

**Re-Inventing Community Journalism:
New Business Strategies for the Digital Age**

Submitted to the Reuters Institute for the Study of Journalism

At the University of Oxford

Local journalism around the world: professional practices, economic foundations and political implications, February 27-28, 2014

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Abstract

The Internet has demolished the business models of many community newspapers in the United States. If they are to thrive in the digital era and continue to provide the public affairs reporting that nourishes democracy at the grassroots level, news organizations must re-imagine and re-invent themselves. Existing literature outlines a three-pronged strategy approach that all industries in the throes of creative destruction must pursue. It involves simultaneous cost reduction, paired with customer and revenue growth.

This paper explores how this three-pronged strategy can be modified and applied to community newspapers, which have both a unique mission and business model, distinct from other industries. It is based on almost five years of in-field research and strategy work, conducted in three phases, with more than a dozen community newspapers in small and midsized markets. The conclusions and recommendations are based on proprietary market research conducted in a half-dozen of these markets, analysis of financial data provided by the papers, extensive work on strategy development and implementation stretching over four years with six of the papers, and more than forty in-depth and recurring interviews with the publishers and editors at the twelve papers highlighted in the study.

Our research uncovered a number of shared market trends and financial challenges facing community newspapers in small and midsized markets. To counter these challenges, this paper recommends that publishers, editors and advertising directors develop and implement an aggressive three-pronged strategy to 1) shed outdated legacy costs associated with the print era, 2) build vibrant communities of readers on many platforms (including website, mobile, as well as print), and 3) aggressively pursue new advertising possibilities, made possible by the interactivity of the Internet.

Re-Inventing Community Journalism: New Business Strategies for the Digital Age

The Internet revolution has brought seismic change to the U.S. news landscape, destroying the traditional business models that have historically supported community journalism. The economist Joseph Schumpeter coined the term “creative destruction” to describe how a new and disruptive technology makes one industry obsolete while creating the opportunity for another to subsume or replace it. In purely economic terms, resources flow away from the aging industry (newspapers) to a vibrant successor or successors (search engines, social networks, blogs or portals). Something of an optimist, Schumpeter believed creative destruction was capitalism’s way of “re-shuffling the deck” and renewing itself. (Schumpeter, 1950)

The recent experience of other industries that have faced creative destruction – from software companies to financial service providers – leads to this conclusion: community newspapers in the U.S. need to recreate themselves for the 21st century and develop a systematic and holistic business plan for confronting and accommodating this very intrusive and disruptive technological innovation – or risk being lost in the “re-shuffling of the deck.”

Community newspapers differ in two ways from other industries that have weathered creative destruction – their historic mission (McCombs and Shaw, 1972), as well as their traditional business model. Because the Internet has undermined the traditional business model of news organizations by drastically reducing revenues and profit, their critical and unique historic mission of informing and educating the public is now in jeopardy, as noted in reports by a number of recent governmental and nonprofit organizations (Waldman et al, 2011). A 2010 Knight Foundation report, *Informing Communities: Sustaining Democracy in the Digital Age*, predicted, “The current financial challenges facing news media could pose a crisis for democracy.” That report also noted that the “watchdog” role of the nation’s smaller “community newspapers” becomes even more important, as the larger regional and metro news organizations in the U.S. have pulled circulation and coverage from outlying, rural communities. According to the most recent census, there are more than 55,000 legally or politically recognized entities in the U.S., ranging from urbanized counties to vast rural townships. Since there are only 1,500 or so daily newspapers, “It follows that hundreds, if not thousands, of American communities receive only scant journalistic attention on a daily basis.” (Knight, 2009) Therefore, it seems vital for

grassroots democracy in the U.S. that the country's newspapers in small and midsized markets to find a path to business renewal.

For most industries facing creative destruction of their business model, the advice is to embrace the new technology, even at the risk of “cannibalizing” the old one (Christensen, 1996). But for newspapers, that advice is too simplistic, because, in contrast to other manufacturing or retail industries, which make a profit by selling directly to customers, newspapers have traditionally acquired readers at “below the cost” of producing a paper, and then made a profit by selling access to these readers to local advertisers, who have indirectly covered almost all the costs of producing a newspaper. Aggressively cannibalizing the print edition, which still provides more than 90% of advertising revenues at most community newspapers, would be financially disastrous and place in jeopardy the historic mission. Therefore, they need to develop a well thought-out and holistic strategy for increasing the audience, revenue and profits of the digital editions, even as they continue to nurture the print edition.

