

## "Winning Online" -- A Manifesto

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**N**ewspapers must win online, or face a future of painful contraction.

To win, industry leaders must adopt a Marshall Plan embodying two key objectives: the migration to common platforms, and the acquisition of the ability to sell top-quality online product to our advertisers. To fulfill these objectives, the independent companies of a proud industry must aggregate into an industry-wide network. In this network, each company must cede some control over its digital future into a "Switzerland" organization that manages the network.

This will require a degree of cooperation and trust rarely seen before in the newspaper business, and therefore will only be achieved through the active, visionary leadership of the industry's captains. But, if they pursue this path and plug into the power of network economics, they will tap into \$4 billion of revenue upside for the industry by 2010.

The low rumble of shifting ground is palpable. Not only is the shift towards online; it is, in tandem, a shift away from print. Not dramatic yet, perhaps—but clear. And the impacts continue to ripple. As I write, the newspapers of the former Knight Ridder are soon to be parts of nine different companies. Tribune Co. faces a boardroom battle which challenges its very survival as an intact firm. Wall Street analysts have cooled on the industry's prospects. Academics in journalism schools despair the future of the craft in a post-newspaper world.

I believe newspapers' social purpose—the building of civil society in cities and towns across America through the daily output of good journalism—is worth fighting for. Securing the future of the industry's social purpose requires securing its financial future. And I have concluded that depends on an industry-wide understanding of seven key points:

- Local newspapers will not be the innovation source for top online products.
- "Local" is not, in itself, defensible online.
- The big money is not in newspaper websites, but in gaining access to top-tier product via partnerships with vertical online leaders.
- Moving newspaper websites onto common platforms will deliver improvements in quality, cost reduction, traffic and revenue.
- When networked, newspapers bring critical assets to the table that strengthen their competitive position vs. online-only players.
- The window of opportunity is closing; failure to act will compromise the future of the business.
- Ultimately, the key is leadership at the highest levels.

## 1. Breakthrough online innovation won't come from newspapers

It is instructive that after twelve years of the consumer web, not a single example of breakthrough online innovation has emerged out of a newspaper company. Not in recruitment. Not in auto. Not in classifieds. Not in shopping, directory, new ad models, or content aggregation. The Real Cities ad network, created by Knight Ridder, comes close, but lacks the scale or technology to earn the title "breakthrough", as would Advertising.com or Google AdSense.

There are two simple reasons: skill and scale.

As historical print media companies, newspapers don't boast a critical mass of the world's best mathematicians, computer scientists and computer programmers in their organizations. Nor are they led by CEO's with operational experience in online or technology. Online is a technology play first, a media play second. The truly breakthrough online successes—Google, Yahoo!, MySpace, Amazon.com, Monster, eBay, Wikipedia, Shopzilla, etc.—have emerged from teams led by internet-savvy visionaries and loaded with tech DNA.

And newspapers' sense of scale is bounded by circulation footprints. Even newspaper companies with multiple newspapers tend to have a sense of scale that follows a polka dot pattern across the United States. Yet when you talk to the upstarts who have created successful start-ups, you realize that from the moment they first step into the garage to begin their work, their vision is for global scale.

Let's look first at the consumer side. True, some newspaper websites, such as washingtonpost.com, are outstanding. But when we scan the industry as a whole, many sites fall well short of the bar in a Web 2.0 world. Many lack basic features like article commenting, RSS feeds, "related links", user blogs, and rich features at the channel level (calendar functionality in entertainment, stock portfolios in business, etc.).

This feature gap has contributed to a consumer indifference problem. In a recent study completed by the Outsell research organization, in critical information areas such as "Where I get my news right now" and "Where I get my news first thing in the day", newspaper websites fell behind not just Google, Yahoo!, AOL and MSN, but even "Other online sites."

The difficulty is that in all but the largest markets, the technology investments required to deliver best-in-class feature functionality are simply too rich for individual local markets to bear, given the limited local revenue opportunities.

