

# Strategy development for the real world

A metro newspaper has nowhere to grow and lots of “new media” competition

## John Sterling

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### The company and its situation

The *Milwaukee Journal Sentinel*, with founding roots dating to 1837, would seem to hold an unassailable market position. The only metro newspaper in Milwaukee, it is widely respected in the community. Further, the Journal Sentinel Inc. (JSI) is the flagship of Journal Communications Inc.'s (JCI) diverse media holdings (see sidebar “Journal communications – the USA's oldest employee-owned company”) – which includes the largest independent radio station and the largest independent television station in Milwaukee. Publishing an excellent product and being the only hometown newspaper was a seemingly certain guarantee of higher than average profitability.

The best evidence of the strength of JSI's market position is its sterling circulation and readership record. JSI's market penetration was higher than that of nearly any metro newspaper in the country. In round numbers, Sunday circulation was 460,000 and daily circulation was 290,000 – placing JSI's circulation well ahead of newspapers in much larger metro areas. And readership numbers were even better. The *Sunday Journal Sentinel* was read by over 62 percent of all adults in the metro area (over 800,000 Sunday readers) – the highest penetration of any metro newspaper in the country. While this is a tribute to the paper's quality, the downside implication was that dramatic gains in circulation or readership growth would be difficult to generate, given the ongoing competition from TV and radio news.

As a general rule, increasing circulation is the key to profitability in the complex newspaper business. Revenues flow from a combination of ad revenues and circulation revenues. Advertisers are buying access to a paper's readership – the higher the circulation and readership among

their primary targets, the greater the advertising rates, at least in theory. Circulation and readership are driven by daily value assessments made by consumers. For example, is the editorial and advertising content of the paper worth the cost of subscribing to or buying the paper at the newsstand and is it worth the readers' time? These economic and social drivers are strongly influenced by the editorial content of the paper – content that is created by fiercely independent journalists and editors. For years, this basic reality of the newspaper business was a virtuous cycle for JSI – good editorial content combined with solid execution in operations led to very healthy profitability.

However, by fall 1999 JSI faced a number of challenges that could severely reduce its profitability. For instance, JSI's out-dated printing presses – troubled by both print quality and capability issues, and suffering frequent breakdowns – were limiting the paper's ability to meet the needs of readers and advertisers. Upgrading the paper's printing capabilities would require an investment of over \$100 million, adding significant capital demands to the paper. In addition, the cost of a key raw material was rising and this trend was expected to continue for a number of years.

To make matters worse, the Internet era introduced a host of new media competitors – several of which attracted business away from the most profitable feature of a metro



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### **Journal Communications – the USA's oldest employee-owned company**

Journal Communications, Inc. (JCI), a growing and diversified media and communications corporation, is America's oldest employee-owned company. With well over \$500 million in revenues, JCI has over 7,000 employees working in 24 states and Europe in seven different operating companies. At the end of 2000 JCI companies included:

- Journal Sentinel – publisher of the *Milwaukee Journal Sentinel*.
- Journal Broadcast Group – with four television stations (all network affiliates) and over 35 radio stations in a total of 11 markets.
- Norlight Telecommunications – a full service telecommunications provider focused on the carrier and business telecommunications market.
- Add Inc. – a publisher of targeted, niche products, shoppers and weekly newspapers (Add Inc. also operates printing plants in nine states).
- IPC Communication Services – specializing in the production and distribution of materials and services for the computer industry and the printing of association publications.
- NorthStar Print Group – a manufacturer of high-quality printed products.
- PrimeNet Marketing Services – a provider of direct marketing services.

Today Journal Communications is 90 percent employee-owned (the remaining 10 percent belongs to heirs of Harry Grant – the late company president who established the employee ownership plan in 1937). Company senior managers are: Steven J. Smith, chairman and CEO, Douglas G. Kiel, president, Paul Bonaiuto, chief financial officer, and publisher Keith Spore, formerly the editor of the paper. All levels of the JSI management team have a strong appreciation for the value of editorial content and a keen understanding of the crucial need for excellent operations.

newspaper, the classified advertising section. Further, Milwaukee's largest cable television service provider was Time Warner and the region's largest Internet service provider was AOL – two companies that had just announced a blockbuster merger.

