

The Marshall School of Business  
at the  
University of Southern California

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SUGGESTIONS  
for analyzing the  
Los Angeles Times-2008  
Marshall International Case Competition Case Study

The case study which you are about to read is true. The saga is ongoing today. The Los Angeles Times was once one of the top 5 newspapers in the United States. In 2000 the Times Mirror Corporation (includes the Los Angeles Times, and other newspapers in Miami Florida, Hartford Connecticut, and New York) was acquired by the Tribune Company of Chicago. The intention of the Tribune Company at that time was to 1) acquire media properties in multiple markets as well as 2) multiple channels (television and a newspaper) in each of those markets. Either of these methods allows the Tribune to achieve significant reductions in costs by re-processing the news developed by one of the other channels. The result for the community is a serious reduction in the quality of the reporting provided through the local news sources in that market. Thus, the only news that is available to the citizen in that location is controlled by one firm. The second concept –multiple channels in one market--is generally referred to as “cross ownership.” Persuaded by several big media corporations that their stock value and profitability will decline if they are not allowed to own multiple channels in a single market, the FCC Chairman is currently in favor of allowing cross-ownership. This issue is currently being debated by the Federal Communications Commission (FCC) and the U.S. Congress.

On a global level, the role of print media as a source of news is declining for several reasons: changing economic conditions, the increasing number of choices now available in how we access news and information with the availability through the Internet, cable television, radio, podcasts, blogs, etc. These factors are global in their reach. With today’s technology an individual can access news and other information from almost any corner of the planet. We need to distinguish content from the delivery of that content. Is new technology a complement or a substitute for the traditional print media?

Please look at this case as an example of changes which are impacting print journalism on a global basis. Due to the availability of the new technology and also the acquisitions of smaller, locally operated newspapers by large media corporations print journalism’s market share, profitability, and significance are declining around the globe. These forces are challenging the freedom of information and news in all countries.

Therefore, while the case presents the difficulties arising with the acquisition of the Times Mirror (and the Los Angeles Times) in Los Angeles, the issue is much broader than Los Angeles. Please feel free to take an industry stance as you read this case. How can print journalism –in any country--succeed in the new high technology environment?

## **THE LOS ANGELES TIMES: 2008**

*Newspapers...have a special public trust, a responsibility to serve the community while making a reasonable profit.*

Letter to Tribune Company by Los Angeles civic leaders, September 12, 2006.

It is a sunny Los Angeles afternoon in January 2008. David Hiller, publisher of the Los Angeles Times newspaper, reflects on the day's events as he looks out the window at the city. He has just returned from a lunch meeting at Union Station with James O'Shea, the editor of the paper. During lunch Mr. Hiller told Mr. O'Shea that his employment at the Times was being terminated for his failure to significantly reduce costs at the paper. Mr. O'Shea was in the position only fourteen months and was the fourth senior executive to depart in less than three years for resisting budget restrictions. Most metropolitan newspapers in the United States were experiencing a reduction in revenues due to a steady decline in circulation subscriptions. Revenue from advertising was also on the decline. Mr. Hiller wondered aloud how he could maintain the financial performance of the Los Angeles Times, fourth largest newspaper in the United States, while maintaining the journalistic quality of the reporting. What is the future business model for print news? And how can he encourage professional journalists to reduce their commitment to world class reporting?

## **The Role of Newspapers in Society**

Gutenberg's invention of the printing press in the mid 1400's made it possible to share information among a large number of people in a community with others of similar interests. Over time the number of printed works expanded to include books, as well as newspapers.

America's first continuously-published newspaper, the Boston News Letter published its first issue on April 24, 1704. John Campbell, a bookseller and postmaster of Boston, was its first editor, printing the newspaper on what was then referred to as a half-sheet. It originally appeared on a single page, printed on both sides and issued weekly. In the early years of its publication the News Letter was filled mostly with news from London journals detailing the intrigues of English politics and a variety of events concerning the European wars. The rest of the newspaper

was filled with items listing ship arrivals, deaths, sermons, political appointments, fires, accidents and the like.

One of the most sensational stories published when the News Letter was the only newspaper in the colonies was the account of how Blackbeard the pirate was killed in hand-to-hand combat on the deck of a sloop that had engaged his ship in battle.

Campbell relinquished his stewardship of the paper in 1722 to Bartholomew Green, its printer. As editor, Green devoted less space to overseas events and more to domestic news. When Green died after a decade as its editor, the News Letter was inherited by his son John Draper, also a printer. Draper proved to be a better editor and publisher than his predecessors. He enlarged the paper to four good-sized pages, filling it with news from Boston, other towns throughout the colonies, and from abroad.

The May 14, 1761 issue of the News Letter is presented in Exhibit 1. The front page is displayed in its entirety. Notice the credit line Printed by J. Draper appearing under the masthead. As was the custom then, the front page was devoted to events overseas. This issue contains news from London, a speech by the King to the House of Commons, and various accounts from Westminster and Whitehall.

Also displayed from this issue is an ad from the back page for a Scheme of a Lottery. The lottery was created to sell 6000 tickets at \$2 each to raise funds to pave the highway in Charlestown from the Ferry to the Neck. Of the \$12,000 to be raised, according to the ad, \$10,800 is earmarked for prizes and \$1200 for paving the highway (Exhibit 1).<sup>1</sup>

A few years later, one of America's founding fathers recognized that to make democracy work people need information. "Knowledge will forever govern ignorance and a people who mean to be their own governors must arm themselves with the power which knowledge gives."<sup>2</sup> Furthermore, the Founding Fathers underscored the value of information for a democracy when they included the freedom of the press to print its opinion without reprisal from the government in the First Amendment to the U.S. Constitution:

“Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press, or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.”<sup>3</sup>

America’s First Newspaper (Exhibit 1) reflects attributes common to newspapers today: news from abroad, local news, and miscellaneous information. However, “the glory of the newspaper business in the United States used to be its ability to match its success as a business with self-conscious attention to its social service mission. Both functions are threatened today. Measured by household penetration (average daily circulation as a percent of households), this mature industry peaked in early 1920s...By 2001, newspaper household penetration was down to 54 percent. But while household penetration declined, newspaper influence and profitability remained robust. Now both are in peril.”<sup>4</sup> Newspapers are necessary for self-governance. Democratic societies could not survive without the kinds of reporting which newspapers provide. Newspapers publish exponentially more news and information than TV or radio newscasts, providing greater quantity, diversity, and depth of coverage with more human resources for proactive reporting and a broad range of local beats.<sup>5</sup> Recent information indicates there has been a steady decline in readership over the last decade.<sup>6</sup> For this and other reasons the Tribune Company, parent of the Los Angeles Times, has required periodic budget cuts which have had a significant impact upon the journalistic quality of the Los Angeles Times and resulted in constant changes in leadership (Exhibit 2). On September 12, 2006 civic leaders sent a letter to the Tribune Company asking the Tribune Company to maintain the maintain the public trust while seeking to make a reasonable profit (Exhibit 3).<sup>7</sup> As Chairman, President, and CEO of the Tribune Company, Dennis J. FitzSimons spelled out Tribune’s position (Exhibit 4)<sup>8</sup>. We will explore the causes of this decline a little later.

## **The Business Model of the Newspaper Industry**

A question frequently asked of businesses seeking financial support is: “What is your business model?” In short, what need will you satisfy and how will you get paid for doing that. Newspapers are often seen from two different and distinct perspectives. Professionals in the newspaper business would like to be evaluated on the quality of the work they produce. Reporters out in the field; whether local reporting or in international bureaus are able to provide first hand reporting of events. Indeed many news organizations measure themselves by the number of reporters on staff, or by their ability to be “first on the scene” when a newsworthy story first breaks. Some newspapers measure their quality by the number of Pulitzer Prizes the paper has won. Pulitzer Prizes may be coveted by news organizations, but apparently Wall Street analysts may look at this negatively. Frank Hawkins was the Director of Corporate Relations for Knight Ridder newspapers in 1986, a year when that group won seven Pulitzer Prizes. On the day of the announcement the value of the company’s shares fell. Hawkins called one of the analysts who followed the company and asked him why. “Because you win too many Pulitzer Prizes,” he was told. The analyst’s feeling was that the money spent on those projects should be left to fall to the bottom line instead of funding better quality reporting. Everything not directly related to that is unrecovered cost.<sup>9</sup> In addition to evaluating newspaper management’s ability to improve the investors return on investment Wall Street analysts often think of newspapers in the business of delivering eyeballs to advertisers. Indeed advertisers have been a large source of revenue for newspapers over the years. In this manner, retailers pay for advertisements in newspapers which are expected to reach the target audience.

This dichotomy: quality reporting versus return on investment, is also reflected in the key roles of management in the newspaper industry. Most metropolitan papers have a publisher—the individual responsible for the business aspects of the paper, and also an editor—the individual responsible for maintaining the journalistic quality of the paper. In general, these two competing perspectives should be mutually supportive. If the newspaper loses its quality, presumably fewer people will purchase the paper, which then results in fewer eyeballs for the advertisers. This is also a one-sided relationship since on a daily basis consumers do not purchase the paper for the

classified or retail ads, except when they are shopping for a new car, house or a job. Most of the time, the advertising rides to the reader on the back of the news itself.

### **The Influence Model**

Hal Jurgensmeyer, a business side vice president of Knight Rider presented it differently to new reporters at the paper. “We are not in the news business, not even in the information business. We are “in the influence business.” In this view there were two kinds of influence: (1) societal influence, which is not for sale; and (2) commercial influence, or influence on the consumer’s decision to buy, which is for sale (Exhibit 5). In this model a newspaper’s societal influence can enhance its commercial influence. If the model works, an influential newspaper will have readers who trust it, and therefore it will be worth more to advertisers.<sup>10</sup> This model has worked for Knight Ridder for many years (Exhibit 6). More recently innovations in technology have allowed the newspapers to produce more efficiently. Other savings may have been obtained by making the editorial product cheaper. And even though market share has been declining most traditional newspapers were able to maintain profitability by raising advertising rates and subscription prices on cheaper products.