This paper takes into account the historic mission and traditional business model of community newspapers – both of which are unique – and explores how community newspapers can successfully create and implement a strategic approach that enables them to survive “the gales of creative destruction,” as Schumpeter called it. The findings are based on five years of research conducted by the School of Journalism and Mass Communication at the University of North Carolina at Chapel Hill. That effort involved extensive in-field analysis and strategy work with a dozen community newspapers throughout the country, both dailies and non-dailies in a variety of markets, with print circulations ranging from 8,000 to 150,000 (Abernathy, 2014).

Situating the Research Inquiry:

Historian Donald Shaw noted three stages in the life of a mass medium – emergence of a new technology (such as the printing press), rapid growth and dominance of the “new” medium, and then eventual decline. (Shaw, 1991) Whenever a declining medium is displaced by a new one (such as the Internet), leaders in the once-dominant industry initially “assume that only an ‘adjustment’ is needed . . .” says Shaw. But that “always fails” because the fundamentals of the macro-environment in which the medium exists have irrevocably changed.

Newspapers weathered the assault by radio in the 1920s and then television in the 1950s and 1960s by retreating into their local communities. What followed was a war of attrition

between dueling, competing newspapers in individual cities and towns around the country. By the 1980s, most communities in the U.S. were served by only one newspaper. The Columbia University economist Eli Noam noted, “TV and radio took away some news audience and advertising, but they were not a substitute for longer news stories or many types of advertising, such as (high-margin) classified (advertising). The surviving papers were therefore profitable and could afford the production of the news content.” (Noam, 2009)

With little local competition for advertising dollars, the surviving community newspaper became what economists call a “de facto geographic monopoly.” Typically, de facto monopolies – which are largely unencumbered by government regulations – have tremendous latitude in setting prices and controlling costs, which leads to higher than normal profits and operating margins. Community newspapers in the U.S. routinely had profit margins of 20% to 40% in the latter two decades of the previous century.

In *The Vanishing Newspaper: Saving Journalism in the Information Age* (2009), Philip Meyer documented the steady downward trend in household penetration of U.S. daily newspapers in the 20th century, and worried how with declining readership newspapers could continue to fulfill their historic role of informing democracy in the 21st century. The declining household penetration also spelled trouble for a newspaper’s attractiveness to advertisers, who wanted to reach as large an audience as possible. But on the back of the longest economic expansion since World War II, advertising money during the 1990s poured into all traditional media outlets, including local newspapers, masking the underlying problem. Classified advertising, which had the highest margins, flourished in categories ranging from help wanted to real estate.

By the end of the first decade of the 21st century, however, the potential of the Internet to supplant print newspapers was becoming abundantly clear. Advertising revenues for the newspaper industry, adjusted for inflation, peaked in 2000 at \$64 billion. It had taken roughly fifty years for advertising revenues to climb from \$20 billion in 1950 to its peak. Yet, by 2010 – only a decade later – ad revenues had plummeted to 1950 levels, as documented by a University of Michigan economist (Perry, 2012).

Richard Foster, Senior Fellow at Yale University and longtime management consultant, has noted that new technologies (such as the Internet) attack the business models of existing companies by leveling three disruptive and potentially lethal blows to cost structure, customer

base and revenue. In the digital era, community newspapers are disadvantaged in three ways. (Abernathy and Foster, 2009)

First, they carry into the 21st century huge costs associated with supporting a system of production and distribution that essentially dates to the 19th century. The finances of owning and operating a printing press, once a significant barrier to entry that deterred potential competitors in local markets, is now a financial albatross that puts a newspaper at a distinct disadvantage in relation to competitors who can distribute digitally for a fraction of the costs.

Second, their readers' habits and media preferences are changing quickly, as reflected in the dramatic declines in print circulation and household penetration over the last two decades. A corresponding shift in media preferences and swift adoption of new digital technologies (both desktop and mobile) over the last decade has been documented by the Pew Research Center's annual report on the *State of the News Media* and by the *State of the Media Democracy Survey* by Deloitte.

