

A plan for a US newspaper industry counterattack against disruptive innovators

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Disruptive competition is battering the newspaper industry. For instance, classified advertising was once an extraordinarily profitable, nearly exclusive, franchise for newspapers. Today, the Internet firm Craigslist offers a free classified service that is flourishing and expanding in many major cities. Firms offering a variety of disruptive innovations are successfully undercutting the traditional newspaper business model, which has enabled the industry to thrive financially while investing in gathering and presenting news and information.

In fact, disruptive innovation has roiled the media industry for decades – first network news, then cable news and now all the varieties of webnews. Recently, however, the impact is becoming more pronounced. Among the storied newspaper empires that have recently or are currently being bought, privatized or broken up are: *The Wall Street Journal*, Tribune Company, Knight Ridder, and Philadelphia Newspapers, Inc. Even the Sultzberger family, owners of the *New York Times*, is under threat of an ownership coup. Even though many newspapers are generating a healthy 20 percent EBITDA on revenues, “bargain” stock prices indicate shareholders are pessimistic that newspapers can prosper given the competition these new business models create.

One imaginative response to this competitive challenge has emerged from The American Press Institute (API), the oldest and largest center for professional development in the industry. API recognized that the transformation taking place in the newspaper industry was a text book example of disruptive innovation as described by Clayton Christensen in his book *The Innovator's Dilemma*.^[1] Working with Christensen and his colleagues at the consulting firm Innosight, API developed a program customized to the issues and changes facing newspaper companies. The program follows the prescriptions Christensen and his co-author, Michael Raynor, proposed in their book *The Innovator's Solution*.^[2]

The resulting API research report – Newspaper Next: The Transformation Project^[3] – is designed to help newspaper organizations remain economically viable while they learn the new skills of competing against disruptive innovators. API now offers its newspaper clients a workable innovation methodology developed in cooperation with Christensen's Innosight consulting team. It is a practical competitive counterattack plan that newspaper companies are starting to adopt.

It is based on a specific insight by Christensen and Raynor. Their research demonstrated that incumbents nearly always have a significant advantage because they have the resources to make substantial investments in sustaining innovation. However, this leads them to optimize products for their most sophisticated customers, and in doing so incumbents invariably overshoot the needs of the average consumer.^[4] For newspaper companies, this over-engineering often takes the form of cramming more content and function into the existing print and online newspapers – for example, an extra section in the paper, a new press, or an extra hyperlink on the web site.



Disruptive innovators capitalize on this over-improvement, carving out limited (often low-cost) solutions that are “good enough” to get the job done for the average consumer. Over time, because those disruptive innovators invest in their own sustaining innovations, their narrow solution becomes the preferred solution for the specific job performed by the new innovation. Exhibit 1 illustrates this idea in terms of a single disruptive innovator, but newspapers in larger markets face many such competitors.

Craigslist offers a clear example of Christensen’s principle of disruptive innovation. The site began as a self-service online classified solution for San Francisco Bay area residents. Overtime, the site’s creators’ have refined its functionality in response to users’ expressed needs, and it has become a preferred alternative to print and online classifieds in many major metro markets.[5]

The API innovation methodology

The API Newspaper Next innovation methodology (N2) involves four steps (Exhibit 2).[6]

Step 1. Focus on non-readers and non-advertisers and determine what information-driven jobs they need to have done. Given the increased fragmentation among information