### **New competitors change the drivers of revenue and profit**

In late 1999 when it began its strategic reassessment, JSI found that a number of specific external influences were changing the fundamental drivers of revenue and profit growth:

- The emergence of low-priced advertising sites on the Internet for employment (for example, Monster and Jobs.com), used cars, and real estate were eroding its classified advertising revenues.
- The highly profitable employment classified section was losing sales, not only in the face of online competition, but also due to evolving hiring practices.

- A variety of news, entertainment, and advertising paper alternatives were threatening to siphon off readership. While JSI remained the only hometown daily paper in the metro area, niche print and online products focused on apartment rentals, entertainment listings, and other content were having a significant impact on subscriptions, renewals and single copy sales.
- The retail market in the Milwaukee metro area (buyers of significant volumes of display advertising) was losing market share to outlet malls and the lure of Chicago's North Michigan Avenue and north suburban malls – a range of retailers who did not advertise in JSI.
- Newsprint prices were rising and, if historic cycles repeated themselves, would likely not fall for five years or more.

### **The operational challenge**

Finally, it is important to note that publishing a successful newspaper requires an extraordinary level of managerial discipline to ensure consistently excellent operational performance. Reporters, photographers, and editors must gather and report the most current information, make it interesting and useful, and meet deadlines. Printing operations must assemble first rate products with the right advertising inserts in very narrow production windows. Delivery trucks and carriers must get the paper on subscribers' porches before 6 a.m. without fail. Yet, if the paper does not deliver something truly distinctive to readers and to advertisers – if they are just as well or better served tuning into television, radio, the Internet, or other newspapers – then all the operational effectiveness in the world cannot save the paper.

Thus, JSI could not simply "hunker down, cut costs, and ride out the storm." Severe cut backs in the newsroom or in operations could easily start a downward spiral. Cost cutting alone would likely start a destructive cycle: eroding quality and reliability leading to eroding readership and circulation, leading to declining advertising revenues, requiring more cutbacks, leading to further erosion. Nor could JSI simply fall back on the strength of its market position – new media and new competitive forces threatened to destroy the paper's profitability if it was complacent. JSI recognized it needed to revisit long held assumptions and develop a new vision and strategy for the paper – a strategy that must balance its need to run a tight ship and truly distinguish the paper from any other source of local, national and international news and information in Milwaukee.

The basic SWOT (strengths, weaknesses, opportunities, threats) analysis JSI developed at the outset of its strategic planning process is summarized (see Exhibit 1). It underscores many of the points discussed above.

These and other factors led JSI to bring a broad cross-section of its management team together to take a fundamental look at the company's strategy. The company

## Exhibit 1 — Strength, weakness, opportunities and threats analysis of JSI

### JOURNAL SENTINEL, INC. STRATEGIC PLANNING FOUNDATION DOCUMENT EXECUTIVE SUMMARY

#### STRENGTHS

- Gathering, processing, and providing information (including online)
- Effective, reliable distribution system
- Brand, reputation, position of trust
- High penetration and reach, especially Sunday
- Financially solid company
- Employee owners - committed people
- Large, effective ad sales force
- Solid direct marketing capability
- Managerial courage, when needed
- Online - #1, local media; #2, overall local

#### WEAKNESSES

- Slow to act and change
  - "Battleship" analogy cited frequently
  - Avoid "distasteful things"/tough decisions
- Lack strategy and direction
- Downside to employee ownership
  - Perception of "dead wood"
  - Recruiting and retaining younger people
  - Dividend policy limits pace of investment
- Structure and culture
  - Silos, hierarchy, politics
  - Risk averse below senior level
  - Duplication and waste ("nothing goes away")
  - Lack of entrepreneurial spirit
- Tendency to feed problems and starve opportunities
- Failure to assess results of tactical initiatives (extra press runs, circulation drives, etc.)
- Press limitations (color, capacity, quality, flexibility)
- Size of market (38th falling 42nd)