Finally, a good portion of newspaper advertising – the primary source of revenue and profit – has been lost to competitors who have the potential to provide advertisers with a more efficient return on their investment. In the past, advertisers who wanted to reach consumers in a certain geographic area purchased space in “the newspaper” – an aggregated package of general news and information – generally without regard to whether their advertisement was placed near a certain news item. In the digital age, stories on certain topics can be disaggregated (or unbundled), and then re-aggregated at another digital site that features articles about a similar subject. (Noam, 2009) Readers can read only the news that interests them, and advertisers can reach an engaged audience at a fraction of what they paid the print newspaper. This disaggregation of content has diminished pricing leverage with both readers and advertisers and destroyed whole categories of advertising for community newspapers.

In sum, there are four compelling reasons, documented extensively by industry and the academy, as to why community newspapers must move aggressively to change their business models in order to cope with creative destruction:

- They are saddled with the high fixed costs of printing and distribution, which puts them at a competitive disadvantage to less capital-intensive digital competitors.
- The demographics, habits and expectations of current and future readers of community news have shifted dramatically in recent years.

- Print advertising, the primary driver of a community newspaper's revenues and profits, representing as much as 90% of total revenue, has fallen to 1950 levels. This suggests a "new normal" for print advertising that is significantly below 1990s peak levels.
- The competition is tough and getting tougher – with the swift adoption of the Internet encouraging both traditional competitors and new entrants to move into the "news space" and siphon off both readers and advertisers.

Based on his experience in other industries, Foster concludes there is a very small window of opportunity for a firm to respond to a disruptive innovation. In order to stay competitive and survive, companies must pursue "transformative change" of their business models "keeping pace with the change in the market." His proxy for the market is the S&P (Standard and Poor's) 500 composed of the world's 500 largest companies in terms of market value. (Foster and Kaplan, 2001) Over the latter half of the 20th century, the average "lifespan" of companies on the S&P 500 dropped from 50 years to a mere 16. This means that there is an average annual turnover of six percent in the companies listed on the S&P 500. It also suggests that "the market" is turning over – or changing – at a rate of six percent annually. So, it follows that in order to "keep pace with the market," a publisher should strive to transform a newspaper's business model at the same rate.

Put another way, this means that in order to keep pace with the market around them – and to preclude obsolescence at the hands of competitors – newspapers need to have in place a strategy that aims for an average annual six percent decrease in costs, coupled with a matching increase in new revenue. Therefore, at the end of five years, newspapers should aim for a 30 percent change in both costs and revenue. This puts a premium on both developing and quickly implementing a three-pronged strategy that addresses the attacks to cost structure, customer base and revenue that the Internet has inflicted on community newspapers.

Methodology and Definition:

During times of immense disruption such as is now occurring in traditional news organizations, the data gleaned from various "experiments" and case studies often appear to be

ambiguous and, as a result, it is often not clear how the lessons learned in one circumstance can be applied in another.

Our research and strategy work was conducted in three phases over five years, beginning in fall 2008. Each phase was designed to gather market data and then test strategies at newspapers of similar size and type. In the initial phase we focused on small newspapers (with print circulation under 15,000) serving economically deprived, rural communities where broadband and wireless were scarce. We selected as laboratories three prize-winning newspapers in North Carolina – a daily paper with 8,000 print circulation and two papers published twice and three-times weekly, with circulation of 10,000 and 14,000, respectively. Remarkably, two of these papers were among the smallest ever to receive the Pulitzer Public Service Award, journalism's most coveted honor, for their investigative and crusading reporting on local issues.

We developed a market portrait for each newspaper, analyzing various state, regional and national economic sources, and then conducting online reader surveys and one-on-one, in-person, formatted interviews with print readers and advertisers. These surveys and interviews served as a baseline, and confirmed that, even in remote areas of the country, the habits and preferences of readers and advertisers were changing dramatically. Simultaneously, we analyzed the financial statements of these newspapers and extrapolated cost, revenue and profit trends. Again, the three papers shared similar issues – an outdated cost structure and significantly declining print revenue. With these market and financial insights, we worked with the publishers and editors to begin implementing a three-pronged strategy that addressed changing reader and advertiser habits and preferences and acknowledged the new strategic and financial realities in a digital age.

A second phase, launched in 2009 was designed to broaden our inquiry to include daily newspapers serving mid-sized markets, as well as ethnic newspapers in urban communities. This group of five papers, located in Illinois, West Virginia, Vermont and North Carolina, included a 150,000-circulation ethnic weekly in Chicago, as well as a 50,000-circulation daily covering a 10-county region in eastern North Carolina that included Fort Bragg, one of the nation's largest military bases. Similar market and financial analysis confirmed our initial insights about reader and advertiser behavior and preferences. We conducted extensive interviews with publishers and editors at these larger community papers about the financial and strategic issues they faced, and

the problems they encountered as they began to implement new strategies to address shared revenue and cost issues.