Exhibit 1 Disruptive innovation

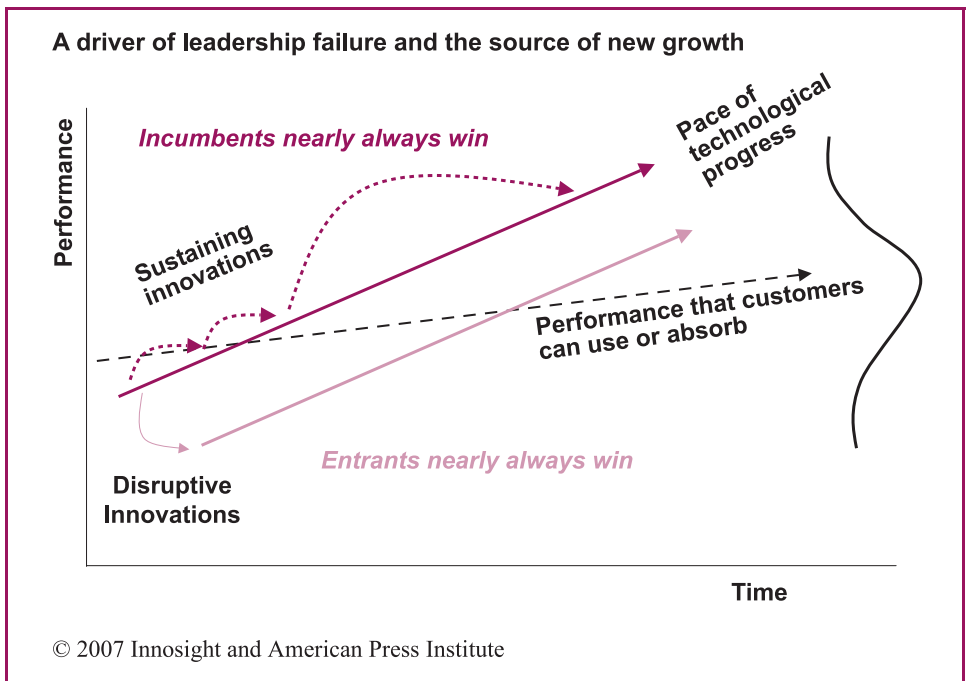
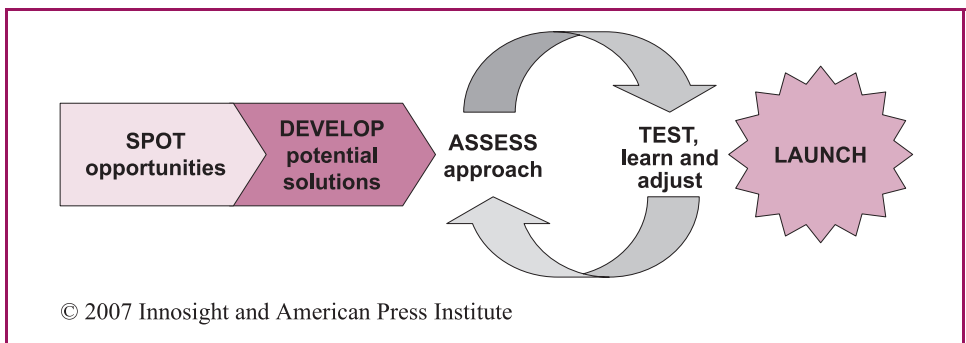


Exhibit 2 The N² method





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consumers and declining penetration of traditional newspapers, non-readers and non-advertisers represent the most direct path to new growth. API's newspaper-centric version of the innovation methodology focuses on researching the needs, that is, the "jobs to be done," of discrete sets of non-users of the core products. This jobs-to-be-done (JTBD) research enables innovators to spot opportunities.

Step 2. Develop potential solutions to the identified needs – that is, the "jobs to be done." After researching needs that are particularly important, recur frequently, and/or involve highly attractive and motivated potential customers, potential solutions can be designed with the intent of creating something "good enough" to get the job done. It's important to note that sustaining innovation will improve upon this "good enough" position over time:

- For newspaper companies, developing "good enough" solutions generally involves finding a valuable combination of content, experiences, channels and frequency.
- API has created a simple tool for newspaper companies to document potential solutions in the form of an "idea résumé," positioning the company to flesh out the idea in subsequent testing and assessment phases.

Steps 3 and 4. Assess the potential solutions and do real-world testing. The Newspaper Next innovation methodology provides tools to assess risks and to challenge assumptions. In their book, Christensen and Raynor identified 14 patterns of disruptive success; these success factors are also embedded in the N2 assessment and testing phases. The three overriding operating principles are:

- Invest a little, learn a lot – a principle that requires assessment be done with a perspective of planning to learn. This is accomplished by making projections that inform underlying assumptions and then doing small tests that provide significant insights about business models.
- Failing fast and failing cheap – a principle that requires testing be done quickly, inexpensively, and in ways that genuinely inform the validity of underlying assumptions. It is better to find flaws early, accept the fact that innovation carries risks, and either adjust or abandon initiatives before they become costly public failures.
- "Be patient for growth, but impatient for profits." In other words, it is perfectly acceptable to start small when testing and launching new ventures. However, if those ventures do not display a profitable business model soon – for example, if they do not meet the expectations created in the assessment and testing phases – they should be stopped.