#### OPPORTUNITIES

- Internet/online opportunities
  - Portal for southeast Wisconsin
  - "Local verticals" - auto, employment, real estate, auctions, etc.
  - E-commerce for local retailers
  - "Bring order to the chaos"
- Cooperation with other JCI companies
  - Community weeklies
  - Broadcast
  - Others
- Growth from enhanced press capabilities
- Leverage distribution capabilities
- Acquisitions of other papers (JCI constrained)
- Unaudited distribution to underserved segments
- Unbundled/rebundled products and service offerings
- Leverage scale and relationships of Ad department

#### THREATS

- Direct Internet erosion of classified revenues
- Other Internet competitors - verticals, media companies, telecomm companies
- Demographic trends do not favor JSI
- Competition for readers' time
- Economic downturn/recession
- Competition for good people

#### PRESENT STATE OF JSI

- Position of trust, respect - foundation of great brand
- At a crossroads created by challenges of new media
- JSI provides "bundle" of products via the newspaper, direct marketing, and online
  - News and entertainment (historic source of value)
  - Various ad categories (have intrinsic value too)
- Business more than using news and entertainment to create an audience for all advertisers
  - Internet competitors want to carve out narrow segments of readers and advertisers
  - JSI has scale and brand advantages that can combat those attacks
- Need for new vision and strategy for JSI
  - Build and extend core competencies
  - Preserve and leverage JSI's brand franchise
  - Ensure JSI is "Built to Last"

initially identified a number of strategic questions, a number of which are listed here. What parts of itself did it need to reinvent? Where did it need to invest for future success? How did it want to incorporate new media (i.e. the Internet) into its strategy? How did it intend to maintain product quality and operational excellence in a time of strategic change?

#### The strategy development process

As it embarked upon strategy development, JSI wanted the process to meet certain key criteria (see sidebar "Journal Sentinel's strategic planning process"). It should ensure broad cross-functional participation (including senior and middle management from every functional area). It should build from an objective examination of the major external drivers of JSI's future business environment (including future scenarios), to include the articulation of a shared vision of JSI's future. It should address the pragmatic need for operational excellence, operating income growth, and the deeper need for distinctive strategic positioning. The planning process unfolded in three phases.

#### Phase one – foundation and strategic direction

There were several work products produced during phase one including the SWOT analysis summarized above, white papers examining external market drivers, alternative scenarios, and a renewed vision, mission and set of primary excellence goals for JSI. Exhibit 4 presents JSI's mission and primary excellence goals. It provides a clear declaration of the distinctive strategic position JSI intends to occupy in its markets.

One key to the success of phase one involved ensuring that a solid set of facts were collected for and digested by JSI's management team. Remember, these are newspaper people – so, the process had to be built on a foundation of well-understood facts – both about the internal situation and the external situation. And, once the facts were collected, analyzed and well understood the team had to break itself out of its natural tendency to focus on the short term. Keep in mind that JSI faced no ordinary conflict between the short-term mindset and long term thinking that most businesses must contend with. As JSI's editors and managers were well aware, in the news business the extreme short term (today's

### Journal Sentinel's strategic planning process

Journal Sentinel's planning process is a custom application of Smock Management Consultant's proprietary strategic planning methodology (FOCUS). Journal Sentinel's process unfolded in three distinctive phases. Some of its notable features were:

- The process allowed for direct and substantive involvement of roughly 50 senior and middle managers from every functional area of the company.
- Qualitative scenarios were developed to help the management team analyze and understand a rapidly changing external environment and develop a long-range vision for JSI that was informed by factual analysis.
- The process was completed quickly. From a standing start in mid-October 1999, a draft strategic plan was completed by the first of the next year. Implementation planning, financial modeling, and organizational analysis followed in the first quarter of 2000.
- The process yielded a one-page strategic plan – which facilitated communication of the plan throughout the company and subsequent strategic management and monitoring of strategy implementation.
- The implementation-planning phase enabled JSI to create financial modeling tools useful for evaluating and prioritizing opportunities and specific initiatives, and for informing subsequent budget and profit planning.