By the end of 2012, we had worked closely with publishers and editors at eight papers as they developed and implemented a three-pronged strategy to address attacks to their cost structure, customer base and revenue potential. Our research had identified a number of trends and issues that were common across small and midsize markets throughout the U.S, and we had developed a strategic approach that could be applied to community newspapers in both small and midsize markets.

The third phase involved extensive interviews with publishers at four midsize daily newspapers in California, Florida, Tennessee and Utah, all of which had been identified in a 2013 Pew Research Center report as being “revenue success stories.” (Jurkowitz and Mitchell, 2013) We conducted extensive interviews with each of the publishers. Our research found that their success in pursuing new advertising revenue was the result of simultaneous efforts to reduce costs associated with their print editions while accommodating their readers’ and advertisers’ changing media habits. In other words they were pursuing a three-pronged strategy very similar to the ones implemented by community newspapers in our first and second phase of research. (A list of all newspapers involved in the study is included in the Appendix.)

As we progressed through the various structured phases of our research effort, we adopted an expansive view of what determines a “community newspaper.” Traditionally, papers with print circulations of less than 15,000 have been categorized as community newspapers. Using this definition, there are 8,000 community newspapers in the U.S. today, the vast majority of which are published on a weekly or semiweekly schedule. But in a digital age, when print circulation for almost all newspapers is dropping yearly – and an increasing number of readers are accessing a paper’s digital edition only – that definition seems limiting and out-of-date. Many daily newspapers in small and midsize markets, for example also position themselves as “community newspapers.” The same is also true of papers serving ethnic populations in cities around the country.

Therefore, our research has used a much more inclusive definition for community newspapers, one based not on a publication’s circulation, but rather its stated mission (covering a community, instead of a region) and the characteristics of the market it depends on for revenue from its advertisers. It encompasses newspapers that serve geographic communities, as well as

those bound together through a shared affiliation or ethnic identity. This new definition of community newspapers, based on mission and market characteristics, encompasses almost all of the country's more than 11,000 regularly published newspapers, excluding only the largest 90 or so regional (such as the *Boston Globe* or *Minneapolis Star-Tribune*) and national dailies (such as the *New York Times* or *USA Today*). These newspapers have print circulations well above 100,000 and face different market realities.

Research Findings on a Strategic Direction

“Follow your customers and follow the money.” That is the standard advice given to industries facing the “gales of creative destruction.” (Foster and Kaplan, 2001) But newspapers in this study faced a number of unique challenges in pursuing that strategy. A newspaper, of course, has two types of customers, and the relationship between the two is complicated, to say the least. Advertisers – not readers – actually furnish the majority of the revenue, yet, without readers, there would be no demand for the advertising.

So, while the audience for the print edition is declining and younger readers are moving online, newspapers cannot simply abandon the physical paper and follow their readers online without losing the majority of their advertising revenue, which is tied to the print edition. And because the rates for digital advertising are a tiny fraction of the price similar display space commands in the print edition, any additional advertising revenue created by attracting a larger online audience is not sufficient to support the level of journalism most papers currently provide. Therefore, there is no short-term financial payback for abandoning the print edition and following customers online. In fact, our research indicates that in many markets, given the loyalty of readers and advertisers to the print edition, some version of the physical paper will continue to exist for some time – perhaps in a more abbreviated form, or published less frequently, but it will be an important part of the mix offered to both readers and advertisers.

Therefore, the next decade will be a period of transition. Publishers have an option of actively managing the inevitable transition to a multimedia world of newspapering, and tailoring it to meet the needs of their markets. In order to do so, our research found they must simultaneously pursue a three-pronged strategy of significantly cutting printing and distribution costs, even as they invest in rebuilding their customer base and revenue options digitally. Specifically, those three strategic initiatives involve: 1) shedding legacy costs associated with

the print era, 2) building vibrant community on many media platforms, and 3) aggressively pursuing new revenue opportunities, most especially new advertising possibilities. (Abernathy, 2014) During this period of transition, they must re-position the community newspaper as a medium that can be accessed by, and reach, readers anywhere, any time.