For most of the twentieth century newspapers were family businesses, run for the long term, attending to market share, more than profitability. As families sold to bigger organizations, the economics of publishing weeded out the weaker operations and built the eventual monopolies. Market share was no longer an issue.<sup>11</sup> This was true of the Los Angeles Times.

### **Changes in Newspaper Ownership**

Until the 1960’s newspaper ownership in the United States was dominated by closely-held family firms. In addition to the hundreds of small town newspapers, a few of the largest dailies such as the New York Times, the Washington Post, the Chicago Tribune, and the Los Angeles Times were actively managed by succeeding generations of the founding families. In the early days, printing technology was labor intensive and required skilled typesetters to print the paper. There was no advantage to large papers due to the diseconomies of scale.

In addition to changes in technology, the United States government through Internal Revenue Service changed the way it appraised newspaper company assets for gift and tax purposes. Estate and gift taxes averaged 70 percent and sometimes rose to 90 percent. This made it nearly impossible to pass on the family business to the next generation. In the 1970s and 1980s newspaper owners faced a serious dilemma: whether to sell out to a large newspaper chain, or to go public and pursue a growth strategy that would weaken the role of family managers. Many owners chose to sell out which led to a significant consolidation of newspaper ownership in the United States.<sup>12</sup>

## **The History of the Los Angeles Times**

Similarly, ownership and control of the Los Angeles Times was passed from generation to generation. In 1960, Otis Chandler took over as publisher of the Times at the age of thirty two. He transformed the Times from a politically partisan, locally-oriented paper into a highly respected regional newspaper with a national and an international focus. The Times Mirror Corporation was formed to contain a variety of newspaper, magazine, and book publishing. Chandler family trusts continued to hold 62 percent of Times Mirror stock into 1996. Times Mirror was the fifth largest newspaper chain in the United States, behind Gannett, Knight-Ridder, Newhouse Newspapers, and Dow Jones & Co., publisher of the Wall Street Journal.

## **A New Business Model: Convergence**

For more than 10 years the newspaper industry has stated that circulation and advertising revenues were declining. A variety of reasons were offered for this slide from the declining number of older adults—the strongest newspaper reading group, to the availability of news from an increasing number of new information channels. Just as plausible was the economic recession at the turn of the century and the consolidation of many industries which had been large advertising customers, such as department stores and auto dealers.<sup>13</sup> In response to these sources of declining revenues, newspapers across the country tried different remedies. Some cut staff—often from the newsroom as well as administration. Others reduced the size of the paper by removing several pages from each edition. The Orange County Register, which serves a market one hour south of Los Angeles, recently decided to eliminate the daily business section. Most newspapers eliminated stock and mutual fund listings. It is presumed that individuals who

use this information are obtaining it from other online sources. In response to the growing attraction of the Internet, some print newspapers established websites of their own. Most of these sites were simply re-processing the same stories that appeared in their print newspaper. As time passed some of these websites evolved to contain different information than was found in the print newspaper. The Register publisher, Terry Horne said the cutbacks were “driven by a need to be more efficient in the type of news we publish in our newspaper versus online.”<sup>14</sup>

Increased consolidation in the newspaper industry motivated some larger news organizations to increase margins by reducing the duplication of activities in several acquired newspapers. In this new business model a news corporation could print the work of one reporter in more than one newspaper. Some news organizations also acquired other media businesses, such as: radio and television stations. Now the reporters work could be sent over the air as well as in print. Not far behind was the movement onto the internet as a new channel for news

By owning all the news outlets in a single geographical area, publishers could maximize their production from a limited staff. Reduction of staff is one of the surest ways to reduce costs. Through the 1990s, Media General, the Virginia-based independent communications conglomerate, underwent a massive transformation, shedding old businesses and acquiring others that fit the company’s new regionally focused strategy. Competitive pressures and technological changes in the media business demanded rapid revenue growth and greater synergy among its disparate media businesses. “Our mission is to be the Southeast’s leading provider of information, news, and entertainment,” says J. Stewart Bryan, CEO of Media General. “By bringing together the unique strengths of our newspapers, television, and Internet media, we are giving our customers a much richer and higher-quality product through what I call ‘convergence.’” And by combining that richness of content with our multimedia advertising packages, we generate new revenues,” he said.<sup>15</sup>

One observer who spent a week at Media General in 2001 described their Superdesk as one of the most technologically advanced and managerially innovative complexes in the world, and media executives regularly visit this site to observe what might happen to local journalism if the cross-ownership ban is repealed. Separate editorial staffs are responsible for the different

platforms: print, radio, TV, and Internet. Although not all stories produced at the News Center are made to cross platforms, editors and reporters try to maximize newsroom productivity by remaining vigilant for convergence possibilities. Every day editors from each of the platforms have a fifteen minute “convergence meeting” to discuss shared projects for the day. A sports editor explained that convergence affects the way he makes story assignments and the techniques reporters use to produce stories for each of these media platforms.

“When you cover something now, the first thing you do is write a small TBO.com piece, then you do a TV spot, and then, finally you do a newspaper story. You have to do something for each medium—but also by the time you get to the paper, you have to do something different—figure out what you can add with a newspaper story.”<sup>16</sup>

Eric Klinenberg, author and journalist spoke with one of Media General’s print based reporters who was pulled away from her desk to do a short television spot or longer stories for television. One day he observed:

After writing her report, Mary comes down to the second floor studio around 3:45. She has to wait for Graham, the convergence manager, to get ready, and she spends a lot of time standing around chatting. By 4:10 they are ready to shoot. Graham runs the teleprompter while Mary does her one minute report. Afterward they go to the control room and watch the tape. Graham calls Mary the “one take wonder” because usually she can get the take right on the first try. But this time there is a problem with the background noise in the newsroom, and they have to shoot it again. Mary returns, waits a few minutes for everyone to get set, then goes again. This time it works, but she still has to wait for everyone to listen to the tape and watch the video. At 4:20 she returns upstairs to take off her makeup and resume her reporting.<sup>17</sup>

Mary indicated that this TV spot consumes about 2 hours of her work day, including writing the script, putting on makeup, shooting the spot, taking off makeup, etc. This is a significant reduction in the time she has for reporting. Managers and editors recognize that convergence

journalism inevitably leaves journalists less time to report, reflect, and produce stories. It also requires different skills from reporters, different equipment, and different time allocations.

The Tribune Company in Chicago was one of the first to publish the news through a variety of media. The Company acquired radio and television stations within the Chicago area. A broadcast booth for radio is located within the company headquarters in Chicago and visible from the sidewalk as people pass by. For television they built a platform within the news room editorial space, near the reporters desks, from which breaking news can be broadcast quickly. In Chicago, critics say the convergence model has Chicagoans seeing, hearing, and reading the same stories, in various forms, over and over during the course of a day. They are also subject to “cross-promotional plugs” for Tribune’s other media products.

### **Cross ownership**

In 1975 the Federal Communications Commission (FCC) established regulations to prohibit one corporation from controlling a newspaper and a broadcast station in the same market—unless the arrangement is “grandfathered” into law because of arrangements that predate the restriction, or permitted through a special federal waiver. The Tribune Company waged its future on repealing the cross-ownership ban and led the fight in lobbying against the ban. Dennis FitzSimons, who was President and CEO at the time, later boasted: “Tribune anticipated deregulation. We acquired Renaissance Communications [which owned six television stations, including WBZL in Miami] in 1997 [for \$1 billion], giving us a cross-ownership situation in South Florida. We acquired Times Mirror [whose properties include the Los Angeles Times] in 2000, giving us cross-ownership situations in Los Angeles, New York, and Hartford, Connecticut. We now have five markets where we own both a newspaper and a television station.”<sup>18</sup> Thus the Tribune Company became the only corporation to own and operate a major newspaper and broadcast television station in each of the top three markets and which had 16 percent of the total U.S. population and 25 percent of households with income of more than \$150,000. “Advertisers have to be there,” he said.<sup>19</sup>

If a newspaper company also owns television and radio stations, it can easily use its stronghold on local journalism to promote its own vested corporate interests rather than acting like a news organization, particularly the kind that covers the dangerous consequences of vested interests dictating the news. Locally owned and operated newspapers are all but obsolete in the contemporary media market—even in major cities such as Los Angeles, Houston, and Miami, whose wealth and sophistication suggest they could support one. Frank Blethen, publisher of the Seattle Times said: “Only about 250 of the nation’s 1500 newspapers are independently owned and operated....our nation’s newspapers and media are now mostly controlled by a small group of corporations whose only value is more wealth and unbridled control.”<sup>20</sup>

### **Institutional Investors as Owners**

The Sulzberger family has been able to maintain majority ownership of the New York Times newspaper through the use of two classes of stock. Members of the family hold the largest number of shares and through a family trust prohibit the heirs of the family from selling their shares without approval of the other family members. The public has access only to the minority shares of stock. This has made it very difficult for non-family members to wrest control of the paper from the current Board of Directors. Recently, Scott Galloway, a marketing professor at New York University who runs investment firm Firebrand Partners on the side has a new formula for shareholder activism. He has partnered with hedge fund Harbinger Capital Partners Funds in an attempt to obtain seats on the board of the New York Times. Between them they own 4.9 % of the stock. Instead of being hostile, he wrote the following to the New York Times board: “There is nothing wrong with the New York Times Company that cannot be fixed with what is right with the New York Times.” Mr. Galloway told the Times executives that investors do not want to change the dual-class voting structure that allow the Sulzberger family to maintain control. They are more focused on how the New York Times allocates capital, in particular whether it should hold on to the Boston Globe, which has been badly hit by falling ad revenue.<sup>21</sup>

A *Smart Money* magazine article titled “Patience for Profits” profiles Ariel Capital Management, a Chicago Mutual Fund organization and its founder John Rogers, Jr. Mr. Rogers

says he follows a disciplined investment strategy. When he finds a stock he likes he will stick with it for years. His flagship Ariel Fund has returned an average of 10 percent a year over the last decade. This is four percentage points better than the Standard & Poor 500 stock index.<sup>22</sup> Ariel has taken a liking to the newspaper industry. “We’ve gotten lots of criticism over it, but we are sticking with newspapers and magazines, because we believe in small and midsize companies like McClatchy, Lee Enterprises, and Gannett. We think the bad news is overblown and 2008 is going to be a turnaround year” says Mr. Rogers. Ariel also has a significant position in the Chicago based Tribune Company. Is it possible that Tribune shareholders are seeking returns in the 30% range as attained by other large media firms such as Gannett? While this is a very appealing goal, returns in this range are considerably larger than the returns obtained by most large U.S. corporations (Exhibits 7 and 8). Instead of placing its investments on a different enterprise which is more likely to return the desired returns, executives at Ariel are expressing their discontent at the returns being generated by management at the Tribune Company. With increasing pressure from shareholder groups, Tribune management does whatever it can to increase the stock price year over year.