This final point has historically been a weakness for many newspaper organizations. Having launched ventures – new sections, redesigns, special editions – without insisting on profitability right from the start, newspaper companies often do a poor job of assessing performance of those ventures against expectations. Further, they are slow to terminate ventures in the face of disappointing results. Because those ventures were often created without the principles of "invest a little, learn a lot" and "good enough" design to meet unmet needs, many of those ventures miss their mark. Rather than "failing fast and failing cheap," newspaper companies have too often failed slowly and at great expense.

The game plan for newspapers

API recognized the inherent challenges for newspaper companies embracing and driving disruptive change in their organizations. In particular, it recognized that the core franchise of newspapers, while in decline, remains solidly profitable and vitally important to local communities. Further, it recognized that newspaper organizations needed a way to translate the innovation methodology into a workable aspect of strategic management while still being able to maintain core operations.

The resulting set of tools and recommendations were crafted into what API calls The Newspaper Next Game Plan.[7] The Game Plan is essentially a strategic framework designed to enable newspaper organizations to structure and prioritize their approach to both the core business and the disruptive innovation opportunities that will drive long-term success and growth. Over time companies adopting their own version of this strategic

framework will transform the way resources are allocated, how processes are designed and linked within the organization, and what core values are embraced and reinforced (Exhibit 3).

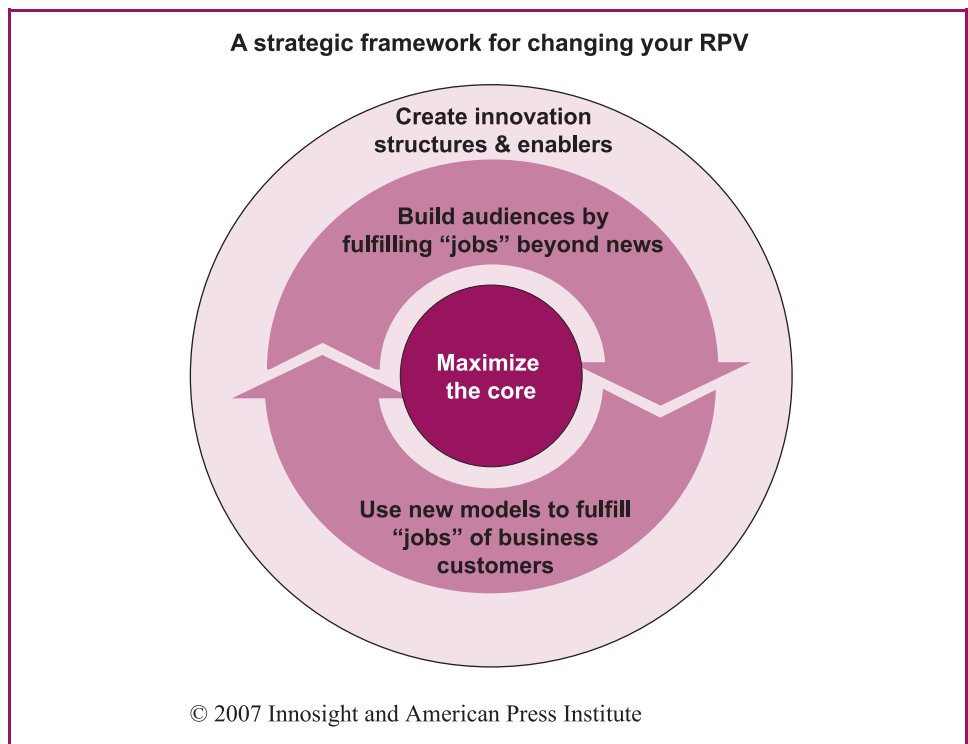
The first and central element of the framework focuses on preserving and maximizing the core – the newspaper and its online counterpart. While maximization of the core may seem counter-intuitive relative to embracing disruptive change, it is a pragmatic starting point in light of several important considerations:

- While disruptive innovators are eroding the fundamental business model, the highly profitable core business represents an unsurpassed cash generator for innovation and reinvention.
- In many cities and towns, the newspaper is the only genuinely mass media. For many advertisers the local newspaper remains the most efficient means of reaching large numbers of people.
- From a reader perspective, the local newspaper has a quasi-public utility role within the community. Readers expect and even rely upon the local newspaper to gather and report primary-source news and information. Further, readers rely on the paper to sort out and explain competing interpretations of that news and information. Ignoring this critical “job to be done” for 40-60 percent of the people in a community, the typical range of penetration for newspapers today, would be a strategic mistake.
- Further, public and private shareholders will demand a strategy for the core business – even if they loudly applaud the overall embrace of disruptive innovation.