#### Phase one – foundation and strategic direction

In the first phase, the planning team assessed the internal and external environment (including scenarios and scenario drivers) and agreed upon a shared vision and strategic direction for JSI. Exhibit 2 summarizes how that first phase was structured.

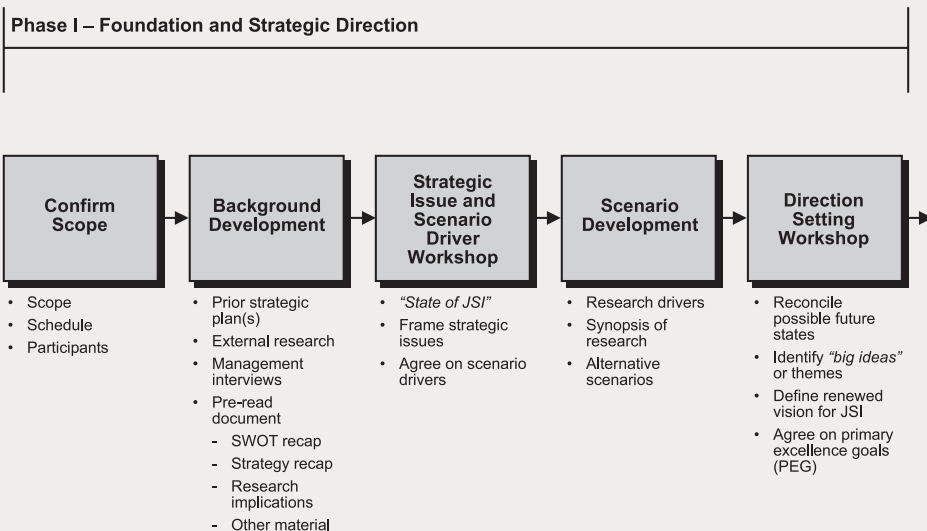
An important element of the foundation phase was the identification of external scenario drivers and the subsequent development of alternative scenarios of JSI's future market environment. The scenario drivers were identified and agreed upon by the large planning team in a workshop environment. Essentially, the team identified a large number of micro and macro drivers of the external environment. Those drivers were grouped into six broad topic headings:

- (1) consumer behavior and preferences;
- (2) the competitive landscape (all media competition);
- (3) Internet and e-commerce;
- (4) communication and information technology;
- (5) newspaper specific technology;
- (6) workforce issues (including demographics).

Smock Management Consultants researched each driver (and the sub-topics included under each) and provided white paper discussions of the factual trends and circumstances of each. Rather than trying to create the illusion of precision where none exists (a glaring weakness of various iterative Delphi techniques), the scenario development process was designed to yield two products:

- (1) It provided factual, research based information regarding the key external factors influencing JSI's environment – the team had a shared understanding of how the external environment was evolving.
- (2) It provided two potential visions of the future market environment (both developed by SMC and used in the vision development workshop). Those alternative scenarios were entitled:

#### Exhibit 2 — Flow chart for phase one



- *Unwelcome Company* – a scenario that envisioned many competitors in new and existing media eroding JSI's leadership position as the primary source of news and information for the metro area;
- *Don't Hassle Me, I'm a Local* – a scenario that envisioned local content and presence providing a real advantage over time to JSI and other locally based information providers.

The key elements resulting from this first phase were the renewed vision for the paper and a set of four primary excellence goals (PEGs). These are a proprietary element of the FOCUS strategic planning methodology. They are the real secret to striking the right balance between maintaining and extending operational excellence and capturing unique and valuable strategic positions in the market. Essentially, the primary excellence goals set the direction for resource allocation. JSI defined four primary excellence goals that enable it to meet the "table stakes" in its market and capture a distinctive strategic position in that market.

### Phase two – strategy development

The second phase of the process focused on developing measurable objectives as well as a set of action-oriented strategies for each primary excellence goal. At the conclusion of that second phase (which essentially consisted of a series of strategy development workshops – some involving the large planning team and some involving only senior management), JSI had a one-page strategic plan. That one-page strategic plan included the vision, mission, primary excellence goals, measurable objectives, and related strategies.

