

Norton, Will

Challenges to the future of media

Ecos de la Comunicación • Año 2 Número 2 – 2009

Este documento está disponible en la Biblioteca Digital de la Universidad Católica Argentina, repositorio institucional desarrollado por la Biblioteca Central “San Benito Abad”. Su objetivo es difundir y preservar la producción intelectual de la institución.

La Biblioteca posee la autorización del autor para su divulgación en línea.

Cómo citar el documento:

Norton, W. (2009). Challenges to the future of media [versión electrónica], *Ecos de la comunicación*, 2(2). Recuperado el,de <http://bibliotecadigital.uca.edu.ar/repositorio/revistas/challenges-to-the-future-of-media.pdf>

(Se recomienda indicar la fecha de consulta de acuerdo con el siguiente ejemplo:
Recuperado el 27 de Julio de 2010,)

Challenges to the Future of Media

Will Norton*

Resumen

El autor discute los desafíos de los medios de comunicación dando en, primer lugar, la perspectiva sobre los medios del Warren Buffett, para luego ofrecer un resumen sobre los medios antes de observar las ideas básicas que sostiene Rupert Murdoch. Finalmente, explica comentarios de Yochai Benkler, Jack N. y del profesor de Lilian R. Berkman para Entrepreneurial Legal Studies de Harvard Law School.

Abstract

The dean of the Meek School of Journalism and New Media at The University of Mississippi discusses media challenges by first giving Warren Buffett's perspective on media, then an overall summary on media before noting the basic ideas Rupert Murdoch has asserted. Finally, he explains comments from Yochai Benkler, Jack N. and Lillian R. Berkman Professor for Entrepreneurial Legal Studies at Harvard Law School.

1. Challenges to the Future of Media

With the recent closing of Denver's *Rocky Mountain News*, it is tempting to submit to the conventional perception that the newspaper industry is dying. Actually, the newspaper business is doing better than it would appear.

I would like to discuss this topic by first giving an overall

* Decano de la Ed & Becky Meek School de Periodismo y Nuevos Medios de la Universidad de Mississippi. Ex decano de Periodismo y de Comunicaciones Masivas de la Universidad de Nebraska-Lincoln, desde agosto de 1990 hasta junio de 2009. Fue presidente de la Asociación para Educación en Periodismo y Comunicaciones Masivas (2000-2001) y presidente de la Asociación de Escuelas de Periodismo y Comunicaciones Masivas (1989-1990). Es uno de los dueños del *South Reporter, Inc.*, corporación que publica dos periódicos. Fue editor de *The Daily Iowan* y director editorial de *Christian Life Publications, Inc.* Previamente, formó parte del *staff*/personal del *Chicago Tribune* y fue editor de deportes de *The Daily Journal*, Wheaton, Illinois. Se graduó en la Universidad de Iowa, especializado en Comunicaciones Masivas. Entre otros títulos de grado, es M.A. en Comunicaciones Masivas de la Universidad de Indiana y B.A. con honores en Historia de la Universidad de Wheaton.

view of what has been happening lately. Then I would like to give Rupert Murdoch's and Warren Buffett's perspectives before summarizing quickly with comments from Yochai Benkler, Jack N. and Lillian R. Berkman Professor for Entrepreneurial Legal Studies at Harvard Law School.

Small dailies and weeklies are not experiencing the kind of difficulties the major corporations and major metropolitan newspapers are facing. Small dailies and weeklies are thriving throughout the nation. However, because of estate tax law, families have sold their newspapers to corporations that have followed a poor financial model.

Thus, it is not the business of news and information that is in question, but the stewardship of the business. Clearly, there is a need to be careful how much an organization borrows in order to expand.

Corporations that own newspapers, and their employees, are learning this lesson the hard way. For years, they followed the philosophy that if you borrow, you can avoid paying high taxes and you can build corporate equity.

Because third and fourth generations of newspaper-owning families had to pay high inheritance taxes, they often preferred to sell their papers at two or three times their worth – to corporations that had the equity to pay a great deal for them.

Many of these corporations bought at very high prices and were very highly leveraged. The financing model that they used had been successful for decades. As a result, they saw no need to change their approach.

Indeed, newspapers had been the darlings of Wall Street. However, they were vulnerable to other parts of the financial world. Their successful formula failed when poor loans and loosely governed regulations led to defaults.

Lehman Brothers failed in September and the financial institutions started raising rates on bonds, newspaper corporations often did not have enough money to cover day-to-day costs and run the newspapers well.