When asked to evaluate the Tribune Company’s acquisition of the Times Mirror Company in 2000, Mr. Charlie Bobrinskoy, Ariel’s Director of Research, said: “It was a terrible deal. The stock price of the Tribune Company dropped significantly on the day the deal was announced.”<sup>23</sup> This is not surprising. His opinion is consistent with a very large research study published in 2002 by BusinessWeek magazine. They looked at \$4 trillion worth of mergers conducted in the United States from 1998 to 2000. One of the main conclusions of the study showed that “Fully 61 % of buyers (acquiring companies) destroyed their own shareholders’ wealth. A year after their deals, the losers average return was 25 percentage points below their industry peers....The average return for all buyers was 4.3 % below their peers and 9.2 % below the Standard & Poor 500.”<sup>24</sup> Nevertheless, Mr. Bobrinskoy expressed displeasure at the Los Angeles Times reporting efforts which earned the west coast newspaper several Pulitzer Prizes for outstanding journalism in recent years. “We only need three national newspapers: the New York Times, the Wall Street Journal, and USA Today,” he said. “All other papers should be local.” He is referring to the period when John Carroll and Dean Baquet led the Los Angeles

Times as editors. Apparently the feeling in the business side of the newspaper industry is that local papers can satisfy the need for local and regional news with much smaller staffs and budgets than papers which pursue national and international stories. This approach is expected to significantly reduce company costs.

## **Circulation and Advertising Revenues Decline**

Traditionally, newspapers earn revenue from two main sources: circulation subscriptions and secondly, advertising sales. The most prominent source of ad revenue for most papers has been the classified ads for real estate, autos and jobs. A reasonable, but smaller source of revenue is commercial ads placed by retail establishments such as department stores. Significant consolidation in auto dealerships and department stores results in fewer retail outlets competing for attention through increased advertising. Most print newspapers have experienced a decline in revenue from both these sources, but most notably from the loss of classified ads to the Internet on such sites as Monster.com, Craigslist, and Autotrader.com. In an effort to retain this revenue some newspapers began their own internet site for jobs and other classifieds. At present Tribune shares ownership of the Career Builder.com job website with two other news companies.

Decline in circulation sales has been attributed to the increasing number of other sources available today for news: internet, radio, television, blogs, podcasts, etc. It is generally felt that most people get their news today from television. However, newspapers publish exponentially more news and information than TV or radio newscasts, providing greater quantity, diversity, and depth of coverage, with more human resources for proactive reporting and a broad range of local beats. A large metropolitan daily will often run between 80,000 and 100,000 words per issue, whereas a typical thirty minute local television news broadcast contains between 3,000 and 3,600 words.<sup>25</sup> This dilution of the news and information into smaller sound bites has led Mr. Moore at Yahoo News to refer to this as “Info snacking.”<sup>26</sup> Online news programs are especially growing in popularity among the younger adults. Blogs are rapidly increasing in number. However, some of these newer forms of citizen journalism force us to ask if this new information is journalism or entertainment. Rather than provide the same information through a

different channel, these new efforts have broadened the choice from which to receive the news. Are these sources a complement or a substitute?

As David Hiller reflects on the dismissal of yet another editor he recalls the words of former publisher Jeffrey Johnson who was dismissed in October 2006: “You can’t cut your way into the future.”<sup>27</sup> He also recalls the statement made by Mr. Zell, the new owner of The Tribune Company and its related media properties. “I’ve said loud and clear that I am returning control of our businesses to the people who run them....That means David Hiller has my full support. He carries direct responsibility for the staffing and financial success of the L.A. Times,” he said.<sup>28</sup> Mr. Hiller wonders aloud: “What else can we do so that print media can survive in the digital era?” How can we gain the cooperation of the news side of the firm in the process? For additional insights he invites a team from a media consulting organization to chart a course for the newsprint industry. As preparation for the meeting the consultant team asked Mr. Hiller to review the attached document (Appendix 1) and consider the strategic questions presented under each of the sections. Mr. Hiller has asked your group to recommend a way in which the Los Angeles Times can maintain its high profits and also maintain quality journalistic reporting for the citizens of Los Angeles.

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<http://www.bivingsreport.com/2006/canadas-top-20-newspapers/>

Use of Internet by Japanese Newspapers (Bivings, 2006):

[http://www.bivingsreport.com/wp-content/uploads/2006/08/japan\\_usreport\\_final.pdf](http://www.bivingsreport.com/wp-content/uploads/2006/08/japan_usreport_final.pdf)

Online Papers Boost Newspaper Readership (Pew Internet, 2006):

<http://people-press.org/reports/pdf/282.pdf>

Death Knell of Newspapers (2007):

[http://www.dix-eaton.com/ASSETS/4246F94BD1704D16B465E65089B09A82/Competitive%20Weapon\\_Oct%202007\\_Death%20knell%20of%20newspapers.pdf](http://www.dix-eaton.com/ASSETS/4246F94BD1704D16B465E65089B09A82/Competitive%20Weapon_Oct%202007_Death%20knell%20of%20newspapers.pdf)

Hold That Obit! (2006):

<http://huckboyd.jmc.ksu.edu/symposium/XII/Lauterer%20Speaking%20on%20Weeklies%20are%20Alive%20and%20Well.pdf>

Future of European Newspapers (2005):

<http://www.cep rint.ch/doc/Newspapers-Executive%20Summary.pdf>

Online Newspaper Growth (NielsenNetRatings, 2005):

[http://www.nielsen-netratings.com/pr/pr\\_051115.pdf](http://www.nielsen-netratings.com/pr/pr_051115.pdf)

Newspaper-Broadcast CrossOwnership Debate (CommonCause editorial with examples from five American cities):

<http://www.commoncause.org/atf/cf/%7BFB3C17E2-CDD1-4DF6-92BE-BD4429893665%7D/TALEOFFIVECITIES.PDF>

There are also these groups that have pertinent content regarding newspapers:

WAN (World Association of Newspapers): Shaping the Future of the Newspaper (most of the content is for members only but some is free):

<http://www.wan-press.org/rubrique20.html>

WAN Pricing Strategies, 2006:

[http://www.wan-press.org/IMG/pdf/Pages\\_de\\_SF5.6Pricing\\_light.pdf](http://www.wan-press.org/IMG/pdf/Pages_de_SF5.6Pricing_light.pdf)

Newspaper Association of America: <http://www.naa.org/>

NAA Trends & Numbers: <http://www.naa.org/TrendsandNumbers.aspx>



**Exhibit 2**

**Recent Publishers and Editors at the Los Angeles Times**

July 2000	Tribune Company buys the Times Mirror Corporation. John Carroll is asked to become the Editor of the Los Angeles Times. He invites Dean Baquet to leave the New York Times and join him as editor of the Los Angeles paper.
July 2005	John Carroll resigns after five years from being repeatedly pressured to cut newsroom budget. Dean Baquet is promoted from Managing Editor to Editor.
September 2006	Scott Smith (President of Tribune Publishing Division) calls for additional cuts.
September 12, 2006	Los Angeles city leaders send a letter to the Tribune executives in Chicago decrying the ongoing reductions in reporting at the Los Angeles Times.
September 15, 2006	Jeffrey Johnson (Publisher) and Dean Baquet (Editor) of the Los Angeles Times resist paring staff further.
September 19, 2006	Mr. Dennis J. FitzSimons: Chairman, President, and CEO of the Tribune, responds to the letter Los Angeles city leaders. Both letters are published in the Los Angeles Times.
October 2006	Jeffrey Johnson is dismissed as Publisher of the Los Angeles Times.
November 2006	David Hiller is sent from Chicago as Publisher of the Los Angeles Times. Mr. Hiller is one of the architects of the acquisition of the Times Mirror organization by Tribune Company. Paid circulation drops 8% over 6 months. Advertising revenues drop 2%.
November 8, 2006	Dean Baquet is dismissed as Editor after 18 months with the Los Angeles Times.
November 2006	James O'Shea, former managing Editor at the Tribune is sent from Chicago to be Editor of the Times. Mr. Hiller remains as publisher of the Times.
December 2007	Sam Zell, a Chicago billionaire, closes his purchase of the Tribune Company.
January 21, 2008	James O'Shea is dismissed by David Hiller for refusing to shrink newsroom budget. Mr. Zell is quoted as supporting Mr. Hiller in this action.

Exhibit 3.

<http://www.latimes.com/news/opinion/la-oe-letterb19sep19,0,3580451.story?page=1&coll=la-opinion-center>

*From the Los Angeles Times*

## **‘Cuts Would Harm the Paper and Our Region’**

**Local community leaders urge the Tribune Company to refrain from cutting back on L.A. Times staff.**

September 12, 2006

Dear Mr. FitzSimons and Members of the Board of Directors:

We are writing to urge the Tribune Company to continue to keep the Los Angeles Times a vibrant paper of local, state, national and international importance, and to resist economic pressures to make additional cuts which could remove it from the top ranks of American journalism. As civic leaders in Los Angeles, we are particularly concerned about the effect that such cuts could have on our community.

During the second half of the 20th century, the Times lifted itself to become a paper of national and even global stature. Many observers consider it one of the five most important daily papers in the country. To some extent, that record of success has continued under Tribune ownership, as evidenced by the numerous Pulitzer Prizes it has earned during the past few years. We hope -- but we are concerned -- that the paper will continue to improve and to build on that record.