This required publishers and editors to be constantly mindful of the “cultural norms and behavior” of their organizations (for example, a protective and instinctive “print-first” or “print-only” mindset among journalists and advertising sales reps) and to constantly seek out ways to break the cycle of “path dependence” that prevents a newspaper from transitioning to the digital era. (Miles et al, 1978.) The successful papers we studied focused not only on creating a three-pronged strategy, but also on implementing it successfully. As one publisher put it, “In this environment, you have to learn to fail quickly. . . . We have to try some stuff, and when it has failed or outlived its purpose, we have to move on. We have to realize that right now we are building sand castles, not fortresses.” (Broadwell, 2013) This sort of strategic flexibility meant that publishers had to be very clear about how they judged both success and failure by establishing clear goals and systems of measurement that could be understood by all of their stakeholders. All of these publishers asked themselves constantly, “If we are successful, how will we look to our customers, our shareholders and our employees? (Kaplan and Norton, 2001)

1) Shedding Legacy Costs of the Print Era

In order to “follow your customers” – and build robust and engaging digital editions across multiple platforms – newspapers need to find money they can invest in new ventures. At most newspapers, the cost of producing and distributing the print edition consumes more than half of all costs. So, with profits declining, publishers need to produce the print edition as efficiently as possible, especially as advertisers and readers move increasingly to other platforms of delivery. In recent years, newspapers of all sizes have laid off staff, centralized certain functions (such as administration or production), cut back on the amount of space devoted to news – and in some cases – cut back on back on the number of days the print edition is published. But in many instances, the savings have been pocketed and not reinvested in new digital initiatives.

There are three processes involved in creating a newspaper – creating content, aggregating (i.e. packaging) content and distributing the content. The Internet has irrevocably

destroyed a barrier to entry (the printing press) and, as a result, costs associated with distributing and printing the paper are a drag on the bottom line in a digital age, especially as print advertising and circulation decline, reflecting changing media habits. However, in the digital world, newspapers can still add customer value from creating unique local content and aggregating it. Therefore, the challenge is to align the cost drivers of producing a community paper with its value drivers (content creation and aggregation). Therefore, “shedding legacy costs associated with the print edition” is not so much about cutting costs as it is about coming up with a system for financing growth – by channeling funds to areas where newspapers can still add considerable value and fulfill their historic mission of informing democracy. That means publishers in our study needed to totally rethink their management priorities, as well as their cost structure.

They have to first shed their broadsheet newspaper mindset and attachment, and instead, focus on building a robust cross-platform delivery system. Publishers should not underestimate how difficult this can be. For one thing, it goes against conventional publishing wisdom. Research in the latter part of the 20th century concluded that companies who used recessionary periods to invest wisely in their core business were often able to out-manuever their competitors, who engaged in cost-cutting. (Rigby, 2001) Using this logic, during downturns, newspaper publishers and editors should invest in the print edition, since it remains the “cash cow,” producing most of the revenue and all the profit. The problem with this business logic is, of course, that it ignores the changing media consumption habits of both readers and advertisers during a period of creative destruction.

And there is an additional problem – the strong emotional attachment that both readers and employees have to the print edition. Compared to the physical paper, digital editions can seem to be very ephemeral substitutes. There is no press time to mark the end of the day, no sense of holding history in your hands. That is why management consultant Richard Foster says that the commitment to shed legacy costs must be made from the top down – by publishers who can anticipate and counter fallout and pushback from both employees and customers, and override their own sentimental attachments to a symbol of a fast-receding era (Abernathy and Foster, 2009).

By consciously adopting a cross-platform mindset (instead of a print-first management orientation), publishers can then begin to totally rethink their cost structure and how they

distribute the content they create and aggregate. Publishers in our study successfully shed legacy costs a number of ways, including outsourcing printing and distribution of the paper, cutting back on the days they published a print edition, rethinking what features they published online and in the print edition (moving many features online, and, in the process offering a much richer reader and advertiser experience) and, finally, re-evaluating staffing needs in every department, not just the production area. They began by asking these questions: If we were creating this newspaper today, how would we offer our readers and advertisers a rich and engaging experience? What skills would we need from our employees? What implications does this have for processes and procedures in either the news or advertising department that can be phased out? (Kaplan and Norton, 2001)

Newspaper publishers in our study learned to take an expansive view of “legacy costs” – any dollar expense or process associated with the “print-only” world. They asked themselves and those at their paper: how can this be done more effectively or efficiently in a cross-platform, digital world? These publishers realized that the economics of distributing a physical paper prevent them from allocating funds to the two processes at which newspapers can excel in the digital era -- that of creating and aggregating content that attracts readers. Engaged readers, in turn, attract advertisers, who pay the bills.