A key to this second phase was restraining the inherent temptation the management team felt to jump immediately to tactical implementation. Both the large planning team and the core team were challenged repeatedly to answer the question "what are we going to do to achieve the primary excellence goals?" rather than addressing the question "how do we plan to go about our business?" That distinction between "what" and "how" was critical to maintaining strategic thinking throughout the strategy development phase.

The workflow in phases two and three is summarized in Exhibit 3.

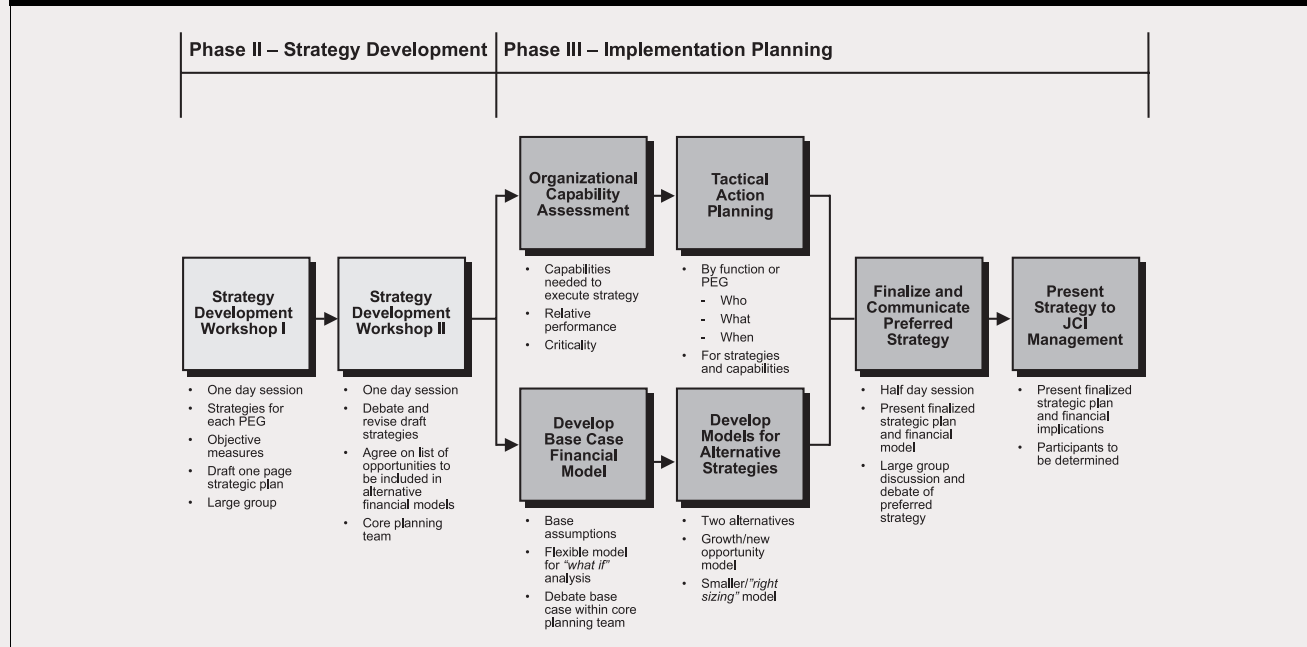
### Phase three – implementation planning

Phase three involved preparing the organization for implementation. It included an assessment of organizational capabilities (what fundamental processes and capabilities were needed, which needed further development, which were no longer relevant, etc.), development of tactical action plans, and the creation of a financial model for the plan.

This third phase required a commitment of a great deal of time by the planning team at JSI (and their staffs). For each needed new organizational capability, JSI's current capability had to be understood, a path to further capability development had to be developed, and the financial implications of and an action plan for the development of those capabilities had to be defined. Likewise, once the team turned its attention to tactical action planning (answering the question, "how are we going to do this?"), the financial impact of those action plans and initiatives had to be modeled. In some instances (such as launching alternative pricing programs, alternative delivery schedules, etc.), that modeling and analysis was quite complex.