We are keenly aware that the newspaper business is going through a difficult period, and we don't want to be unrealistic. Nevertheless, we have watched with concern as our newspaper has repeatedly reduced the size of its staff, cut the space given to news and declined in circulation. It puts matters into perspective, but is of little comfort, to know that such cuts are taking place elsewhere as well.

Of course, we expect nothing less than tight cost management from any company, but only up to a point. Newspapers, in our view, have a special public trust, a responsibility to serve the community while making a reasonable profit. Since it was acquired by the Tribune Company in 2000, the Times newsroom staff has been cut by at least 200 journalists; the amount of space devoted to news has been substantially reduced by over 70 pages per week, and the business side has been cut dramatically. A couple of years ago, the company reported that it had cut \$130 million out of yearly operating costs at the paper -- and there have been additional cuts since then.

Recently, we have read that Tribune plans to cut \$200 million more from its newspapers. We fear that the Times may be in the process of making additional cuts -- which will make the paper markedly less valuable to its readers, its advertisers and our community.

All newspapers serve an important civic role, but as a community voice in the metropolitan

region, the Los Angeles Times is irreplaceable. We are not quite sure this is fully understood by those outside our community. The Los Angeles Times has a unique ability and responsibility to unify as well as educate what is a very geographically fractured and otherwise extraordinarily diverse community.

At various times many of us have met with Los Angeles Times representatives to urge more thorough and consistent coverage of the Greater Los Angeles community. We have been assured that the Times was most committed in this regard, as well as committed to remaining one of the nation's great newspapers. But we remain concerned.

What is required here for our region to function well is more -- not less -- news coverage, particularly of the civic, political and cultural life of the region. The Los Angeles Times simply cannot be allowed to shrink to the point that it becomes just another newspaper. We are not structured like many traditional cities where influence may be more centralized, but rather operate within a complex network of business, government, community and philanthropic organizations and individuals. The civic education of this unusually diverse community is every bit as important as the traditional K-12 and higher education of our children in fostering the health and welfare of the region.

For all of these reasons, we strongly urge the Tribune Company to make an even larger investment in the Times and to resist the financial pressures to make cuts that would harm the paper and, in the process, harm our region. If, on the other hand, the Tribune Company believes this is not economically feasible given its own financial goals, perhaps a different mode of ownership would better serve Los Angeles.

Many of us would be pleased to meet with you to discuss these concerns more directly if you believe that would be helpful.

All organizations listed below are for identification purposes only.

**Edward J. Avila**

President, Alliance For A Better Community

**Elise Buik**

President and CEO, United Way of Greater Los Angeles

**Warren Christopher**

**Geoffrey Cowan**

Dean, Annenberg School for Communication, USC

**Maria Elena Durazo**

Executive Secretary-Treasurer, L.A. County Federation of Labor, AFL-CIO

**David Fleming**

Past Chair, L.A. County Economic Development Corp.

**Ronald Gastelum**

Past CEO, Metropolitan Water District of Southern California

**Antonia Hernandez**

President and CEO, California Community Foundation

**Irene Hirano**

President, Japanese American National Museum

**Brendan Huffman**

President, Valley Industry and Commerce Association

**George Kieffer**

Chair, Civic Alliance

Past Chair, City of L.A. Charter Reform Commission

Partner: Manatt, Phelps & Phillips, LLP

**Stewart Kwoh**

President and Executive Director, Asian Pacific American Legal Center

**John Mack**

Chair, L.A. Police Commission

Past President, L.A. Urban League

**Robert K. Ross, M.D.**

President and CEO, The California Endowment

**Robert Simonds**

Film Producer

**Steven L. Soboroff**

President, Playa Vista

**Blair H. Taylor**

President and CEO, L.A. Urban League

**Gary Toebben**

President and CEO, L.A. Area Chamber of Commerce

**Liza White**

President, League of Women Voters of Los Angeles

**Matt Toledo**

President and Publisher, Los Angeles Business Journal

Exhibit 4.

<http://www.latimes.com/news/opinion/la-oe-fitzsimons19sep19,0,2826356.story?page=1&coll=la-opinion-center>

*From the Los Angeles Times*

## 'Great Newspapers Must Constantly Evolve'

**Tribune Co. Chairman, President and Chief Executive Dennis J. FitzSimons responds to community leaders about issues at the L.A. Times.**

September 18, 2006

Ladies and Gentlemen,

Thank you for your letter of September 12 regarding the Los Angeles Times. We appreciate your deep interest in the Times, and are in total agreement with your view of the vital role it plays in serving Southern California. We also absolutely agree that the Times is a great newspaper and that it is important it remain so. We are also confident you understand that in order to continue succeeding, great newspapers must constantly evolve based on changes in the media environment and the communities they serve.

Tribune's own evolution in the newspaper industry began in 1847, when the first 400 copies of the Chicago Tribune were printed on a hand press in a one-room plant.

Joseph Medill, the legendary publisher, shaped the newspaper in its early years and instilled a sense of journalistic integrity that remains intact today. We feel strongly that great journalism is the foundation for everything that we do -- it has been for 160 years. And, during its history, Tribune newspapers frequently have been honored with journalism's highest recognition -- winning the Pulitzer Prize 100 times. The Times itself has won 13 Pulitzers since being acquired by Tribune in 2000 -- five more than it won in the 10 years prior to our ownership.

Importantly, we also believe that outstanding journalism is vital to our business success.

Your letter addresses staffing and the management of financial resources necessary to make a reasonable profit at the Los Angeles Times. To provide context, the Times' revenues today are actually below where they were at the time of our acquisition in 2000, due to structural changes in the media industry, as well as the industries of our largest advertiser categories -- automotive, movies and retailing.

In terms of editorial expense, the portion of the Times' total revenues dedicated to news coverage is currently almost double what it was during what many refer to as the "golden age" of the newspaper, under Publisher Otis Chandler. It is also higher than in 1999, prior to our acquisition of Times Mirror. In fact, the Los Angeles Times has the largest editorial staff and budget of any metropolitan newspaper in America without nationwide circulation.

Over the past six years, the Times' leadership team, with Tribune's encouragement and support,

has taken a number of significant steps to improve the newspaper, placing more emphasis on coverage of Southern California news, outstanding investigative reporting and expanded coverage of the entertainment industry. We expect additional emphasis on Southern California news in the future.

To cite just a few improvements:

- Many reader-focused section improvements have been completed. These include Calendar, California, Food, Health, Home and West magazine.
- In 2003, the Times launched its fifth regional edition, The Inland Empire, featuring expanded coverage of local and regional news/issues in Riverside and San Bernardino counties.
- There has been significant expansion of the staff of latimes.com. Research shows that% latimes.com traffic is growing, and we expect further growth from this talented team that has been supported with significant budget increases.

Tribune has also made over \$250.million in capital investments in the Times, designed to further improve the quality of the newspaper, enhance revenue growth needed to finance great journalism and improve efficiency through upgraded technology.

Some examples:

- Increased color printing capacity at the Times by 33% to give readers and advertisers a more engaging newspaper.
- A new production facility in Irwindale to automate insertion of preprinted advertising.
- State-of-the-art technology to enhance advertising, circulation and editorial efficiency.
- State-of-the-art space for the Times in Tribune's Washington, D.C., multimedia news bureau.

We will continue to make major investments to better and more efficiently serve customers of the Times and all our other newspapers. We believe the collective scale of our company and the ability to collaborate across markets enhances our ability to do so.

Tribune and the Times are deeply committed to effectively serving our communities, readers, advertisers and shareholders in this rapidly changing media environment. This requires that decisions at the newspaper be made on a dynamic, forward-looking basis to deploy our very talented people and other resources to where they are most needed to achieve these goals.

We are committed to a companywide expense control program to offset inflationary cost increases and better deploy our resources to where they create the most value for customers. As our largest business unit, the Times will participate appropriately in these initiatives, all in the context of our customer and community focus.

The issue of local versus corporate ownership has received much attention in recent months. Neither is inherently better, but one only needs to look east to Dallas, New York or Washington to realize that outstanding, locally controlled newspapers are not insulated from the competitive realities of today's media marketplace. And looking north to Santa Barbara highlights other issues that can develop under local ownership.

We would ask you to remember the L.A. Times as it was prior to being acquired by Tribune. Ownership was local, but as you may recall, the newsroom was in an uproar over a breach of journalistic ethics related to publication of a special advertising section. The publisher and editor were under fire from the newsroom, as was Times Mirror's chief executive officer. The editorial integrity of the newspaper was in question.

Tribune changed that by returning the newspaper's focus to the practice of great journalism. We appointed a talented publisher and editor, set parameters, and then stepped aside and let them do their jobs. The new team improved the quality of the paper, and we have been very proud of the many journalistic achievements and awards earned by the Times during our ownership.

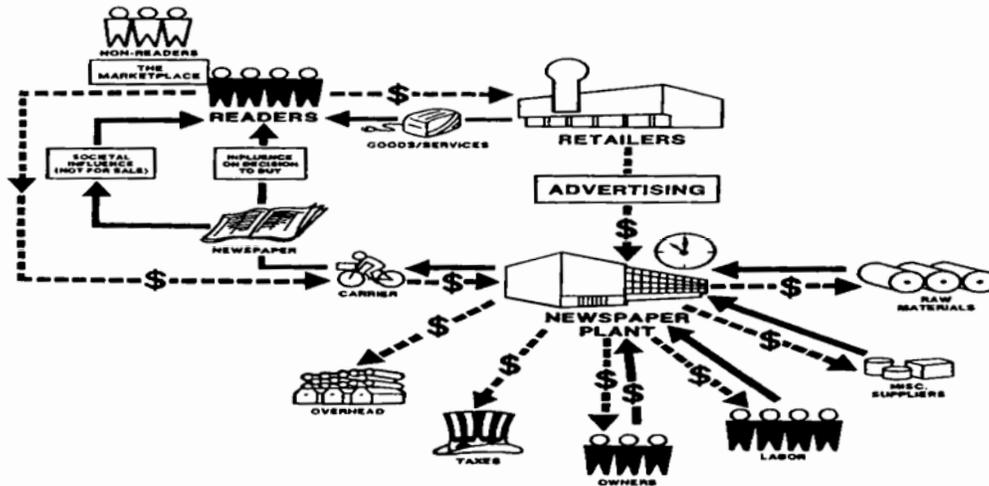
In summary, we hope you will evaluate the Los Angeles Times and its related websites, not on the ownership structure or the size of their editorial staff or budget, but on how well they serve the community's needs. We're confident that by that measure -- or any other -- the Times is, and under Tribune ownership will continue to be, a truly great newspaper.