2) Establish Vibrant Community Across Many Platforms

In the digital era, a community newspaper must rely solely on an intangible asset – customer loyalty – to serve as a “barrier to entry” that dissuades potential competitors. Publishers in our study were encouraged to keep track of the loyalty and changing preferences of their readers and advertisers by conducting simple market surveys on a regular basis (at least once a year). These surveys provided data and trending information that allowed publishers to not only track changing reader preferences and wisely shed outdated legacy costs, but also build vibrant communities of readers across many media platforms.

After studying the customer base of a variety of industries, Frederick Reichheld observed in the 1990s that the loyalty of a company’s current customers is directly correlated to its future profitability. (Reichheld and Teal, 1996) That’s because loyal customers become, in essence, a free marketing department, recommending a product to their friends and colleagues. In the process, they buy more and sell more. To gauge the loyalty of readers, newspapers in our study

used a simple measurement tool, designed by Reichheld, which asks readers, “On a scale of 1 to 10 (with 10 being highest), would you recommend this newspaper to a friend or colleague?” (Reichheld, 2006) To account for grade inflation, only those readers who answered “9” or “10” were considered loyal. As measured in our surveys across more than a half dozen markets, the very good news is most readers of community newspapers remain exceptionally loyal to both the print and digital editions. However, the loyal audience for digital-only versions of most community newspapers still lags behind the printed one.

Readers told UNC that they were “loyal” to newspapers that they perceived were “the most credible and comprehensive source of news and information” they “cared about.” So, in order to retain the loyalty of current readers and then attract new ones, editors need to understand what news readers “care about” (Hamilton, 2004) and then provide that content in an engaging way on whatever medium or mediums readers are using. With more and more consumers comfortable toggling among multiple media platforms – their phone, tablets and laptops – newspaper publishers need to attract a new generation of loyal online readers, as well as convince current loyal readers of the print edition to sample the digital version. (Deloitte, 2012) This means newspapers need to be multi-platform mediums, designed to engage loyal readers – regardless of whether they are on the website, or holding a physical paper or mobile phone in their hands.

In the pre-digital age, the newspaper created and aggregated content and defined community around geographic or political boundaries. In the digital age, large search engines and social networking sites have supplanted the aggregation function and redefined community around special interests. Readers in our study often volunteered that while they identified with the geographic community in which they lived, they also passionately cared about such topics as sports, or parenting, or local politics. In other words, they also felt very connected to these smaller “communities of special interests,” often populated with friends and neighbors.

Many newspapers were already attempting to serve these communities in the print edition – through the sports pages, or the lifestyle and society sections, for example. But few had created distinct and vibrant communities in their digital editions, where editors can use the interactivity and interconnectedness of the Internet to significantly enhance a reader’s attachment to the paper. In response to the introduction of television, successful magazines began serving specialized niches or interest groups, and then charging advertisers a premium to reach those

audiences. (Shaw, 1991) Like magazines, newspapers have a similar opportunity to build community, or communities, in their print and digital editions. As a bonus, they also are able to offer advertisers the ability to target a message to an engaged audience that cares passionately about a subject.

Newspapers in our study that built vibrant community across multiple platforms thought of their various editions (print, digital, mobile) as complementary – not competitive – and used the various mediums to best advantage. They also took a very expansive view of their responsibility to nurture not only a geographic sense of community, but also communities defined by shared passions and affiliations. Some of the newspapers in midsize communities successfully nurtured almost a dozen special-interest communities – ranging from prep sports and food to politics and parenting – on multiple platforms (through the print edition, specialty niche magazines, websites, mobile and in-person events.) Even the smallest papers in our study were able to identify three or four passionate sub-communities within their geographic area.

Over the last two years, several papers in this study began charging readers to access material on their web sites. The revenue generated by these fees was miniscule compared to that generated by print subscriptions, which has historically accounted for less than 20% of total funds at most newspapers. Given reader reluctance to pay anything significant for online content, publishers came to realize that nurturing these various communities of loyal and engaged readers was an essential link between the past and future that served a dual purpose. It allowed them to strengthen loyalty with current readers and attract new readers with like-minded passions. But, just as important, it positioned the local paper as a competitive medium with local advertisers, who have historically provided the vast majority of revenue dollars – and, most likely, will continue to do so for some time to come.