As important as newspaper websites are, the direct revenue opportunities they enable (classifieds on homegrown platforms, display ads, email marketing and content syndication) comprise perhaps thirty percent of the total online revenue opportunity for newspapers. The real money for newspapers is in providing advertisers top-tier vertical online solutions.

And in this arena, newspapers have been on the sidelines. In every ad vertical that matters to the newspaper industry, vertical "category killers" such as Monster, CareerBuilder, Craigslist, eBay, PriceGrabber, Shopzilla, Cars.com and AutoTrader have emerged to predominate. None has been created by a newspaper company. In a handful of cases, a handful of newspaper companies have taken ownership stakes or set up partnerships.

But when we consider the percentage of top-200 newspapers that have access to top-tier online products via ownership of or partnership with online vertical leaders in all the relevant verticals (not just recruitment and auto), the coverage is staggeringly inadequate. This is why online revenues comprise only 5 1/2 % of total newspaper industry ad revenues today.

## **2. “Local” is indefensible online**

Over the past 50 years, newspapers have benefited from near-monopoly status. Their dominant leadership in driving results for local advertisers has provided the financial capacity to deliver highly compelling daily local news to consumers, which in turn has driven high circulation and market penetration, supporting high advertiser ROI in a virtuous cycle of self-reinforcing benefits.

But in itself, “local” is indefensible online. All online success stories benefit from network economics. Network economics is characterized by two benefits: the network effect and scale economics. With the network effect, every member in the network gains increasing benefits as membership grows, causing membership to grow faster. In turn, the central costs of technology are spread across a wider and wider revenue stream. MySpace, Google, PriceGrabber and eBay all exhibit this distinguishing characteristic. Scale economics refers to the leverage of size: bargaining power with vendors and partners, and the ability to gain a network-wide view of performance to identify best practices.

Individual newspapers, acting alone, can't gain the leverage of network economics. Even the largest newspaper company in the U.S. (Gannett) ranks seventh in combined monthly unique visitors vs. other online news sites, and has only limited network leverage. However, the newspaper industry as a whole boasts 56 million monthly unique visitors, fully a third of the entire U.S. monthly Internet audience.

If we were to build an industry-wide network, we would leap to the lead in combined monthly unique visitors vs. other online news sites, and gain the critical bargaining power that would open the door to sharp deals with vertical online leaders in all the ad verticals that matter.

## **3. The big money is in vertical partnerships**

At Knight Ridder, fully 70% of its online revenues came from branded online vertical products (CareerBuilder, the Classified Ventures products, and ShopLocal). The remaining revenue directly leveraged the traffic and content on our newspaper websites— primarily display advertising and content syndication.

It's interesting that online revenue comprised about 7% of total revenue at Knight Ridder, 1½ points higher than the industry average of 5½%. The difference may well reflect the disproportionate value of branded vertical products in driving incremental revenue opportunity.

Here's another indicator. Thirty-three percent of Knight Ridder's recruitment revenues were online in the first half of 2006, compared to about 20% for another large newspaper company I spoke with. I believe the 13 point difference has nothing to do with sales execution, but rather is reflective of the fact that Knight Ridder could offer CareerBuilder-- a branded, top-tier online product—to its advertisers, while the other company lacked access to a top-tier brand.

A back-of-the envelope analysis shows \$3.3 billion of the total \$4 billion incremental opportunity by 2010 is in partnerships with online leaders (#1, #2 or #3 in their verticals, and the search portal players). This is the difference between baseline industry growth (my analysis, with help from NAA, Merrill Lynch and Universal McCann estimates) and growth powered by top-tier online product, if available to most newspapers in the industry.

The point is intuitive: advertisers pay for results. Results come from top-tier products that drive consumer behavior. Access to top online products will only come from deals with existing vertical online leaders. And if partners can work with newspapers efficiently, through a single “Switzerland” organization (let's call it Switzerland Inc.), deals can get done.

There is little doubt that newspapers provide potent benefits to any potential partner. CareerBuilder's brand position has been strengthened immeasurably in the past few years by its weekly branding on the front of jobs sections in Gannett, Tribune and Knight Ridder markets across the country. But to get favorable terms with regard to wholesale prices, channel conflict and branding requirements, you need scale.

