

Hard News

Daily Papers Face Unprecedented Competition . . .

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The venerable newspaper is in trouble. Under sustained assault from cable television, the Internet, all-news radio and lifestyles so cram-packed they leave little time for the daily paper, the industry is struggling to remake itself.

Papers are conducting exhaustive surveys to find out what readers want. They are launching new sections, beefing up Web sites and spinning off free community papers and commuter giveaways in hopes of widening their audience. They even are trying to change the very language of the industry, asking advertisers and investors to dwell less on "circulation" -- how many papers are sold -- and more on "readership," or the number of people exposed to a paper's journalism wherever it appears, in print, on the Web or over the air.

The changes come as circulation totals have eroded steadily for nearly two decades and as newspapers no longer play the central role in daily life they once did. Newspaper executives argue that an emphasis on readership better reflects what newspaper companies are becoming -- multidimensional media conglomerates with growing Internet sites and stakes in television, radio, magazines and other businesses.

"Natural societal things are going on," said Steve Lerch, a newspaper advertising buyer for Campbell Mithun of Minneapolis. "You can't take a half-hour to read the newspaper and eat a bowl of cereal in the morning. People aren't eating cereal anymore, either. I know -- I have General Mills as a client. People are eating yogurt bars on the way in to work."

Frank A. Blethen, publisher of the Seattle Times, said his industry has some breathing room left. But not much.

"The baby boomers are going to continue to drive print [sales] for some time," he said. "The problem we have are the . . . 18- to 35-year-olds. They're not replacing the baby boomers."

Others are more blunt, if hyperbolic.

"Print is dead," Sports Illustrated President John Squires told a room full of newspaper and magazine circulation executives at a conference in Toronto in November. His advice? "Get over it," meaning publishers should stop trying to save their ink-on-paper product and focus on electronic delivery of their journalism.

Rare is the paper these days that is not embracing the Web. In addition to their own sites, papers such as the New York Times, the Miami Herald and the Houston Chronicle e-mail free headlines and news summaries to people who don't have time for the newspaper but carry BlackBerrys and other electronic gizmos.

In December, The Washington Post Co. bought online magazine Slate from Microsoft Corp. to increase the

paper's Internet footprint.

"I could argue pretty forcefully that the free model and the non-newsprint model is what we're looking at in the future," said San Francisco Chronicle editor Phil Bronstein. "Things are moving far quicker than we thought a few years ago" to new outlets besides ink-on-paper.

The San Francisco Chronicle is an example of the changeover underway: Its daily sales have dropped in recent years, but its Web site boasts more than 5 million unique visitors a month.

The newspaper industry has faced competitive pressures for some time.

Changing work and lifestyle patterns from the 1970s on led to the demise of the evening newspaper in almost every city; Washington's evening Star folded in 1981. The rise of cable television news outlets in the '80s drained off more would-be readers who decided they no longer needed to turn to the newspaper for news.

To win back readers in the '80s and '90s, redesign was the rage as newspapers tried to ape television. Newspapers tried all manner of visual gimmicks -- color photos and boxes, shortening stories, adding referral lines and bullet points and news summaries. Some Gannett Co. papers even invited folks in off the street to join news meetings and help decide which stories were going to appear in the next day's papers.

And yet, daily circulation across the industry has declined every year since 1987; Sunday editions, since 1990. The Washington Post, for instance, has watched its average daily circulation drop from 779,898 to 709,500 in the past five years.

"It's challenging, and the newspaper is adapting and operating more effectively in many areas," said Post Publisher Boisfeuillet Jones Jr. "If we focus on doing the business of journalism well, the newspaper and Web site should both be able to grow revenues."

Asked if The Post newspaper could ever regain circulation, Jones said: "In parts of the Washington area, we have had years where we've gained a little on the daily side. Overall, though, I don't know."

Circulation loss in itself is not debilitating from a revenue standpoint. In general, paid circulation accounts for about 20 percent of a paper's revenue, with the rest coming from advertising. But ad rates are set by circulation figures: As circulation drops, so too will the amount papers can charge advertisers.

The result can be a vicious cycle. As advertising declines, newsrooms find it more difficult to afford overseas bureaus, extensive national operations and other editorial additions that help produce an authoritative daily report. As they cut back, they risk sending readers elsewhere for news, leading to further circulation declines and lower ad rates.

Adding to the industry's woes is the advent of new free sources of news, many of which appeal to younger readers and time-strapped families. Telecommunications billionaire Philip F. Anschutz started a free daily in Washington, called the Examiner, and has trademarked the name in other cities. Internet giants such as Google and Yahoo tout their ability to compile news from a number of sources, all for free with the click of a mouse.

Some papers, including The Washington Post, are trying to respond to the challenge by distributing free commuter tabloids, filled with abbreviated stories and entertainment news, as well as community papers. The Boston Globe's corporate parent, the New York Times Co., recently announced plans to buy a 49 percent stake in Metro Boston, a free paper that circulates in the New England city.

Several papers have launched special sections that are driven not by news but by a hope of capturing advertisers and certain groups of readers. Hoping to attract female readers, the Shawnee (Okla.) News-Star, for instance, prints a magazine featuring articles about Oklahoma women 10 times a year. It has a snappy title: "She's OK!"