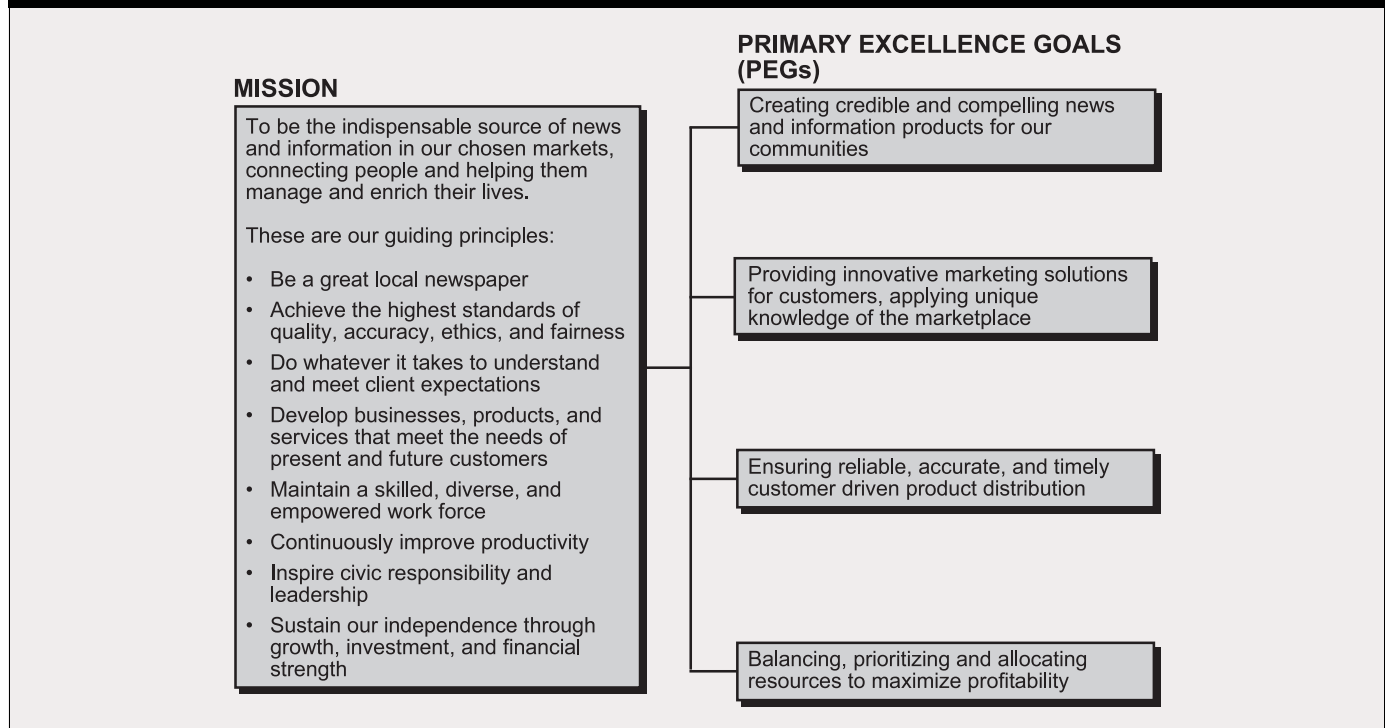
At the conclusion of the final phase, the full management team reconvened to critique the plan – the underlying logic, potential stumbling blocks, etc. – and prepared senior management to present the new strategy to the parent company for approval.

**Exhibit 3 — Workflow phases two and three**





#### Exhibit 4 — Mission and primary excellence goals



deadlines) forces out almost all long-range strategic considerations.

#### *Two tough scenarios*

Thus, as a further step to get the team to think beyond the current situation, we used the facts and trends gathered on external market drivers to craft future scenarios. Essentially, we painted two alternative views of the world in 2005 – each scenario presented tough market conditions for JSI. What those scenarios enabled the management team to do was to think – for a day, in a workshop environment – about the long run. As a group the team could acknowledge that the market was going to be tougher, but that JSI could be a formidable institution even in a dramatically more challenging market environment.