The strategy for the non-core business

The remainder of the API strategic framework focuses on driving innovation. It provides a focal point for creating and launching ventures that serve both non-readers and businesses that are non-advertisers in core products. It also emphasizes the need to create the structure, capabilities and culture throughout the organization that enables continuing innovation.

Exhibit 3 Newspaper Next game plan



Serving non-readers will require newspapers to build audiences by fulfilling “jobs to be done” that go beyond the core function of reporting the news. There are large potential non-reader audiences – busy mothers, youth audiences, or non-English speakers. Further, there are many non-consuming events and occasions that could be exploited – planning major purchases or events, wait-time environments, or commuting and travel times.

Likewise, serving businesses that have been non-advertisers will require newspapers to create new platforms and business models that fulfill businesses’ “jobs to be done.” This will mean thinking differently about sales channels, delivery platforms, and underlying cost and pricing models. Some early adopters have already launched self-service sales channels and have created delivery platforms outside the print and online newspaper – including paid local search, lead generation, direct-marketing, video advertising, mobile solutions. It remains to be seen how well newspapers adopt and adapt fundamentally new business models to sustain and grow ventures that stand well outside of the historic core.

Finally, the framework includes consideration of the enablers – cultural and capability – that can drive innovation within the core business and beyond it (toward disruptive innovations). In rolling out the Newspaper Next findings and methodologies to the industry, API has emphasized that cultural change will be critically important for newspapers seeking to become innovators. Newspaper companies will need to do more than create an “innovation department.” They will need to reallocate resources, fundamentally change business processes, reorganize sales channels, and embrace new values and a new way of talking about opportunities.

In the long run, successful newspaper companies will manage a portfolio of businesses – a profitable but smaller core and a number of enterprises serving the needs of individuals and businesses who would otherwise be non-readers and non-advertisers. Getting back to the days of serving the overwhelming majority of people in the community will require an enterprise that reaches far beyond the core newspaper.

Prospects for the future

There are structural challenges and capability limitations at most newspaper organizations that will need to be overcome for disruptive innovation to become a strategic driver for their futures.

- Local newspaper companies have little or no experience with a portfolio management mindset. Further, they are culturally disinclined to work on “good enough” solutions or to “fail fast and cheap.” Critically, most local newspaper companies have not built the infrastructure for doing ongoing new product development and the related research required to drive that process.
- The advertising sales channel at many newspaper companies is stretched thin today selling a relatively complex existing core product – zones, special sections, online up-sells, niche publications. Advertising executives lack the resources, knowledge, structure, and incentives to sell across a broader portfolio of solutions and to carry out the kind of jobs-to-be-done research that can unveil new opportunities.
- Newspaper companies generally have some type of formal strategic plan and planning process. However, those planning processes will need to integrate the Newspaper Next principles and framework (or some other means of addressing disruptive competitors and the need for innovation) to realign toward innovation-driven growth.

Obviously the newspaper industry has a big stake in the successful implementation of the Newspaper Next strategic methodology, but so also does society as a whole. An open society, needs organizations to responsibly gather and process primary-sourced news and information. Newspaper companies spend \$3.6 billion[8] on primary source reporting collectively today. Most other news outlets – television news, online news aggregators, news-related blogs, and radio news – derive their content in whole or in part from that original reporting. If newspapers cannot transform themselves and thrive, who will do that for us with consistency and trust?

Backgrounder: structural change in the newspaper business

In the newspaper industry, fundamental change has emerged on a number of fronts, including disruption in the underlying advertising and subscription business model; a proliferation of information and entertainment alternatives, many of them electronic and free; societal change and fragmentation; and a shift in how information agendas are determined. The impact of these changes on newspaper companies are.

Business model disruption. Newspapers thrived economically for generations based on a dual subscription and advertising revenue model. In recent years, roughly 15 percent of newspaper revenues were derived from paid subscriptions and single copy sales.[9] Newspapers collect the other 85 percent from advertisers – both through display ads placed throughout the newspaper (including in more recent decades advertising inserts) and through classified ads.