Take the case of Philadelphia, which recently cut a deal with Monster. I'm sure Philly cut the best deal it could, given the circumstances. But let's be clear: from Monster's perspective, the deal must have been a tactical one. I doubt Philly comprises more than 5% of Monster's world. On sticking points such as sales channel conflict with the pre-existing Monster sales team in Philly, or the wholesale price, how sharp was Monster's pencil? But if the newspaper industry were networked, a different approach would have been possible: "our network offers you 1,800 recruitment salespeople in 180 markets across the U.S." That's a strategic conversation.

That's the power of a network.

#### **4. Newspapers gain by moving onto common platforms**

Newspaper online infrastructures dot the United States like a thousand points of light. It is a massive waste of financial and intellectual capital. As Knight Ridder proved, multiple newspaper websites of all sizes (from the Biloxi Sun Herald to the Philadelphia Inquirer) can sit on common platforms and deliver Pulitzer Prize-winning quality.

What, specifically, is meant by common platforms?

They include a common content management system, common classified marketplace solution, common ad serving capabilities, a common ad network, shared content and feature functionality within key channels, a common underlying technical infrastructure and common supporting financial systems, metrics and analytics.

I do not mean one site for the newspaper industry. Nor do I mean that every site would look the same. As is true today, the consumer would go to the unique URL they've always known, and see the unique newspaper.com site they would expect to find. Content would be prioritized and managed locally. Producer tools would offer templates that reflect usability best practices, but allow unique presentation and design.

However, there would be standardization where standardization adds value. Producer tools, ad positions, measurement tools and metrics, ad serving infrastructures and classified marketplace solutions would all be standardized. There would be one ad network for national advertising. And business development, shared content management and channel services in channels like travel, business and technology would all be centralized. Underneath the hood, the platforms would be built on a common, massively scalable infrastructure to allow efficient addition of markets. A Switzerland Inc. would manage both the technology and the network, with all the inherent relationships involved.

Let's face it. Making such a move is a monumental effort involving operating risk, loss of full local control, significant switching costs and real transition pain. The infrastructures currently in place are the product of years of blood, sweat and tears. Managing this kind of industry-wide change is a bold and daunting challenge. Is it worth it?

Collectively, the move to common platforms could drive roughly \$700 million of the \$4 billion in 2010 incremental revenues, plus significant cost reductions. This is driven by four key benefits.

- Common platforms can be built to best-in-class standards, driving traffic, page views, ad impressions and revenue, since the investment is once for many.
- Costs for each newspaper fall as the network grows, because the central technology costs can be spread across the network.
- With common platforms, a network view of member performance is possible—enabling identification and evangelization of best practice, lifting all boats.
- Perhaps most importantly, common platforms deliver bargaining power.

The bargaining power benefit is worth elaboration.

With scale, newspapers can take on some of the most vexing dilemmas they've faced in the online era. For instance, Yahoo! News gains about \$6.00 per thousand page views today. But those page views are driven by content provided largely by AP and newspapers. I roughly estimate that the combination of AP's revenue from the deal (expressed in revenue per thousand Yahoo! page views) and the revenue newspapers gain from the Yahoo! News click stream is little over 1/10 what Yahoo! receives. Bad deal.

But what if 2/3 or more of the U.S. newspaper industry sits on one platform, managed by Switzerland Inc.? What if Switzerland Inc. decides to deny Yahoo! and perhaps Google access to newspaper industry content for three months, followed by a negotiation for better terms?

That's the power of a network.

## **5. Newspapers bring critical assets to the table**

While newspapers acting alone are ill-positioned to succeed online, they bring potent assets when plugged into a network. In aggregate, newspaper websites reach 1/3 of the entire U.S. internet audience on a monthly basis already, in many cases with suboptimal websites.