Thank you again for your letter. I hope to be seeing many of you in Los Angeles soon.

Sincerely,  
Dennis J. FitzSimons  
Chairman, President and CEO,  
Tribune Company

Exhibit 5.  
Influence Models, Meyer, Philip, The Vanishing Newspaper, 2004.

Figure 1-1: The Influence Model



Hal Jurgensmeyer, 1978. Reproduced by permission of Knight Ridder.

Exhibit 6.

The Influence Model

Figure 1-5: Societal Influence Model for the Newspaper Industry

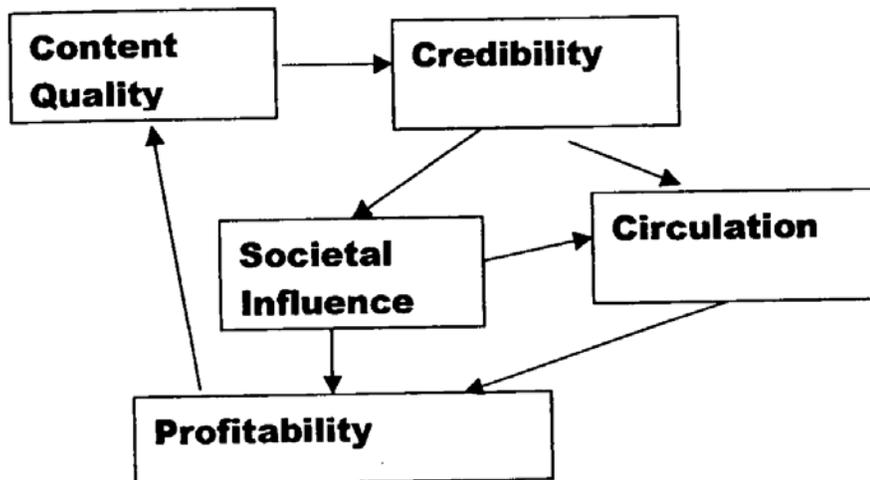
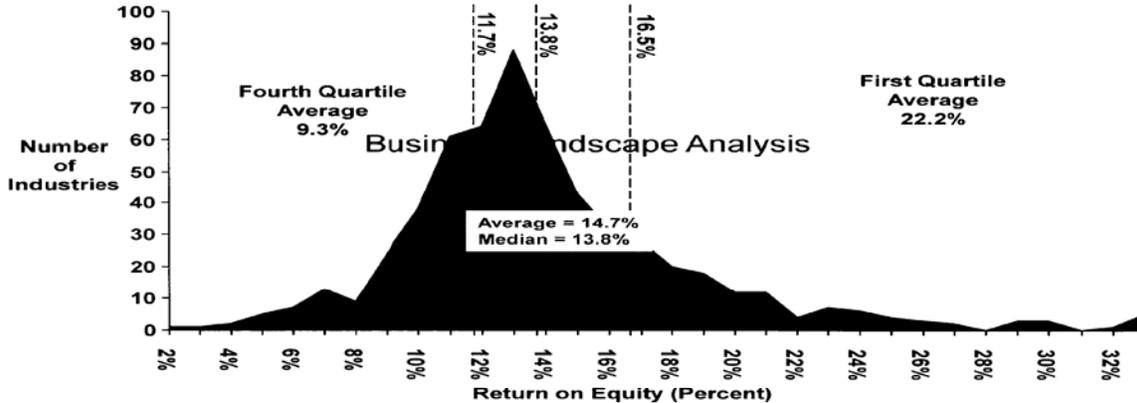


Exhibit 7 & 8.

## Distribution of Industry Returns

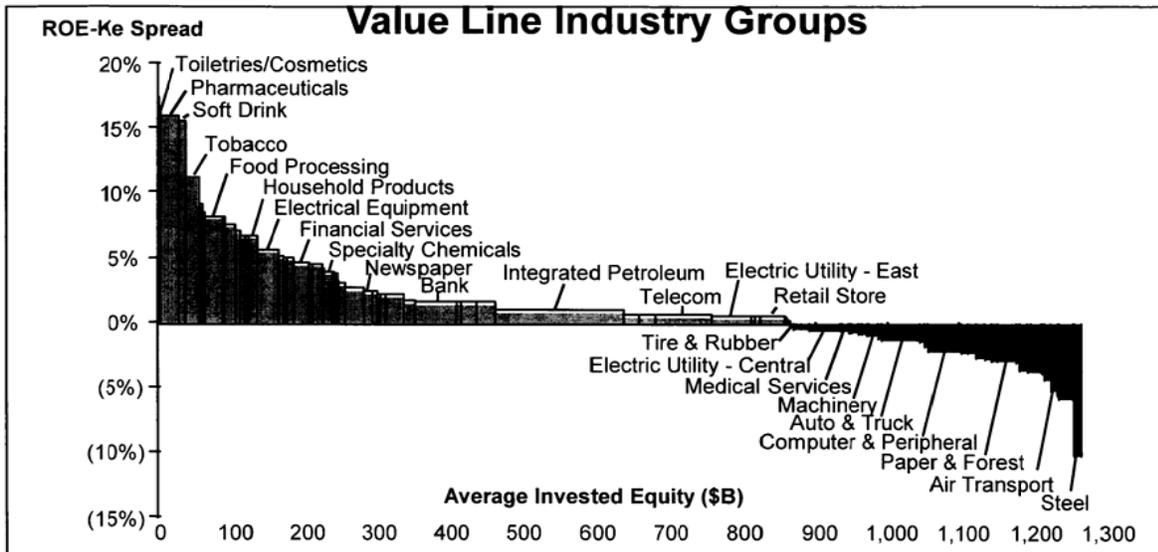
**Average Return on Equity in US Industries, 1982-1993**



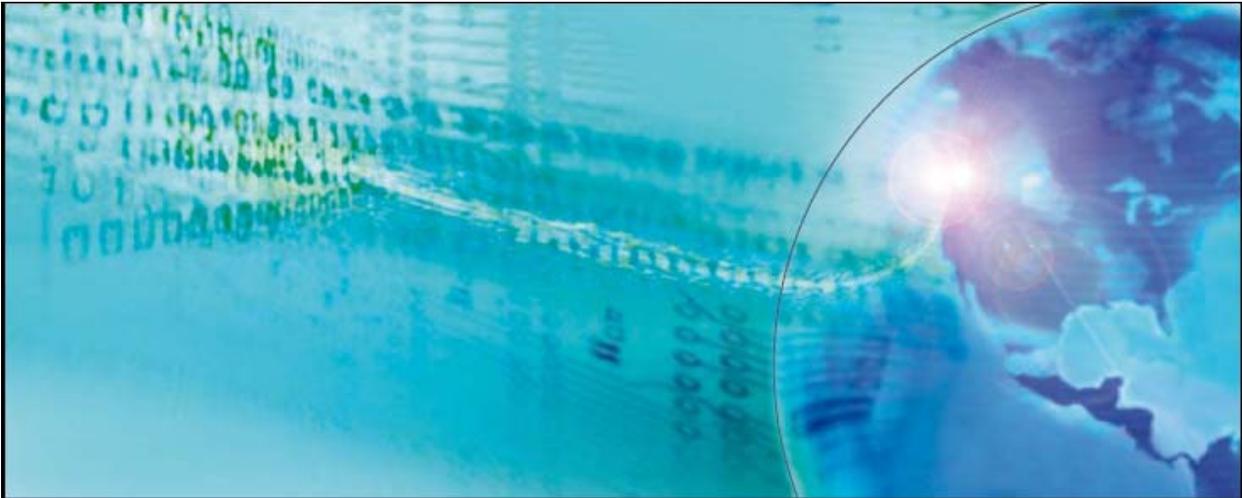
Source: Jan W. Rivkin's Analysis  
Based on Dun and Bradstreet Data

Note: Return on Equity = Net Income / Year End Shareholders' Equity; Analysis based on sample of 593 industries

## Average Economic Profits of U.S. Industry Groups, 1978-1996



Source: Compustat, Value Line, Marakon Associates Analysis



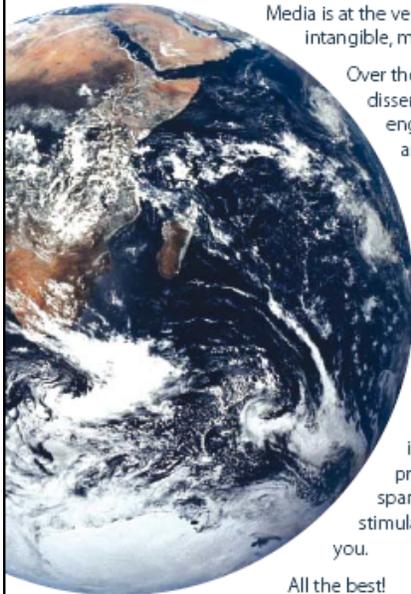
# :: FUTURE OF MEDIA : REPORT ::

JULY 2006

 **FUTURE  
EXPLORATION  
NETWORK**

:: FUTURE OF MEDIA : REPORT : JULY 2006 ::

**INTRODUCTION**



Media is at the very heart of society and business. As the economy inexorably shifts from the tangible to the intangible, media in its many forms is accounting for an ever-increasing proportion of value created.

Over the last decade we have seen many new media emerge, many new ways not just to disseminate content in all its forms, but also to interact, invite contribution, build relationships, and engage in conversations. What was a relatively static landscape for many years has exploded into an extraordinary mosaic of elements old and new, juxtaposing reality TV, blogs, search engines, interactive cable TV, location mash-ups, iPods, podcasts, digital TV recorders, personalized advertising, online social networks, free newspapers, satellite radio, photo sharing, and far more.

