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Perfect Storm Hits Newspapers: *Is There a Silver Lining?*

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Newspapers of yesteryear constituted a high-margin, high-value business that exuded authority and enjoyed prominence as the “Fourth Estate” (behind the clergy, nobility and House of Commons in Old Europe). News organizations were heralded as pillars of society in the metropolitan, suburban, and rural communities they served. Publishers, editors, and reporters fulfilled their mission with a duty for independence, while enjoying near exclusive domain over printed news content.

Business was consistent and profitable. In fact, for decades newspapers’ cash flows sustained substantial amounts of leverage compared to other industries. At the same time, they enjoyed loyal readership and steady growth. These characteristics made newspapers very attractive long-term investments — that is, until the “Perfect Storm” hit and wreaked havoc on the industry.

The news media’s historic preeminence did not, and could not, prepare it for the 2008-2009 financial crisis and resulting great recession. Coming out of the last advertising recession in 2001-2002, print advertising revenues rebounded between 2003 and 2005, registering positive growth. The years that followed were only modestly disappointing, with online advertising making up for some of the revenue declines in print.

In the aftermath of this decline, newspapers certainly recognized the need to ramp up online media products as part of the future business model. But the general expectation within the industry was that there would be more time to refocus editorial content and direction toward new media avenues. However, after the financial crisis took hold following the fall of Bear Stearns and Lehman Brothers, devastating changes to print media quickly took shape.

The tipping point for newspaper insolvencies occurred in December 2008 with the Chapter 11 filing of The Tribune Company,

which owns *The Chicago Tribune* and the *Los Angeles Times*, among other properties. Fast on its heels, a slew of newspaper companies tumbled like dominoes into bankruptcy this year, including the *Star Tribune* in Minneapolis-St. Paul, Minnesota; Philadelphia Newspapers, publisher of *The Inquirer* and the *Philadelphia Daily News*; Journal Register, owner of 19 newspapers in the Midwest and the Northeast; Sun-Times Media Group, publisher of the *Chicago Sun-Times* and a number of suburban Chicago newspapers; American Community Newspapers, which publishes papers in four states; CanWest Global Communications Corp., Canada’s largest media company; and Freedom Communications, publisher of 33 dailies, including the *Orange County Register* in California.

Since 2005, newspaper advertising, in aggregate, is down a crippling 38 percent.

Several venerable papers, such as the *Rocky Mountain News* and the *Seattle Post-Intelligencer*, ceased print operations altogether. And while the broader economy is finally starting to show some signs of stabilization as the end of 2009 approaches, the saga of distress in newspapers is expected to continue, certainly through 2010. What happened to this once thriving industry?

Assessing the Damage

It’s clear that the recession has hurt newspapers’ primary revenue streams — advertising and circulation. According to data from the Newspaper Association of America, until recently print advertising accounted for 80 percent or more of the industry’s total revenue, with paid circulation encompassing the remaining 20 percent. Online revenues have crept up since 2003, from about 2 percent to around 8 percent today. The revenue mix varies — metro newspapers are close to these

norms, while community newspapers rely much less on circulation.

Since 2005, newspaper advertising, in aggregate, is down a crippling 38 percent. The key industries that historically have driven print advertising sales have been disproportionately hit in this recession — national and local retail stores, financial services firms, automotive original equipment manufacturers (OEMs) and dealers, and real estate-related businesses. Additionally, the loss of more than 7 million U.S. jobs in this recession has diminished the normally steady flow of “help wanted” ads, a mainstay of any newspaper’s classified advertising sections.

Beyond the impact of this recession, secular issues specific to the newspaper industry began to snowball simultaneously in the years leading up to the crisis. These primarily included the loss of readers to online sources and Internet commerce replacing classified advertising. Paid circulation, which had been in gentle and gradual decline since peaking in 1993 with more than 62 million readers, lost on average less than 0.7 percent per annum until 2004. However, beginning in 2005 through year-end 2008, circulation began to drop precipitously by 4 percent a year — more than five times as fast as before. The latest figures, though, are even more staggering: for the six months ended September 2009, circulation dropped nearly 11 percent compared to the same period the previous year.

This accelerated decline underscores changes in news consumption behavior of both younger and older readers brought about by the proliferation of free online and mobile news content. Internet search engines have enhanced their news aggregating capabilities, while new online interactive media (blogs, Twitter, etc.) have emerged as authoritative news sources. Breaking stories increasingly are reported first online, and readers have responded to the immediacy of the news.

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In sum, fewer new subscribers are signing up, and existing subscribers are opting out.

Second and more dramatically, classified advertising has been significantly disintermediated by online super-marketplaces, such as eBay and its partner Craigslist. Classifieds, once the golden goose, continue to lose share to online commercial exchanges. Given these factors converging at the same time as the great recession, it is not an overstatement to describe the current conditions impacting the newspaper business (and other traditional media) as the “Perfect Storm.”

Fighting Back

The fallout from all of this has been very painful for newspaper stakeholders. In 2008 and 2009 alone, it has been estimated that about 24,000 jobs have been eliminated in the U.S. newspaper industry, not including part-time workers or contractors. Investors in newspapers, including family owners’ equity, private-equity sponsors, public shareholders, bondholders, and even senior lenders, have been severely impaired. Trade creditors, too, have been hurt, with some facing their own insolvency (particularly newsprint vendors). Senior management, its ranks also thinned, has been left holding the bag to restructure operations and reposition/reinvent their businesses for the future.

