

“Creativity Out of Chaos”

By Bob Cox, publisher of the Winnipeg Free Press and Canstar Community News.

It is pretty standard wisdom these days to go around saying that newspapers are dying. You hear it everywhere, especially on the web where bloggers delight in burying newspapers and dancing on the grave – until tomorrow when they need something else from the newspaper to comment on.

I have a fairly standard reply to people who say newspapers are dying: You don't know what you are talking about.

I could probably add that such people probably don't understand business and almost certainly don't understand economics.

If I said to you that the total circulation of printed newspapers is increasing in Canada and that the readership of newspapers is higher than it has ever been, you would probably expect my next statement to be a denial of global warming.

However, these statements are absolutely true.

Newspaper circulation is rising and readership is growing.

If you look at the reasons behind these two trends you'll begin to understand that what newspapers are currently dealing with is not their death but substantial, once-in-a-generation changes to their business models.

The number of newspaper copies being printed and circulated is rising because of the advent of free newspapers in larger cities – a new business model -- that have largely replaced paid newspapers – an old business model -- among users of public transit in places like Toronto.

Newspaper readership is growing because of the advent of the web and the tremendous reach we now have. The most recent readership data released in Canada found that 77 per cent of adults have read a newspaper in print or online during the past week. In Winnipeg that number is regularly higher than 80 per cent. The Winnipeg Free Press is now read daily around the world – there is massive readership in the winter months in places like Phoenix – because it is available via the web. Again, this is a new business model.

In fact, there are so many changes taking place right now in newspapers that the industry is going through what economists call “creative destruction.” The thing about creative destruction in an industry is that there is a lot of damage that is immediately apparent – that would be the destruction – and what is left, the creative seeds of revitalization, is far less visible.

Casual observers mistake the destruction they see for death. But it will only mean death for a business that fails to be creative and change.

Newspapers have been dealing with creative destruction for a while now. A lot of people would say it started with the Internet, but I would take you back a bit further – probably to around 1920.

Prior to that newspapers existed as pretty much the only way to get information quickly to a mass audience. Newspapers would put out multiple editions every day to capture news headlines.

They would regularly put out Extras on big events. On election nights or during the World Series, crowds would gather outside newspaper offices for updates. The Free Press used to post results on the side of the building on Carlton Street.

But then all hell broke loose when people started getting radios. The instant news function of newspapers disappeared. So newspapers changed. Some died off. Others cut back on multiple editions.

And the remaining newspapers were content to get the news to people's homes each evening around 4 p.m., once school kids could deliver the papers. It was a nice business model.

But then all hell broke loose after the Second World War when people started getting television sets. Pretty soon there was one in every home and they started doing news shows every night at 6 p.m.

So newspapers changed again. Some died off. Virtually all the remaining ones went to morning delivery. And things settled down. It was a nice business model.

But then along came the Internet, which allowed people to get information from virtually anyone, anywhere, any time. Whole newspaper advertising categories disappeared onto the web – general classified advertising being the main one.

So newspapers are changing again. Some will die – some already have – and the remaining ones will change to come up with a nice business model that works.

Of course, change is never easy. In fact, the pace of change that is needed in newspapers is both uncomfortable and unprecedented.

Which is why I have only one thing to say about the current economic recession – thank god it came along when it did.

You see, the people who work at newspapers are like the people who work at all big organizations. They HATE change.

Newspaper managers have been trying to re-invent their organizations for some time. Changes have been occurring due to the world wide web for 15 years. But just about every effort was met with the three Ds of organizational behaviour – denial, defence and delay.

They denied a problem existed. They defended the status quo. And they delayed doing anything about the external threat.

In July of 2008, I met with the bargaining committee of the union at the Free Press, and sketched out for them how the Free Press would have to change in order to remain a viable business in the future. I was honest about the reductions in staff that would occur and the sacrifices that the remaining employees would have to make. ... And I was met with denial and disbelief. I also got a strike for my troubles, from a union that simply was unwilling to believe that the Free Press would ever be anything but a giant cash cow.

A year later I sat down and looked at my predictions and realized that I had been wrong. Yes, everything I had predicted had come true. But I had been ridiculously optimistic. The changes that had occurred were far worse than anything I had imagined. Revenue fell faster and further than I could have predicted. Far more people lost their jobs.

The Free Press is a good case study for what you can accomplish in a chaotic situation. There is a book out called “Exploiting Chaos; 150 Ways to Spark Innovation During Times of Change” and it has many lessons that could have been learned at the Winnipeg Free Press in the past year.

It is rare that you get the confluence of circumstances that we did in 2009. First, as I have discussed, we have an industry that is going through creative destruction. Second, we came out of a strike that cost the company about \$4 million, a substantial hole to crawl out of. Third, we entered the worst recession since the Second World War that cut newspaper ad revenues by 20 per cent. Fourth, we faced a deadline for refinancing the company, which required us to find \$60 million in the midst of a credit market frozen after the collapse of the U.S. housing market led to failed financial institutions and plummeting markets in 2008.

Just one of those problems would have been enough to provide a challenging year for every member of my management team. Four of them were enough to send us screaming through the doors.

But in hindsight, it was the best thing that could have ever happened to us.