However, traditional cost per thousand (CPM) display and related advertising has been adversely affected by such factors as consolidation in industries that were traditionally heavy buyers of newspaper display advertising and the emergence of new media advertising vehicles that now compete for a share of advertising budgets. Advertising spending is spread across diverse media platforms and newspapers get roughly one of every five ad dollars.[10]

Highly profitable classified advertising sections have been attacked from a number of directions as well. For instance, recruitment advertising – the most profitable segment of business for metro daily newspapers in the 1990s – has been radically transformed by online recruitment competitors such as Monster.com. Other classified segments have also been successfully targeted by competitors – for instance, automotive sites, private party transaction sites like eBay, and real estate sites such as Realtor.com.

Further, circulation has been under pressure for many years. The graph below demonstrates that circulation declines (both home delivered and newsstand) is a dual challenge; readership of the print product is declining across all age groups and this trend is accelerated by demographic trends that consistently show fewer newspaper readers among younger people (see Exhibit 4).[11]

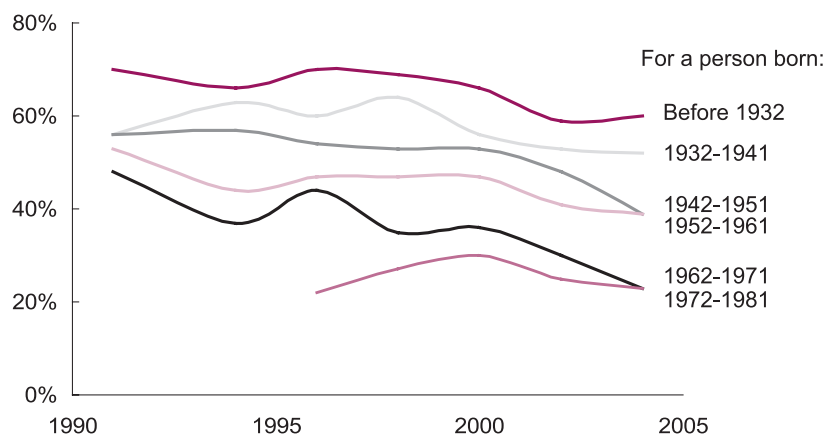
Another competitive pressure comes from free daily papers – such as *Metro* in Boston, Philadelphia and other markets; *Red Eye* in Chicago; and the *Examiner* in Washington, DC).

Thus, every aspect of newspaper's historic revenue model is eroding in the face of disruptive innovation. Worse, assaults on the business model are exacerbated by broader societal changes and shifts in how information is consumed. Today readers have an enormous range of options for news, information and entertainment, some of them in languages other than English. A partial list

Exhibit 4 Who read a newspaper yesterday?

Newspaper readership by generation

Percent of respondents who "read a paper yesterday"



Source: Pew Research Center Biennial News Consumption Survey
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includes television (broadcast, cable and satellite), magazines (general and narrow interest), radio (broadcast and satellite), books, movies (theatre and DVD), internet (news sites, commerce sites and entertainment sites), and mobile devices (cell phones, iPods, iPhones, etc.). Is it any wonder that newspaper companies have lost share of time/share of mind? The days of newspapers' semi-monopoly on news and information (even local news and information) are gone forever.

Societal change and fragmentation. Today, many media products are tailored to the interests of narrow, special interest audiences. This goes well beyond The Pew Center's findings^[12] regarding emerging partisan splits in news consumption. It is reflected in the establishment of hundreds of special-interest magazines, narrowly focused cable television channels, and the existence of thousands of web sites created to serve self-identified communities of interest.

A recent McKinsey & Company survey^[13] of consumer behavior *vis-à-vis* sources of news and information found that news consumers relied on 12-16 news brands per week. Only one of those news brands was a newspaper.

If newspaper companies intend to reach and serve a high percentage of the population in and around their communities, they will need to recognize and accommodate this fragmentation of interests. A general-interest daily newspaper and affiliated news web site are not going to reach consumers whose interests draw them to resources that focus on narrow, specialized content. Either newspaper companies find ways of serving the informational needs of more narrowly defined communities of interest, or someone else will.

Shift in information agenda setting. Finally, the combination of a proliferation of media choices and the fragmentation of community interests has fostered change in how information agendas are set. Readers can now decide what information they want to consume, what information they consider to be news, and from what point of view they want that information to be delivered. Further, more reader-generated content is emerging every day – in blogs, comment strings, and product and service reviews. Newspaper editors and publishers will need to adjust their own approach to news agenda setting in light of this fundamental change.

Notes

1. *The Innovator's Dilemma*, Clayton M. Christensen (Harvard Business School Press, 1997).
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4. Op. cit.; Christensen and Raynor, 2003.
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