Those background development steps – creating a factual basis for planning and allowing the management team to use scenarios as a tool to think about the long term – positioned JSI's management to define a new direction for the paper. That direction is summarized in the mission and primary excellence goals. Essentially, the team agreed that its future depended on being both disciplined operational managers and on staking out a market position as “the indispensable source of news and information” in the market:

- In both the mission and the first primary excellence goal, JSI essentially declares that it will be the preeminent creator and provider of news and information in its markets. In an era in which media giants such as

Time-Warner AOL would likely have “information pipelines” directly into a majority of the homes in the Milwaukee market place, this is a bold statement. Yet, with its long history, its depth of knowledge of the market, and the scale advantage provided by its newsroom, JSI is well positioned to be the content leader in its markets.

- In other respects JSI is acknowledging that it has to “ante up the table stakes” if it is going to compete successfully. Thus, it has primary excellence goals focused on customer driven distribution and on effective resource allocation.

Taken as a whole, the mission and primary excellence goals set a distinctive strategic direction for the paper. JSI's direction focuses on balancing the need for operational excellence (in printing the paper, delivering it to homes and newsstands, and other back office operations) and a distinctive position in the market place (in JSI's case, a position as “the indispensable source of news and information”).

#### **Phase two – strategy development**

In phase two the team created specific strategies and measurable objectives for each primary excellence goal. Confidentiality considerations restrict how much of JSI's specific strategies can be revealed in this case study. However, a few pointed examples can help illustrate the kind of strategic thinking and results JSI achieved in completing its one page strategic plan.

Relative to JSI's first primary excellence goal – focusing on “creating credible and compelling news and information products” – the company developed strategies that addressed both information gathering (extending its scale advantages) and information packaging (ensuring product development responds to evolving needs and opportunities). Thus, JSI's newsroom can serve as a powerful “content engine” that puts action behind the overall strategic direction defined by the mission and primary excellence goal.

**“The Internet era introduced a host of new media competitors – several of which attracted business away from the most profitable feature of a metro newspaper.”**

Likewise, relative to JSI's fourth primary excellence goal – focusing on “balancing, prioritizing, and allocating resources” – the company has created a number of strategies that enable JSI to take advantage of information technology, reinvent processes and back office operations, and capitalize on new capital investments (for instance a significant investment in a new printing facility).

### **Phase three – implementation planning**

The work products resulting from phase three can be summarized in three points:

- (1) JSI was able to develop and prioritize specific project plans – for example, strategy implementation initiatives – for every strategy on its one-page plan. In working through that process, the one-page strategic plan was tightened and improved – reflecting the insights gained from thinking through implementation issues.
- (2) JSI was able to objectively evaluate its organization and commit to an organizational development plan that ensured that the strategy and the organization were in alignment. In other words, management was certain that the organization was capable of implementing the strategy.
- (3) JSI created a set of financial models that it used both to evaluate and to prioritize specific implementation initiatives. Those models have proved to be useful in subsequent opportunity analysis, strategy updating, and budgeting/profit planning processes.

#### *Process benefits*

The strategy development process achieved a number of interim objectives for JSI:

- The process engaged a cross-functional team that included a multiple layers of management in looking to

the future, agreeing on a shared vision and set of goals, and defining what it would take to achieve those goals in the short, medium, and long term. In short, it tapped into the best thinking of JSI's most capable managers and got them to agree on a direction for the company.

- The process enabled the management team to gain a shared understanding of the fundamental external drivers influencing the paper's market and its competitive environment. And, it enabled the team to disengage from the near term and really think about the long-range future of the paper.
- The process yielded a logically structured strategy, centered around four primary excellence goals – providing a balance between ensuring solid operational performance and capturing a distinctive position in the market.
- The process also yielded a defined and prioritized set of implementation projects ensuring that the strategy was put directly into action.
- The process produced a thorough analysis of JSI's organization and a plan of action to develop needed capabilities.
- Finally, the process produced a flexible financial model that JSI could use to assess future strategy updates and to develop annual budgets reflective of the paper's overall strategy.