3) Aggressively Pursue New Revenue with Advertisers

For many publishers, the “disconnect” with the reality they face in the marketplace occurred at this point. Even if they significantly increased readership of their digital and mobile editions – and more local businesses decided to advertise online – they did not see how they could compensate for lost print revenue when digital newspaper ad rates are so low. So, before they could “follow the money,” publishers needed to understand the history of the digital rate problem, which harkens back to the dotcom era, when the goal for new websites was to “attract eyeballs” and “build traffic.” (Burton, 2009) All community newspapers in our study initially set

their rates (based on CPMs – cost per thousand – or “click-throughs”) using these same measures, which is why digital advertising at most of these papers brought in only a fraction (a tenth or a twentieth) of the revenue from the print edition.

In recent years, however, as web marketing has matured, there has been a shift among a growing number of advertisers away from “mass audiences” toward “engaged audiences” who are much more likely to notice advertisements adjacent to content that readers care about (“Rayport,” 2013). Given the loyalty of current readers, community newspapers in many of the markets we surveyed are the best medium for delivering an engaged audience to local businesses – better than the local radio station or television station, as well as digital competitors. Therefore, publishers needed to re-think and re-calculate the actual value they delivered to local advertisers, and then adjust their rates accordingly.

They also needed to understand the tremendous marketing potential unleashed by the Internet, and how newspapers can benefit. In the twentieth century, economists generally assumed that all media companies were playing a “zero-sum game.” (McCombs et al, 1992) Since the amount of money spent on advertising (adjusted for inflation and economic cycles) stayed relatively constant, a new medium (such as television) benefitted at the expense of the existing mediums (newspapers and magazines) by taking advertising dollars away from them. However, recent research has cast serious doubt on this notion of a “zero-sum game” – most especially since the Internet has opened a variety of new channels and a whole new type of marketing, built around an interactivity and immediacy in advertising and marketing that was impossible in the twentieth century. (Gaerig, 2010) So while print advertising may have declined dramatically since 2000, there are other potential sources of revenue for newspapers to pursue – provided they are positioned as a multi-platform medium, and not a print-only one.

Publishers in our study who successfully and profitably pursued new advertising revenue opportunities adopted a three-step sales retooling process. First, they revamped the rate card and ad pricing structure to entice local merchants to use at least three different “newspaper” mediums (including the print edition, web site, and mobile). “Bundled” sales got a bad reputation in the early 2000s, when many newspapers gave away the online component. Our market research – as well as several recent industry surveys – found that advertisers who use two or more platforms in tandem substantially increase both the reach and effectiveness of their message by as much as

fifty percent. Therefore, the pricing of cross-platform newspaper advertising needs to reflect the real value that a bundled sale of the print and online editions actually delivers. (Nagle, 2006)

After revamping the rate card, publishers reworked their compensation plans so that they rewarded sales representatives who sold advertisers on matching their messages with the best medium available, and delivering their messages across the many platforms offered by the newspaper. Simultaneously, they developed a very structured training program, teaching sales representatives how to move from selling space in the print edition to selling solutions. Our research found that most local advertisers are confused by the “digital noise” in the marketplace, and observe that the newspaper advertising sales representatives are often merely “print order-takers.” Nevertheless, they report “trusting” the hometown newspaper advertising sales representative more than those “out-of-towners” with other mediums – such as broadcast and digital – who call on them much less frequently. That is why publishers need to not only position their newspapers as a cross-platform medium, but also train their advertising sales representatives to be true marketing consultants for local merchants.

As recent research indicates, newspapers are no longer playing a “zero-sum game” – consigned to the periphery as other mediums eat away at their print advertising franchise. With a new rate card, new compensation system and new training program, most community newspapers in our study made significant progress – converting longtime print-only advertisers to multi-platform purchases and enticing new businesses to sponsor reader communities based around shared passions for sports or parenting, for example. In doing so, they began to reposition their community newspaper as a competitive cross-platform marketing medium in the digital era.