Everyone has a direct interest in how this landscape evolves and mutates, from established media, entertainment, telecoms, and consumer electronics companies, to every business that depends on getting messages to its potential customers, through to individuals, governments, and the emerging multitudes of media creators. All have a strong stake in understanding the future of media, yet the richness and rapidity of developments makes it challenging to perceive the shape and full import of what is being born today.

In conjunction with the Future of Media Summit 2006, held simultaneously in Sydney and San Francisco in July, Future Exploration Network is releasing this Future of Media Report. It is certainly not intended to explain the immense diversity of what is emerging. Its intent is to provide a variety of perspectives on the future of media, particularly internationally, that will spark conversations, and hopefully new ideas, strategies, and initiatives. I hope it is useful and stimulating, and that we at Future Exploration Network can explore some of these ideas further with you.

All the best!

Ross Dawson  
Chairman  
Future Exploration Network

**PARTNERS : FUTURE OF MEDIA SUMMIT 2006**





**HIGHLIGHTS OF GLOBAL MEDIA MARKET**

The global media industry is large, complex, and multi-faceted. Over the following pages we have selected a handful of perspectives to help gain insights into the current state of the global media industry, and some of the key forces at play.

SIZE OF GLOBAL MEDIA & ENTERTAINMENT INDUSTRY  
: **US\$1,350 billion**

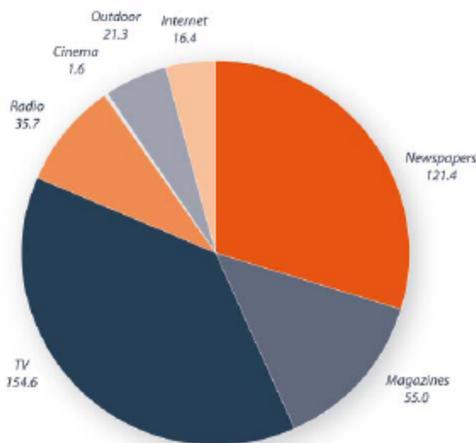
MEDIA & ENTERTAINMENT SHARE OF GLOBAL ECONOMY  
: **3.0%**

MEDIA & ENTERTAINMENT SHARE OF US ECONOMY  
: **4.4%**

YEARS FOR MEDIA TO DOUBLE ITS SHARE OF GLOBAL ECONOMY  
: **32 years**  
*(based on 1999-2004 trends)*

TOTAL ADVERTISING SPENDING  
: **US\$406 billion**

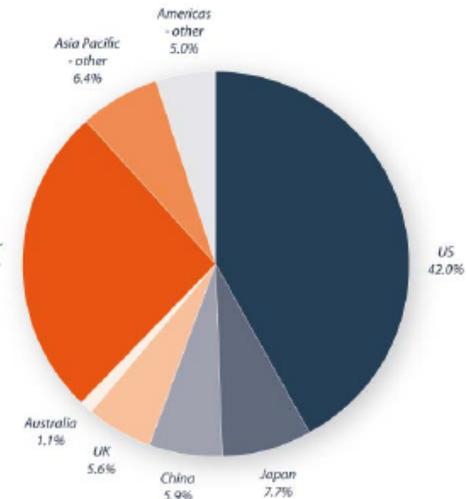
**Global advertising spending US\$ billion**



Source: Zenith Optimedia

TV and newspapers dominate total global advertising spending, however these sectors have lost the most ground over the last years, notably at the expense of the Internet.

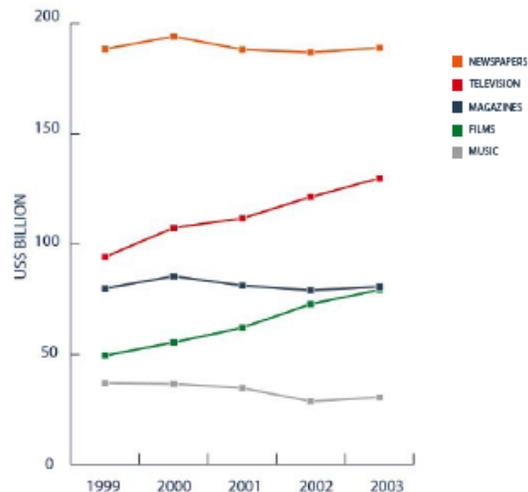
**Global media and entertainment industries**



Source: Cygnus Research, PricewaterhouseCoopers, Future Exploration Network

The US and Europe are very heavily overweighted in global media markets, however this will change as developing countries – notably China – rapidly shift discretionary spending to media and entertainment.

**Revenue trends across media segments**

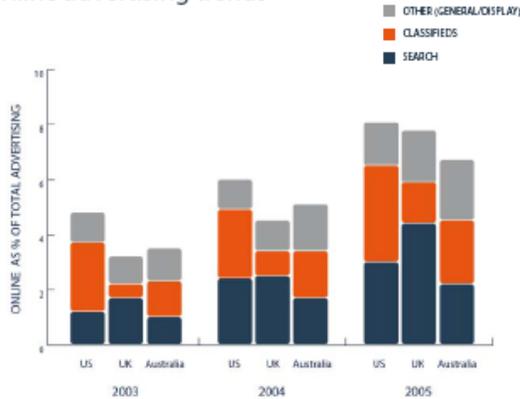


Source: Cygnus Research

While newspaper revenues are stagnant with the erosion of their classifieds business and online competition, cable television has benefited from digital upgrades, new subscriptions, and local content in developing countries. While the film industry is benefiting from new distribution channels, the music industry is still struggling.

GLOBAL MEDIA COMPARISONS

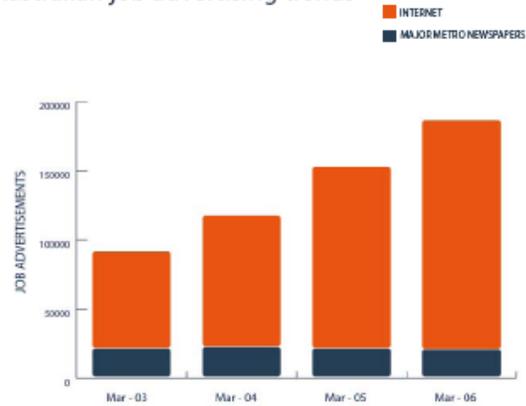
Online advertising trends



Source: IAB UK, PricewaterhouseCoopers, IAB PwC, ABVS, Future Exploration Network

Other countries are catching up to the early US lead in online advertising. Search has been a particularly strong driver of growth, however online classifieds are growing consistently across all markets.

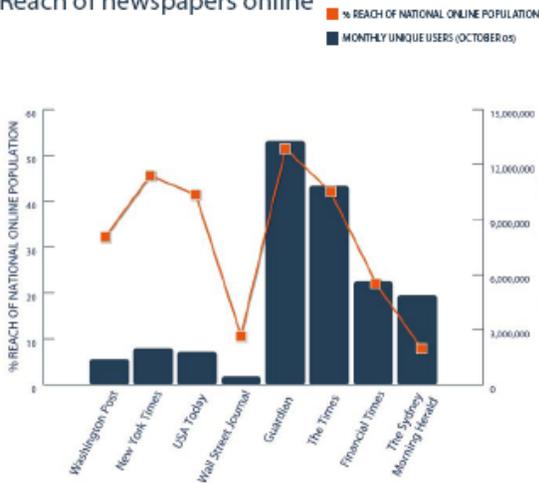
Australian job advertising trends



Source: ANZ

Australian job advertising figures are indicative of global trends. Print job advertisements have remained steady, suggesting that a segment of job ads – especially for senior roles – will remain in print. The efficiency of online job advertising has created a new market and new opportunities for employers and job seekers.

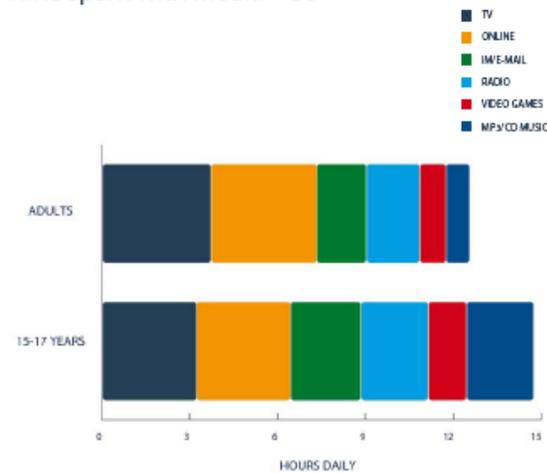
Reach of newspapers online



Source: Nielsen Net Ratings, ABC Electronic, Future Exploration Network

Comparing the online reach of newspapers' online sites relative to national population shows a greater concentration of online media properties in countries outside the US, and points to strong international audiences for all these media.

Time spent with media – US

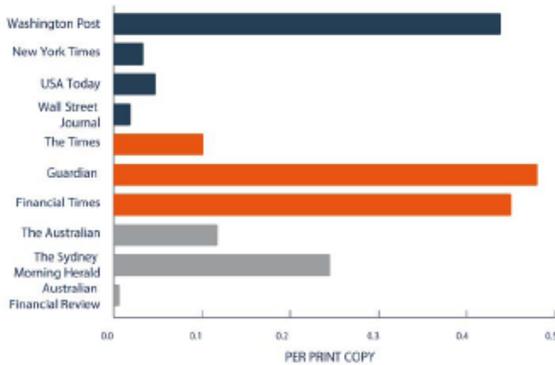


Source: The Myers Survey Defining the Emotional Connections of Media to Their Audiences

Teenagers spent significantly more time with media than adults, yet they watch less TV. Music, games, radio, IM, and email all figure more prominently in their media consumption. Other statistics suggest a strong decline of TV viewing among teens.