Fans of the Pink Panther will remember the first movie starring Peter Sellers as Inspector Clouseau. In one of the final scenes, Clouseau is on the witness stand trying to explain how his

gorgeous wife can wear a fur coat and expensive jewels on his policeman's salary. "Well," he says. "I give her an allowance. She's careful with the shopping." And the courtroom erupts in laughter. Clouseau's goose is cooked and he is framed as a jewel thief.

A lot of my colleagues in the newspaper business took a Clouseau-like approach when they were first confronted with a downturn in ad revenues last year. I remember a memo from one media company, which shall remain nameless, where the president listed all the things that managers should be cutting back on – travel, expense accounts, newspaper subscriptions – all of which amounted to trying to buy rare diamonds on a policeman's salary.

This is understandable. Newspapers have high fixed costs that are very hard to change quickly. The majority of spending is on people and newsprint. It is hard to cut back on either one. When newspaper executives do make cuts, they are fond of telling their readers that they will not do anything differently – they'll just do more with less, which is simply not true.

At the Free Press, our problems were big and we knew it. They were big enough that we realized early that we were going to have to change the way we do business in order to cope with the unprecedented set of circumstances that we faced. Simply holding our breath and waiting for the recession to end was not an option.

The status quo was not an option because the drop in ad revenues would have cut our earnings to the point where we might have seen our existing debt fall into default. We would not have been able to secure refinancing, or would have done so under terms so onerous that we would have had to make even bigger changes in the future.

The New York Times refinanced \$250 million in 2008 and did so at a 14-per-cent interest rate.

To give you an idea of how daunting the challenges were, we had a consulting company come in early in the year to work with us to reduce costs. They spent a couple of days doing interviews, looked over our cost structure, and combed through our union contracts.

Then they came to me on the third day and said: "We can't do it. We can save you some money, but we can't move quickly enough to realize savings quickly enough to be of benefit this year." It's a good thing that I like a challenge.

Our starting point was not the same as many companies in a recession. We did not think about temporary layoffs and other short-term measures to survive a downturn.

Instead, we thought about how to reorganize our business permanently and adjusted accordingly.

Yes, we had layoffs, and if you heard about them they probably sounded like any other round of layoffs. But, in fact, they were strategic efforts to reshape the Free Press.

And we have reshaped the paper in ways that were unimaginable a year ago.

We have largely eliminated free printed newspapers from schools. This was a million-dollar annual program that used to be the core of our marketing efforts. We had to come to terms with the fact that it is nice to provide newspapers for students, but it's not a core function of the Free Press to give away the paper for free.

We reorganized our distribution system and laid off long-term employees with life-time job guarantees. Yes, some people at the Free Press have life-time job guarantees. However, those guarantees are not ironclad; they do not protect against layoffs because of economic downturns.

We virtually eliminated our existing classified advertising department. It was set up for a task – taking classified ad orders over the phone – that is disappearing. So we reorganized into groups of people who are specialized in what we actually do – things like taking obituaries and working with large advertisers such as auto dealers to place bulk classified advertising online and in the paper.

We started a new Sunday tabloid newspaper that is only available for single-copy sale – something the Free Press has never done before.

We launched new online sites to support key advertising verticals, including autos and homes.

We started a new community newspaper for southwest Winnipeg, the fastest growing part of the city.

We fully integrated our Canstar community newspapers into the Winnipeg Free Press both from a management perspective and from a delivery perspective. We eliminated an entire carrier force with the amalgamation.

We eliminated home delivery of a Sunday newspaper and created an enhanced weekend edition, providing one big newspaper to readers each weekend instead of two much thinner papers.

That last one is what people are currently talking about. And on the surface, it seems crazy. Why would you take an existing subscriber and single-copy buyer base of close to 120,000 people each Sunday and toss it away?

Well, for one thing, it has never been profitable. Advertisers have never taken to the Sunday paper so it has lost money for the past 25 years. As well, we have a very expensive, unionized

delivery force for the Free Press. We tackled every other area of expense this year, but were unable to lower delivery costs because of a contract that the union refused to adjust in any way.

Despite all this, no one ever wanted to discontinue Sunday delivery because they were always afraid of offending readers. That is a real risk.

But if you recall the book I mentioned earlier, *Exploiting Chaos*, one of the things that author Jeremy Gutsche says you should do is “destroy value.”

It is very hard for companies to destroy the things that they think are creating value for them – like 120,000 Sunday readers. Except, you have to destroy to create.

To quote Jeremy Gutsche: “Within your organization, intentionally destroy in order to create, encourage failure, obsess about your customer, and understand specifically what it is that you are trying to do.”

In getting rid of Sunday delivery, we were able to create tremendous value in the remaining weekend paper delivered on Saturdays. We now produce a weekend edition that is better than any newspaper the Free Press has ever produced.

And that is really what we are trying to do – not simply cut costs, but to build something new, something more sustainable, that will take us forward.

We have many more areas we’re working on, and expanding the web-based portions of our business is a key priority. The creative destruction is not over yet.

But we have put ourselves into a position to survive and thrive, not so much in the things we have accomplished in the past year, but by the fact that we have adapted to change coming at a dizzying pace. The most important thing is not the change we implement, but our ability to react.

We are in a much stronger position. We have learned to cope with creative destruction. We have recovered from the strike. We have brought expenses down by a greater percentage than the percentage drop in revenues. And we have found bank refinancing for the debt on terms that are favourable for the company.

No, the Free Press is not dead yet, not at all. We are simply changing how we operate to be a successful media company in the future.