Conclusions and Further Inquiry:

Our research found that the path to renewal for community newspapers is not for the faint-hearted editor, publisher or advertising director. Those involved in the UNC study have been forced to make difficult choices and set a pace for change that was often uncomfortable and unprecedented. However, they made those choices using a strategic framework that allowed them to identify and attack the many problems of creative destruction head on, and then measure progress against their goals. All came to realize that significant change was necessary, *if* they

were to continue their newspapers' historic mission of producing "the news that feeds democracy." (Jones, 2009)

The marketplace realities – including the rapidly shifting media preferences of both readers and advertisers – are working against all U.S. community newspapers. The Internet has dealt three potentially lethal blows to cost structure, customer base and revenue potential. If they are to survive and thrive in the digital age, our research shows a consistency across small and midsized markets that suggests community newspapers in the U.S. need to respond to the challenges they are facing by pursuing a three-pronged strategy to:

- 1) Shed outdated legacy costs associated with the print era, being careful to keep pace with the changing preferences of their readers and advertisers;
- 2) Simultaneously build vibrant community on many platforms (digital, print and mobile), taking advantage of the interactivity of the Internet to build loyalty among both current and potential readers;
- 3) Aggressively pursue the new advertising revenue opportunities unleashed by the Internet, positioning the local newspapers as a competitive multi-platform marketing medium.

Many publishers in our study failed to "keep pace with the market," as established by Foster, who argues that turn-over in the make-up of the S&P 500 is a proxy for the rate of change that newspapers need to pursue. (Foster and Kaplan, 2001) Since there is an annual six percent change in companies listed on the S&P 500, Foster says this suggests companies need to decrease costs and increase revenue from new sources by a similar amount. Therefore at the end of 16 years, a newspaper has completely transformed its business model. Given the length of our study, it is too soon to know whether falling off this pace of an average six percent annual change in both bottom and top lines will adversely affect the ultimate sustainability of some newspapers in our survey. It is possible that in remote, isolated areas of the country, changes in customer behavior may lag the national average, and give these papers more time to adjust to the new reality. However, our own propriety research suggests that changes in customer behavior – of both readers and advertisers – are relatively uniform across markets.

Also, our research did not address the specific challenges facing metro and regional papers, or community newspapers outside the U.S. where the historical revenue mix (consisting

of 80 to 85 percent advertising and 15 to 20 percent circulation) may be very different. Based on what we have discovered to date, we believe that if they are to survive all newspapers must pursue the broad strokes of the three-pronged strategy we have outlined. However, U.S. metros and community newspapers located outside the country face different crises of identity and competitive threats than papers in this survey. Therefore, further in-field research and strategy work is needed to determine how this three-pronged approach must be modified to meet their challenges head-on.

The roadmap to recovery laid out in this paper assumes that all community newspapers are on the first leg of a journey, from the print-only world inhabited yesterday to tomorrow's destination. Over the next decade, it is possible that some community papers in our study may move to digital-only delivery. Others may conclude that cross-platform delivery is profitable and a key point of differentiation between them and other local competitors. Newspapers that survive and thrive will have an ability to regroup, re-imagine the possibilities in this changed world order, and then rebuild using a strategic framework, such as the one laid out here, to measure progress and adjust course. "History always allows leaders options, whether they use them sensibly or not." (Shaw, 1991)

Appendix

Community Newspapers Studied in This Paper

Phase One: (2008 to Present)

Washington Daily News, Washington, NC. (Published six times a week, 8,000 print circulation.) Awarded the Pulitzer Prize for Public Service, 1990, for its coverage exposing pollution of the community's water system.

The Whiteville News Reporter, Whiteville, NC. (Published twice weekly, 10,000 print circulation.) Awarded the Pulitzer Prize for Public Service, 1953, for exposing activities of the Ku Klux Klan in Columbus County.

Wilkes Journal-Patriot, Wilkesboro, NC. (Published thrice weekly, 14,000 print circulation.)

Phase Two: (2009 to Present)

The Fayetteville Observer, Fayetteville, NC. (Published daily, 50,000 print circulation.)

Hampshire Review, Romney, WV. (Published weekly, 7,000 print circulation.)

La Raza, Chicago, IL. (Spanish-language weekly, 150,000 print circulation.)

The Pilot, Southern Pines, NC. (Published twice weekly, 13,000 print circulation.)

Rutland Herald, Rutland, VT. (Published daily, 12,000 print circulation.) Awarded a Pulitzer Prize in 2000 for its editorials encouraging the state legislature to recognize same-sex civil unions.

Phase Three: (2013)

Columbia Daily Herald, Columbia, TN. (Published daily, 13,000 print circulation.)

Deseret News, Salt Lake City, UT. (Published daily, 90,000 print circulation.)

Naples Daily News, Naples, FL. (Published daily, 40,000 print circulation.)

Santa Rosa Press Democrat, Santa Rosa, CA. (Published daily, 55,000 print circulation.)

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