EMERGING MEDIA RELATIONSHIPS

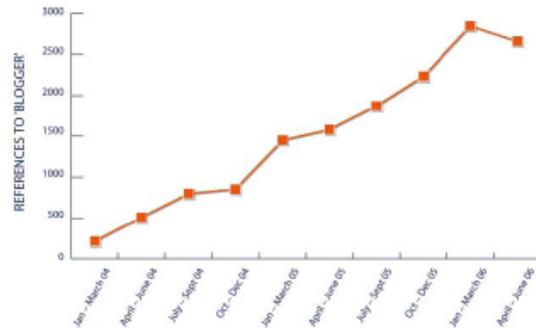
Blog references to major newspapers



Source: Technorati, newspapers

Bloggers reference The Washington Post, The Guardian, and the Financial Times more than any other newspapers, relative to their print circulation. This reflects the editorial and online policies of those newspapers.

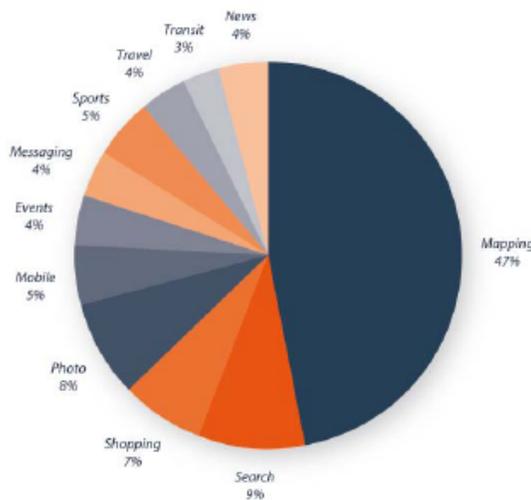
Newspaper references to bloggers



Source: Factiva

Newspapers increasingly reference bloggers as sources as well as in stories. In just 2½ years this has grown from almost nothing to a significant input to media. The possible recent flattening in numbers of references could reflect that bloggers are leveraging their blogging activities into broader identities.

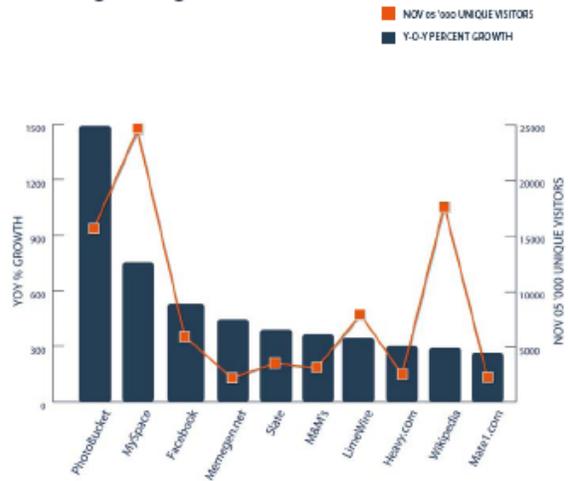
Mashups by category



Source: www.programmableweb.com

Mashups – that bring together two or more data sources to provide original perspectives – are one of the fastest growing phenomena on the Internet. Almost half of these combine mapping data with other information, helping users to understand where people, things, and activities are located.

Fastest growing brands



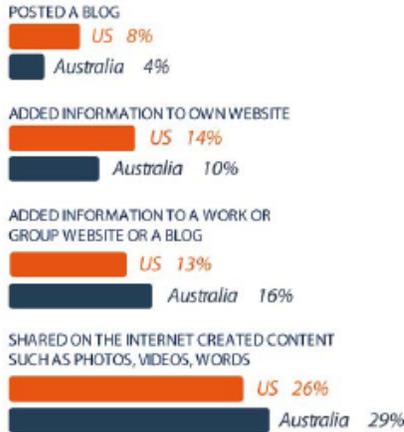
Source: Nielsen Netratings

Online media is highly dynamic, with some new properties soaring in popularity. MySpace and Wikipedia have surged remarkably, however powerful new brands can emerge very quickly.

**CONTENT CREATION AND USAGE**

Future of Media Summit Research Partner: 

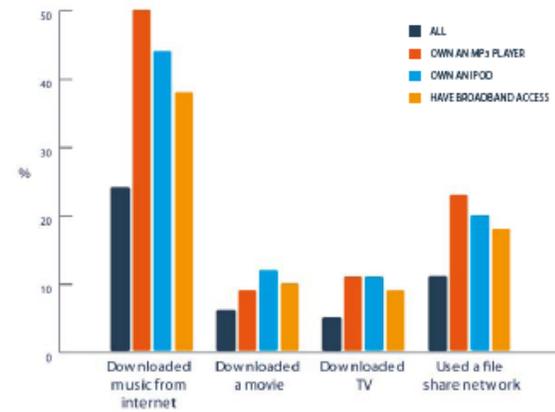
**Web content creation**



Source: Pew Internet & American Life Project (Dec 05), McNair Ingenuity Research (Jun 06)

Over a third of American and Australian adults have shared content on the Internet. While the Australian figure is higher than that for the US, this could result from the six month gap between these surveys. The most popular form of content creation is sharing photos, text, and video. While a minority have posted to a blog or their own website, this is becoming a significant group. Almost 50 million Americans have now created content on the Internet.

**Downloading content**

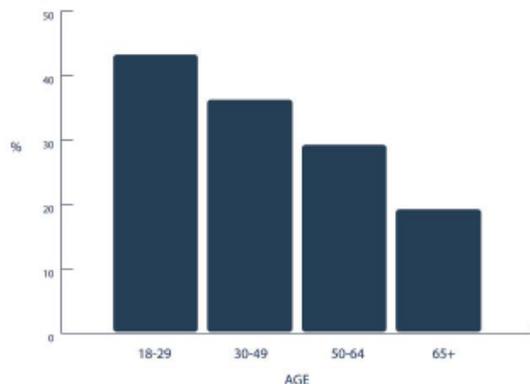


AUSTRALIANS AGED 18+ DOWNLOADING BEHAVIOUR

Source: McNair Ingenuity Research (Jun 06)

Australian adults who own an mp3 player are highly likely to have downloaded music from the Internet. This is despite that fact that there have been until recently very few options for purchasing music on the Internet in Australia. There has been reasonable activity in accessing film and TV online, given the current lack of options. Markets beyond the US are ripe for broadened content downloading options.

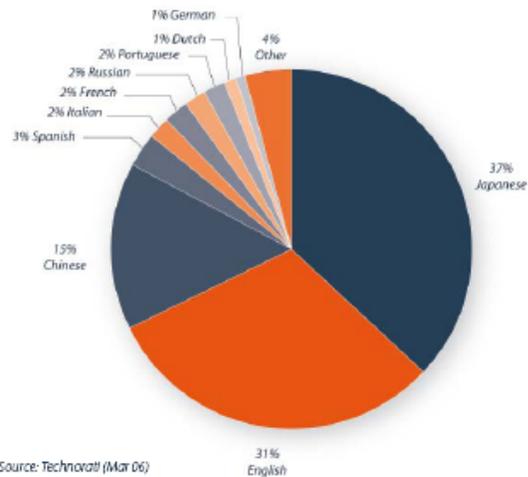
**Web content creation by age**



Source: Pew Internet & American Life Project (Dec 05)

Not surprisingly, younger people are more likely to have created content on the Internet, however still 18% of those 65 years or older have done this. Content creation is by no means something done only by teenagers.

**Languages of blog posts**



Source: Technorati (Mar 06)

There are more blog posts in Japanese than any other language, considerably outstripping English. Chinese accounts for almost one-sixth of blog posts, with a variety of other languages boasting significant blog activity. Each language – particularly English, Chinese, Spanish, and Portuguese – encompasses conversations across many nations.

## MEDIA INDUSTRY NETWORKS

One of the most powerful approaches to understanding industries and how they are evolving is to examine them as a network of relationships. The media industry network maps presented here compare the network of the largest corporate participants in the media landscape in 2005-2006, to the situation five years earlier.

### Diagram explanation

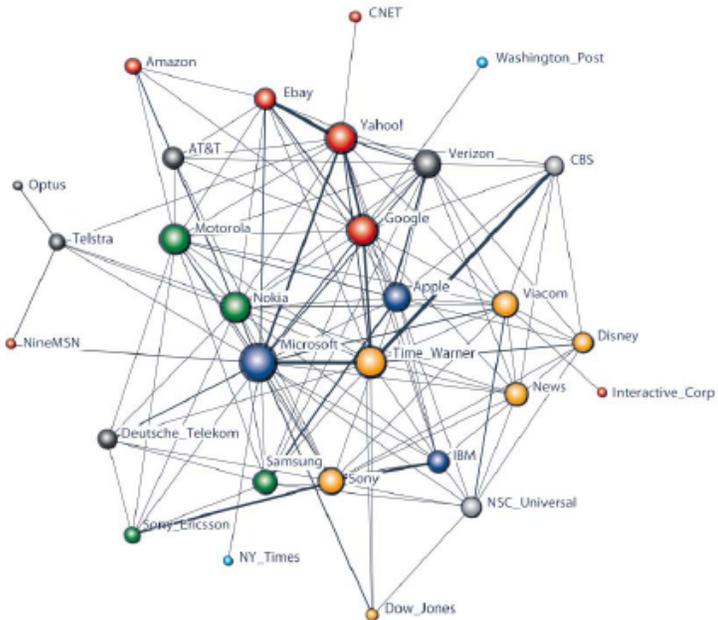
Each circle represents a company. The thickness of the lines between organizations represents the number of joint ventures, consortia, and other strategic alliances reported in the press over the one-year period 1 July to 30 June, as found in Factiva. As such the map shows activity rather than existing relationships, making it a view of how dynamic companies are. The size of the nodes reflects how many new relationships were reported in this period. The diagram is constructed so that the companies most central to the network are depicted at the center of the image.