Newspapers deliver three benefits:

- Strong local brands, with the capability to drive audience
- Trusted, compelling local content
- Large local sales organizations and relationships with advertisers

In a network, these assets become decisive advantages. Online-only players must justify investments in local brand, content and sales assets based solely on online revenue opportunity. Newspapers can leverage these assets across both print and online.

That's not to say that these benefits are fully optimized. Sales teams need to learn how to sell online products much more effectively than they do today. Newsrooms need to learn how to deliver breaking news and updates throughout the day, and how to create compelling multimedia projects with frequency. But at least an organizational foundation is in place to engineer these improvements.

## **6. The window of opportunity is closing**

Newspaper industry leaders are frogs in a pot. The water's starting to boil, and it's time to jump. Only 19 percent of 18-34 year olds read a daily newspaper; 44 percent of them go to a web news portal. Broadband penetration has reached 57%. The blogosphere is doubling every 5 ½ months. Search provides instant access to the world's information. User-generated content has turned the authority model of institutional media on its head. Peer-to-peer networks, tag clouds and reputation engines are fundamentally changing how people engage with content and communications.

Safa Rashtchy, Senior Internet Analyst for Piper Jaffray, has advanced the notion that these shifts in consumer behavior have precipitated a nascent shift in the marketing mix. He sees search at the center of a new marketing mix. Acknowledging a debt to his framework, I would expand the "center" somewhat to include all intention-based advertising (search, lead-generation advertising, and e-commerce).

Increasingly, smart advertisers are placing their first dollars in intention-based advertising. That's because these ad dollars target consumers who demonstrate through their actions an expressed interest in the product or service being advertised. While traditional media are not completely replaced by intention-based advertising, they suffer lost market share.

These changes have begun to restructure consumer consumption habits and advertiser behaviors. Circulation has declined 12% since 2000, and the rate of decline is increasing. 3,500 newsroom professionals have lost their jobs, about 7% of the industry total, since 2000.

It is not beyond the pale for the \$49 billion (2005) newspaper ad business (\$47 billion of which was print) to begin to see accelerating declines in print ad revenue over the next five years. My rough projection is for 2010 print revenue to be just under \$3 billion below its 2005 level. This loss must be offset by online. The \$4 billion incremental revenue from a network ensures sub-two percent revenue growth from 2006 – 2010. Not robust, perhaps, but certainly much better than the alternative.

This migration path is difficult. The benefits of today's actions will be seen in two to three years. It's important to start now.

## **7. It's all about leadership**

Newspaper leaders are moving in the right direction.

A small consortium of newspaper companies is in discussions regarding a Yahoo! partnership involving classifieds, local news, and vertical ad packages. AP seeks to launch tools that support the standardization of metadata taxonomies across newspapers so that articles can be efficiently filed, archived, retrieved and shared across the network. Lee Enterprises' recent acquisition of DotConnect Media puts it in the ad network business. Tribune and Gannett are pursuing ad network and vertical partnership opportunities. McClatchy has indicated that they wish to move the Real Cities ad network towards a common ad serving platform.

As laudable as these steps are, they are just a subset of the network opportunity. Pursued separately in loose consortiums, they are like trying to get a gaggle of geese to march in a parade. We need to think bigger and bolder. A strong Switzerland Inc. that brings together all of these initiatives maximizes integration and bargaining power.

It won't be easy. To create a Switzerland Inc., thorny strategic issues must be addressed. These include divergent newspaper company objectives, competitive dynamics, network ownership and governance issues, and affiliate structure. The tactical concerns are no less daunting, including newspaper sales territory overlaps, wholesale pricing, channel conflict with the vertical partners' own sales organizations, and branding requirements. There are migration planning issues, and antitrust considerations.

But it's worth it. Not just in strengthened stock prices and reductions in layoffs. This is a fight for the future of quality news—and for finding new ways to enrich the shared life in an online world.

Conviction in the vision must be deep, for it will be tested. Inevitable miscues will challenge resolve. But if industry leaders conclude that success online is vital-- and that it will only come by plugging into network economics-- then we can have great confidence in the future of the newspaper business. Committed leaders make change happen. No matter how hard that change may be.

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