In addition, papers such as The Post have been conducting extensive research, holding focus groups of non-readers to find out why they don't buy the paper. Even though most Post survey participants seem to be up on the news, they don't get it from The Post newspaper, instead gleaning it from television, the radio or Internet sites, including The Post's, according to a study that began last summer and recently ended.

Readers and non-readers of The Post said they want more plan-your-day information on local news and entertainment, for instance. Also, they'd like the paper to be easier to navigate. More like the Web site.

The top reason given for not buying the ink-on-paper Post?

"This bulk thing," said Post Executive Editor Leonard Downie Jr., referring to the 12 1/2-by-11-inch Post newspaper, which weighs as much as seven pounds on Sunday. "It's the only way for us to present news plus advertising in that package. It can't get smaller and it shouldn't get smaller.

"When you go on the Web," to read The Post, Downie said, "it looks smaller."

Just building a Web site is no guarantee of instant profits. Papers are having a hard time convincing advertisers that an ad on a Web site is as effective as one in a newspaper and worth the hefty rates traditionally charged by big city newspapers. Executives said this adds to newspapers' vulnerability -- their traditional product on the wane and their new one slow to take off.

Chicago Sun-Times Publisher John Cruickshank, for instance, paid a visit to Hollywood studios late last year to sell them on buying ads for coming movies. His paper had just weathered a circulation-inflation scandal and he admitted that the Sun-Times' sales figures were not as high as had been advertised. But he pushed the paper's Web site, saying that its readership had increased over the year.

"They just glared at us," Cruickshank said. "They said, 'Don't give us any [bull] about readership.' "

Then there is the revenue gap. For instance, for the first nine months of 2004, The Post booked \$433 million in ad revenue. For the same period, Washingtonpost.com reported \$45 million in revenue, hardly enough to support a newsgathering staff the size of The Post's.

Ads on a newspaper's Web site actually can be worth more to advertisers than ads in the paper, said David D. Hiller, vice president of publishing for Tribune Co. Reason: Unlike a newspaper ad, which provides no feedback, Internet ads can tell advertisers how many times the ad has been seen, and, with Web site registration, the demographics and location of the viewer.

"Circulation is only a blunt proxy for readership," Hiller said. Papers may eventually convince advertisers of the value of Internet ads, he said. "I'm not sure you can right now."

Newspaper companies are by no means close to extinction. Most large companies continue to report healthy profits, and ad revenues appear to be picking up. But classified advertising, specifically help-wanted ads, is a bellwether of how newspapers are regarded as effective advertising tools. Increasingly, employers are using other resources to recruit workers.

Morgan Stanley estimated that, from 1998 through the end of last year, revenue generated by Internet help-wanted ads would grow 400 percent. During the same time, revenue from newspaper help-wanted ads was

projected to drop 40 percent.

Randall Birkwood, director of recruitment for cell phone company T-Mobile USA Inc., said his company is still happy with the results it gets from its help-wanted listings in newspapers, but he said such listings amount to only about 30 percent of T-Mobile's total recruitment-ad budget. The company has moved most of its help-wanted advertising from newspapers to its own Web site.

"There are more opportunities for us to spend our dollars in other places to attract talent," Birkwood said.

Many newspapers recognized the Internet's combination of threat and potential early on and have plowed hundreds of millions of dollars into Web sites of their own, hoping to keep readers, even if they don't leaf through the actual paper. In 2003, the New York Times' Web site became profitable for the first time; last year, The Post's Web site did the same.

But working against newspaper Web sites is the fact that the Internet has trained users that most content -- including news -- should be free. Users generally will pay only for specialized information, such as the in-depth financial reporting provided by the Wall Street Journal, which charges a subscription fee to read stories on its Web site.

"Newspaper publishers have not done a very good job of creating value for what we create," said L. Gordon Crovitz, president of electronic publishing for Dow Jones & Co. "Too many publishers have trained consumers to devalue [newspaper] brands and content."

General-interest papers such as The Post and the New York Times are playing a sort of game of chicken with each other: None wants to be the first to charge to use the Web site, fearing that users will refuse and simply migrate to a competitor whose site still is free. Papers, however, have begun using their Web sites to provide Internet-only content that gives in-depth information on everything from football to politics beyond what is available in the newspaper. In future scenarios, such content may require a paid subscription. A potential model is ESPN's Web site, which includes a great deal of free content but charges \$6.95 a month for its premium "Insider" reports. In the online news industry, this is called moving content "behind the wall."

Caroline H. Little, publisher of Washingtonpost.com, said the site has considered charging for premium content, but she is worried by examples she has seen elsewhere in the industry. The New York Times recently hinted it may start charging for some of its Internet content.

"So, not to say that it's not a possibility in the future, but our first priority is growing our audience, and this would clearly hinder that," Little wrote in an e-mail. About 80 percent of washingtonpost.com users live outside the Washington area, the site's research shows.

The good news for newspaper Web sites is that, after the 2001 dot-com crash, Internet advertising has roared back, exceeding previous highs. Total Internet ad spending in the first six months of 2004 was 40 percent higher than in the comparable period in 2003, according to the Interactive Advertising Bureau.

The sobering news? Internet advertising still accounts for only about 3 percent of total ad spending each year.

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