Clearly, a financing model built on large percentage profits of gross sales is inappropriate. Indeed, it is the wrong model.

In a democracy the economic principles that should guide newspapers are the economic principles of public utilities. Newspapers are like electric power, water and other public utilities that keep a community operating well.

However, many newspaper companies have treated newspapers as cash cows and have forgotten the importance of the news-

paper itself. Their focus has been on developing profits as high as 40 percent on gross. While profits are important, their focus should have been on stewardship of public information and news.

An informed public should have been an important element in this bottom line. Instead, they have been concerned about stockholder earnings and the opinion of Wall Street firms.

This has been a short-term view. No great society can survive by ignoring the news and information needs of its people.

Moreover, the problem of an inappropriate financial model has been complicated by the increase in use of the Internet. More people than ever, I believe, are reading newspapers in one form or another.

However, newspapers have not done a good job of studying how to make use of this new technology. Instead, they have been defending the existence of newspapers on paper rather than embracing both paper and the Internet.

As a result, they generally did not have research to show how to advertise effectively on the Web and sustain the profit margins demanded by shareholders. They have not been thinking about young readers.

Moreover, they had relied on advertising as their main source of revenue. So, advertising has been the primary focus of newspapers on paper. Paid circulation was viewed as being important, but advertisements rather than news was the bait that was used to lure readers –and readers were not charged enough for the news. So, when the Internet arrived, newspapers gave away the product at no cost. They thought advertising would pay for it.

What is important to realize is that few small dailies or weeklies have died. Throughout Nebraska and other states, these newspapers are thriving. The crucial test for them will be how to pass ownership on to the next generation.

If newspapers are to survive and thrive in the 21st century, it will be with a more sensible business model. This likely will require local ownership and an ownership structure that will avoid changes in ownership and heavy estate taxes –ownership by foundations or trusts.

2. Murdoch's Perspective

Complacency is the biggest enemy, Rupert Murdoch repeatedly has said. In an April report provided by the World Association of Newspapers, Murdoch said those newspapers that continue to

succeed in the digital age will develop their traditional relationships with readers, no matter how. They are delivered. “Our success will still depend on the bond of trust between readers and our content, not on how many platforms we use”, he has said.

Murdoch believes “newspapers have a wonderful future as printed products and as newly empowered news brands that deliver great journalism across many platforms customized to the interests of readers”.

For Murdoch, the danger is complacency among people who have enjoyed monopolies and now have to compete for an audience they once took for granted. Many newspaper editors and publishers, he says, have not responded constructively to challenges from readers. He’s sure readers no longer think editors are omnipotent oracles. “If we earn the trust and loyalty of our readers, good newspapers, and their electronic siblings will become even stronger news brands”, he says.

“Our role is to give our readers great journalism and great judgment”, Murdoch said; “circulation and readership will grow on web pages, through RSS feeds, in e-mails, on mobile devices and in printed newspapers”

He believes several issues face media organizations:

- How to transform your newspaper’s vertical into an horizontal, audience driven management structure.
- How to offer content on a 24-hour cycle to different audiences on every platform.
- How to sell audiences rather than just selling space.
- How to use mobility to develop new revenue streams.
- how to leverage the content of local bloggers and generate new audiences for your newspaper.
- How to use micro-blogging to generate traffic and loyalty to your news operation.
- How to rediscover the power of your news brand in your community.
- How to develop new storytelling techniques.

3. Buffett’s Perspective

During the mid-1960s, the population was growing faster than newspapers were adding circulation, a trend that many said would result in the death of the industry.

Warren Buffett, chairman of the board of Berkshire Hathaway,

has talked about the profitability of newspapers on several occasions.

In Feb. 28, 1992, Buffett wrote Berkshire Hathaway shareholders: “newspaper, television, and magazine properties” were losing their status as *franchises*.

He had described an economic franchise as a product or service that: 1) is needed or desired; 2) is thought by its customers to have no close substitute; 3) is not subject to price regulation. The existence of all three conditions generally enables a company to price its product or service aggressively and earn high rates of return on capital.

Buffett said buyers used to value a dollar of earnings from media far higher than a dollar from steel because earnings of a media property were expected to grow without the business requiring much additional capital. Now expectations for media have declined.

In his Feb. 28, 1985, shareholders letter, Buffett had written that dominant newspapers would continue to churn out excellent profits whether their contents were first-class or third-class.