In the face of these challenges, many newspaper companies have responded proactively and have made tough, fundamental changes in cost structure required for survival. On the people side, which is always the most expensive part of the cost equation, management has done what it has to do. While they initially meet resistance from imbedded paternalistic cultures, companies have implemented a variety of cost-slashing measures, including pay cuts, unpaid employee furloughs, freezing of pension plans, eliminating 401K matches, and stripping and reducing benefits.

Using layoffs, publishers have obtained large savings by consolidating functions within markets between multiple papers in the areas of prepress, copy desk, call centers, and sales and marketing functions. In some markets in which multiple papers were operated by competitors, joint operating, production, and delivery agreements were drawn up to optimize labor and asset efficiency. News-

papers also outsourced certain core and non-core functions in basic printing, interactive services, graphic and photographic arts, ad composition, and sales. These efficiencies have enabled the papers to make substantial and permanent reductions in force in these areas.

In other operational areas, newspapers responded with a number of different cost saving strategies that have each contributed to a greater or lesser degree. These strategies have included reductions in page counts and shrinking the dimensions of the paper on which the news is printed, which cut down meaningfully on newsprint expenses. Newspapers also are increasingly leveraging national newsprint buying services to obtain co-op-like pricing for their raw materials by bargaining with vendors.

Newspapers will continue to morph into multimedia enterprises with new opportunities to recruit, retain, and develop new talent with cutting edge skills to face tomorrow’s challenges.

Not surprisingly, many papers have jettisoned their “daily” mindset by eliminating production on several historically unprofitable days of the week (usually Mondays and/or Tuesdays), as they generally carry fewer preprinted ads (inserts). Advertisers are more accustomed to distributing preprints in mid-week and Sunday newspapers. Such newspapers have experimented with sending electronic, or “e-editions,” on non-preprint days while continuing to deliver the printed version on the other days. Papers also continue to raise prices on single copy sales, as well as on subscriptions.

Notably, with all these restructuring initiatives, most newspapers are *still* profitable in this environment, which illustrates two important points:

- Profit margins were high before the Perfect Storm
- Newspapers offer a continuing value proposition to readers and advertisers.

However, given the debt loads many papers still carry and the as-yet uncertain future, these measures are still considered to be basic retrenchment tactics versus repositioning for the future. The bigger question is: “What is the future of tomorrow’s newspaper business, and is there a silver lining?”

Consolidation Ahead?

If recent history is any guide, it’s clear that the evolution of the newspaper and media industry

will be volatile and unpredictable. Nonetheless, given the goodwill that their brands possess and their infrastructure and expertise in developing and distributing valuable content, newspapers are more likely to experience consolidation on a broad scale over time in the next phase of their evolution (with the caveat that regulatory bodies approve) than they are to face the more dire scenarios that some pundits are predicting.

Certainly this pattern has repeated in other industries. And if consolidation is indeed probable, what kind and what groupings make sense? After all, there are metropolitan dailies, and suburban, community, and rural papers, and each segment must retain its value proposition to its advertisers and readers/audiences.

Taking a stab at envisioning the future industry landscape (with some trepidation), for the largest markets, newspaper consolidation around super-regional areas anchored by a major metropolitan market makes sense to provide as broad a footprint as possible for national and regional advertisers. The largest of these papers would be able to maintain leading editorial and proprietary national and global news reporting.

The next level markets would be organized around smaller, but still large, cities that consolidate their markets regionally. Such smaller market players will use various strategies to build audience at the local level (physical paper, online, and interactive/social media) and then sell mass reach to their regional advertisers through these broadened localized sites.

Finally, community and rural newspaper clusters may then either partner or merge with large or small metropolitan consolidators, or they, in turn, may become consolidators by acquiring more clusters on fewer platforms, leveraging the best management teams and associated overhead. Unlike their metro counterparts, community newspapers should maintain their value by continuing to focus on proprietary local content that readers care about: schools, community boards, local real estate, local politics, police blotters, and high school sports coverage.

The newspaper business model itself no doubt will continue to change. Subscription prices will keep increasing, and subscribers will be fewer. The rate of decline, however, should slow to equilibrium, and remaining subscribers will be more loyal and responsive to advertising. Circulation revenue, in fact, should stop declining and actually increase.

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The printed newspaper should remain a core product, but their owners will expand their media brands by offering multiple products, including display ads, preprints, direct mail, e-mail marketing, behavior targeting ads, video, mobile, and other interactive products, to reach national and local advertisers and provide them with more flexibility and options. Throughout this process, newspapers will con-

tinue to morph into multimedia enterprises with new opportunities to recruit, retain, and develop new talent with cutting edge skills to face tomorrow's challenges.

And yes, The Fourth Estate will make a comeback because society demands strong, independent reporting locally and nationally as a bulwark against corruption and fraud. The public demands such vital centers of excellence to report stories on all those things citizens care about — global issues, politics, special events, human interest, fashion, and, of course, sports. The news media, re-invented, will remain a pillar of society. [ER](#)

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