### **The results**

The results of the planning effort at the JSI are manifesting themselves in ways that are crucial to the health of the newspaper, particularly now that the advertising market has eroded dramatically with the economic slowdown currently taking place in the USA. Because JSI is a private, employee-owned company that does not make its financial report public and because a full exposure of JSI's strategy and results would adversely affect its competitive position, only a few examples of the many positive results can be highlighted.

### **Excellent operations**

Two of JSI's primary excellence goals focus on operational excellence. One of those two goals is “Ensuring reliable, accurate, and timely customer driven product distribution.” JSI has developed an excellent track record for delivery reliability and customer satisfaction. As a result JSI achieved:

- Growth in the number of other publications wishing to distribute their products through JSI's carrier force (for example, *The Wall Street Journal*).
- Extension of customer service capabilities over the Internet (for example, vacation stops and starts).
- Enhanced capabilities and focus on targeting readers of greatest value to advertisers, and improved circulation penetration of those targets.
- Improved capabilities required for delivery route sequencing (impacting on both timeliness and accuracy).

The other primary excellence goal focused on effective operations is “Balancing, prioritizing, and allocating resources to maximize profitability.” Among the achievements and activities related to that goal have been the application of new technologies across the company that have greatly improved both productivity and customer service and a significant reengineering effort in two functional areas to reduce costs.

### **Profitability**

The net result is a newspaper that is more profitable and that has more satisfied readers and advertisers than it otherwise would have. Better newspapers – particularly those in a one-paper town – historically enjoyed net operating margins ranging from 18-22 percent of revenues. Since the most recent economic downturn, most newspapers are struggling to maintain margins 10-15 percent of sales. With this strategy in place and being implemented, JSI is maintaining its margins toward the high end of these benchmarks. It was and remains a premier media property, despite being in a very low growth metro area that has been particularly hard hit by the recession in the manufacturing sector.

**“A strategy ... must balance its need to run a tight ship and truly distinguish the paper from any other source of local, national and international news and information in Milwaukee.”**

### **A unique strategic position**

JSI directed two of its primary excellence goals toward the attainment of difficult to imitate positions in the marketplace (essentially the creation and extension of true core competencies). One of those primary excellence goals builds on JSI’s unparalleled news gathering infrastructure – “Creating credible and compelling news and information products for our communities.” This primary excellence goal obviously includes the creation of an outstanding daily metro newspaper, but extends well beyond it. Among the results

stemming from this focus on credible and compelling news and information creation are:

- Reader satisfaction with the paper is high and improving.
- JSI’s Web presence (JSOnline.com and Onwis.com) are the most visited local Web sites by a huge margin – collectively, the paper and its related Web sites are clearly the leading source of news and information in the region.
- JSI has demonstrated a unique capacity to develop special purpose news and information products of value to the community. A good example is a souvenir “Miller Park Opening” editorial product that sold at a premium across the community as the Brewers opened their new baseball park. In contrast, the *Los Angeles Times* attracted a great deal of negative publicity because of conflict of interest issues when it attempted a similar special publication on the opening of the Staples Center, its area’s new sports facility.
- JSI’s newsroom is serving as a content engine for print, online and other media partners – a strength that is particularly manifest when breaking stories, such as local election night and the rape trial of a local football hero, captivate the community.

An interesting recent development at JSI emerged as the company revisited its plan a year into implementation. Namely, the strength of JSI’s brand was reinforced by the results of the national readership study (which included a direct look at JSI in its market). As a result, the company has added a fifth primary excellence goal to its overall strategic direction focused on the brand. There are now marketing strategies and initiatives focused on leveraging the brand to grow readership, circulation, and advertising revenue (previously, marketing initiatives were buried within implementation plans relating to the other four primary excellence goals).

The Journal Sentinel is a stronger, more flexible, more focused and more strategic organization as a result of having developed a strategy that acknowledges that it has to both run extremely effective operations and create a unique position for the paper in the metro marketplace. The results show in the newspaper, on the Internet, and importantly, on the bottom line. ■