On March 1st, 1991, Buffett told shareholders he thought newspapers were about to lose franchise status. On Feb. 28, 2007, he wrote that there’s “no rule that says a newspaper’s revenue can’t fall below its expenses”. Newspaper’s declining profits, Buffett continued, “will almost certainly continue”.

If you live in Oxford, you can receive a Twitter message that is an absolutely beautiful ad for Oxford BBQ Throwdown. Then, you can get a pitch through Facebook from a lady whose primary customers are affluent mothers coming to Oxford. The person using Facebook uses nothing but e-mail to sell \$600 to \$700 designer purses, etc. Small players are aggressively using technology.

Nonetheless, the small and medium market newspaper is positioned well to survive, and for the near future, the web will be supplemental, and I think print will find a secure place. Take a look at Floridaweekly.com: it targets nightlife and tourism in high dollar areas. This publication and Internet site is making big bucks and was launched by a breakaway Gannett group. They are now in two cities and growing. What I am seeing is more specialization in which people pull through the news they want and the merchants they want. The key is to match the product with the interest group.

One of the issues I cannot overcome is the same one faced by newspapers. Small block ads will not sustain the marketing of a

product. So, you might try to put behind that block ad, good ads, videos, advertorial. However, people do not seem to click on that block.

The key seems to be to build a social network, in which readers contribute and dictate content and advertising of interest to them. A colleague of mine attended a high-dollar web conference on what is happening in local advertising and was shocked to find that 80 percent of local businesses spend about \$3,000 annually for advertising and community support (PR). Of that group, 11,2 percent use the Internet.

You might think: well, that is going to explode, so, I need to get in now, but research shows this usage will only grow 1 percent a year for the next five years.

Newspapers treated the Internet product as a throw-away. The low cost of ads, created the impression it should be free or has no readership. When you sell the top page banner on your web page inexpensively, the message that the advertiser gets is that the space is not worth much. And it may not be worth much, research seems to show that Internet advertising is not as effective as print advertising.

A colleague has an employee who has been out of school for six years and is working for a top regional newspaper, producing great video content. He won the first two innovator awards presented by the publisher. My colleague asked him to join his group. During the discussion, my colleague learned that the award winning videos get no hits. The only thing that gets any traffic is breaking, brief news, general news, soft news, etc.

Social networking is working, no doubt about it. To build a social network one has to target specific interest groups with information they want, and that includes marketing materials.

4. The Insights of Yochai Benkler

Yochai Benkler has written a fine volume: *The Wealth of Networks*. All of the following are Benkler's ideas that I thought you may already know, but that it would be useful to cover.

Knowledge and culture are at the heart of human freedom and development, Benkler wrote.

For nearly 200 years democracies have thrived on industrial information economies. Since the early 1900s, information production has changed radically. Now, the "networked information environment has brought about significant change".

I am quoting benkler:

“A series of changes in the technologies, economic organization and social practices of production [...] has created new opportunities for how we make and exchange information, knowledge and culture [...] a new information environment, one in which individuals are free to take a more active role than was possible in the industrial information economy of the twentieth century”.

It seems to me that journalism is undergoing unimaginable changes, in which a major aspect of journalists’ jobs will be finding web pages to make connections for the stories they are writing. They will not be speaking to experts and writing in understandable form as often as journalists do now. Instead, experts will be writing directly for audiences. Thus, the role of a school like the Meek School will be to teach more and more students to write and speak well as they are becoming experts in a specific area and to find the best way to present sales messages on multi-platforms.

As Benkler wrote, all these recent developments threaten “the incumbents of the industrial information economy”. Today we are in the middle of a battle over what he calls “the institutional ecology of the digital environment. A wide range of laws and institutions –from broad areas like telecommunications, copyright, or international trade regulation, to minutiae like the rules for registering domain names or whether digital television receivers will be required by law to recognize a particular code– are being tugged and warped in efforts to tilt the playing field toward one way of doing things or the other”.

During the next decade the results of these battles probably “will have a significant effect on how we [...] know what is happening in the world [...], and to what extent and in what forms we will be able [...] to affect how we and others see the world as it is and as it might be”.

So my ideal of a school like the Meek School would be to develop instruction on multi-platforms in writing and speaking.

- To require a content focus or two, perhaps a double major or triple minor.
- Mastery of technology and software.
- Requirement of speaking and reading knowledge of another language.
- A faculty that is part of the big conversation in an area of scholarly specialization.
- Another degree in strategic communication that includes

Will Norton

courses in the business school and the college of Liberal Arts.

- A larger student body of able and diverse students.
- A truly international faculty and student body.