington: Indiana University, (1991):1-41

Parker, Lucia A. "Coming Back for More: The Importance of Reader Loyalty for the *FayObserver.com*". The School of Journalism and Mass Communication, University of North Carolina at Chapel Hill, 2009.

The Pew Research Center's Project for Excellence in Journalism, *An Annual Report on American Journalism: The State of the News Media 2009*, Washington, D.C.: The Pew Charitable Trust, April 2009 <http://www.journalism.org/> (accessed October 2009).

The Winterberry Group, *Tracking the Trends: A Comparison of Above-the-Line & Below-the-line Expenditure Trend,* New York, New York, 2009. A sponsored report from the V12 Group, January 2009 at www.v12group.com (accessed October 2009).

Wood, William C. "Consumer Spending on the Mass Media: The Principle of Relative Constancy Reconsidered." *Journal of Communication* (1986) 36:2:39-51.

Appendix: Total Shareholder Return in Media Companies: 1996-2008

(Expressed as a Percent)

Traditional News Organizations

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
E.W. Scripps	1.68	1.58	1.17	1.05	1.57	1.17	1.28	1.32	1.13	1.11	1.17	1.04	0.31
Gannett	1.24	1.67	1.06	1.28	0.78	1.08	1.08	1.26	0.93	0.76	1.02	0.67	0.25
Lee Enterprises	1.03	1.29	1.08	1.03	0.95	1.24	0.94	1.32	1.07	0.82	0.86	0.49	0.08
The New York Times	1.30	1.76	1.06	1.43	0.82	1.09	1.07	1.06	0.87	0.66	0.95	0.76	0.46
The Washington Post	1.20	1.45	1.19	0.97	1.12	0.87	1.40	1.08	1.25	0.79	0.98	1.08	0.50
The McClatchy Company	1.55	0.98	1.32	1.23	0.99	1.11	1.22	1.22	1.05	0.83	0.74	0.31	0.11
S&P 500	1.22	1.33	1.28	1.21	0.91	0.88	0.78	1.28	1.11	1.05	1.15	1.05	0.65

Media Conglomerates

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
News Corporation	0.98	1.07	1.18	1.45	0.84	0.99	0.83	1.38	1.07	0.87	1.35	0.96	0.46
Viacom	0.80	1.63	1.57	1.40	0.76	1.08	0.79	0.98	0.99	1.04	1.01	1.07	0.39
The Walt Disney Company	1.19	1.43	0.92	0.98	1.00	0.72	0.80	1.44	1.20	0.87	1.44	0.96	0.71
Time Warner	0.89	2.72	6.86	1.96	0.46	0.92	0.41	1.37	1.08	0.90	1.27	0.77	0.63
S&P 500	1.22	1.33	1.28	1.21	0.91	0.88	0.78	1.28	1.11	1.05	1.15	1.05	0.65

Niche Information Providers

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
McGraw-Hill	1.09	1.64	1.40	1.23	0.97	1.06	1.01	1.17	1.33	1.14	1.33	0.66	0.55
Pearson	1.32	0.96	1.61	1.62	0.77	0.52	0.76	1.20	1.08	0.98	1.27	0.96	0.66
Reed Elsevier	1.26	1.09	0.76	0.95	1.43	0.78	1.05	0.96	1.10	1.01	1.17	1.22	0.55
Thomson Reuters	1.48	1.36	0.90	1.17	1.39	0.85	0.91	1.42	0.99	1.00	1.22	0.98	0.74
Wolters Kluwer	1.40	0.98	1.67	0.63	0.81	0.82	0.78	0.91	1.29	0.99	1.43	1.14	0.59
S&P 500	1.22	1.33	1.28	1.21	0.91	0.88	0.78	1.28	1.11	1.05	1.15	1.05	0.65