### Diagram commentary

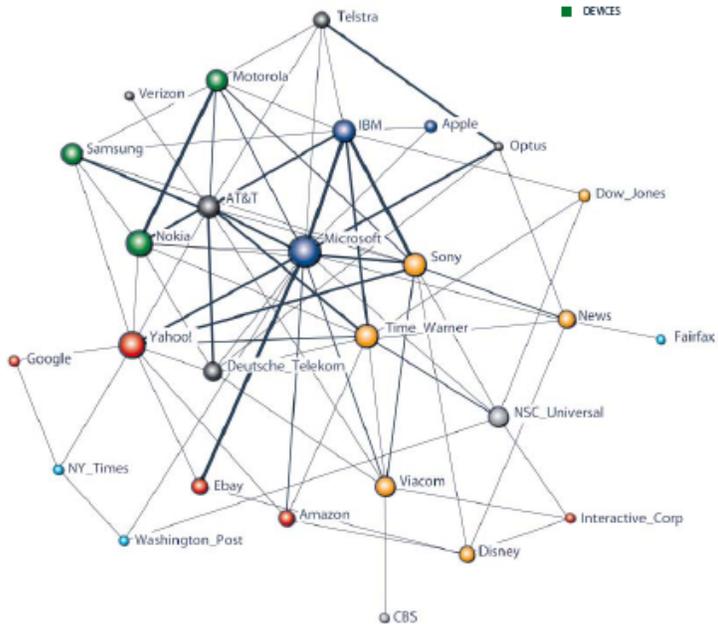
What is first apparent from this analysis is that the media industry is far more deeply interconnected than it was five years ago. The growth in alliances and joint ventures reflects that it is increasingly necessary to work with other companies, for example in content and distribution deals. Microsoft has retained its position as most central to the media industry networks. New media companies such as Yahoo!, Google and eBay have rapidly become more prominent and central, with others that are more active including Apple, CBS, Viacom, and Sony Ericsson. Time Warner has developed new and strong relationships with Microsoft, CBS, and Google, while AT&T, despite its growth, has become less central. The mobile device manufacturers have become more integrated into the network, illustrating their shift to become true media players rather than simply selling phones. Overall the telecommunications companies remain relatively peripheral, which will need to change if they are to succeed in moving beyond selling connectivity. Print participants remain fairly isolated.

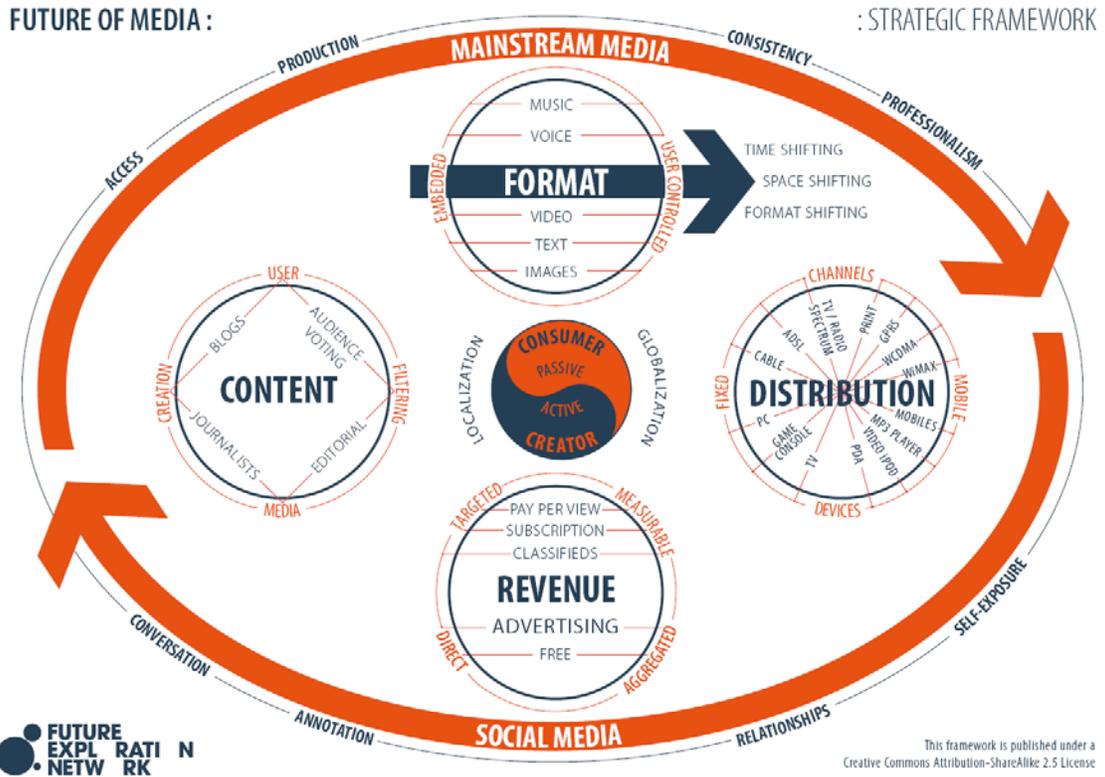
*Research conducted by: Laurie Lock-Lee, CSC*

Media 2005/6



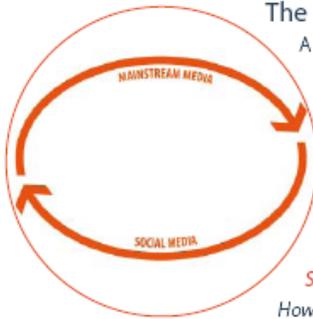
Media 2000/1





**FUTURE OF MEDIA : STRATEGIC FRAMEWORK :: EXPLANATION**

**The Symbiosis of Mainstream and Social Media**



A symbiotic relationship is emerging between mainstream media (such as newspapers and broadcast), and social media (such as blogs, podcasts, and online social networks). Mainstream media and social media feed off each other. Blogs provide a vast public forum for discussion of content provided by major media. Leading blog search engine, Technorati, has enabled every online piece on The Washington Post, Newsweek and Associated Press newspapers to display the complete blog discussion about that article, turning an article into a conversation visible to all. At the same time, it has become common for mainstream media to quote blogs and bloggers, sometimes exclusively, and the conversations between bloggers often provide the ideas for media stories. Together, mainstream and social media create a single media landscape in which we can all participate.

*Strategic questions:*

*How can you best draw on social networks for content and ideas?  
How can you facilitate social media commenting on and annotating your content?*

*Key features of social media*

- *Conversation* is almost by definition the heart of social media.
- *Relationships* between people and ideas emerge in a very different fashion from the one-to-many configuration of mass media.
- *Annotation* is commentary on and reference to existing information and ideas. This will soon spread into geospatial annotation, where conversations are generated around physical locations.
- *Self-exposure* is a more powerful driver of social media than self-expression. The exhibitionism and associated voyeurism of blogs and social networks are a key factor driving participation.

*Key features of mainstream media*

- *Access* is a distinctive feature of mainstream media, whose representatives can reach almost wherever they want, by virtue of their position and influence.
- *Production* capabilities are extremely high based on capital investment and expertise.
- *Consistency* of output and quality assurance is expected, along with reliability – people know what to expect.
- *Professionalism* as a characteristic of mainstream media cuts both ways – there are clear standards and a high degree of talent, yet professionalism is a box that amateurs can easily step outside of to innovate.

**The consumer/ creator archetype**

The history of media has been one of passive consumption. However, today one of the strongest social trends is towards participation. There are certainly many who are largely content to be “couch potatoes,” consuming the media they are given. Others - particularly younger people - are keen to create, by establishing blogs or individual spaces on sites like MySpace, or sharing photos or videos online. Even clicking on a link is a creative act that can impact what other see or don't see. Yet this is not just about a social divide. Everyone of us is both a consumer and a creator. Finally today we have been given the power to create for others as well as to consume what we are given.

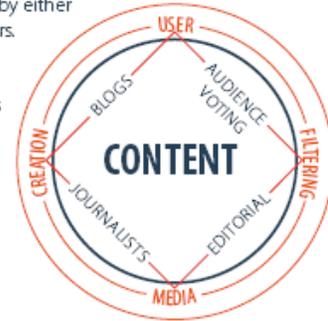
*Strategic questions:*

*Are consumers or creators more valuable in your business model?  
How can you encourage consumers to become creators?*



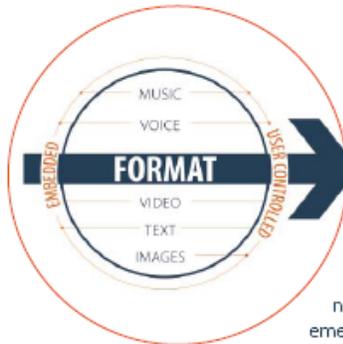
### The matrix of content

Content generation requires both creation and filtering. Each of these two roles can be performed by either media, or their audience. Traditionally content has been created by journalists, and filtered by editors. Today "user generated content" has become a major buzzword, referring both to personal sites and blogs, and to content submitted to mainstream media, such as mobile camera photos or home video footage. However the emergent vitally important trend is user filtered content. Time Warner's re-launch of the Netscape site as a user filtered news site is an important move. From another perspective, the Current TV model can be understood as providing user generated, media filtered content. This model is being challenged by wholly user created and filtered properties such as YouTube.



**Strategic questions:**

*What configuration of user and media content generation and filtering will you select? In particular, how will you implement user filtering?*



### Format shifting and creating new formats

Much content is "embedded" into the media, making it only consumable in its original form. Similarly, some of the first radios sold could only be tuned to one station. Yet through the many mechanisms of time shifting, space shifting, and format shifting, content readily becomes user-controlled. In addition, the emerging world of media is vigorously engaged in creating new formats. When the first mass circulation newspapers were produced, the concepts of newspaper headlines, lead stories, and photo captioning were yet to be developed, notes Art Kleiner, editor in chief of Strategy + Business magazine, in an interview for the Future of Media Podcast Series. It took several decades to develop what we now recognize as a standard format for newspapers. Soap operas were another format innovation that emerged after the birth of TV, that has stayed with us and evolved. The next decade or more will be an exploration of what formats will be attractive to audiences in a world of pervasive media.

**Strategic questions:**

*To what degree - and how - do you impede or facilitate the shifting of time, space, and format to user-controlled formats? What format innovations will you experiment with to discover the winning media formats of the next decade?*

### Revenue and ad aggregation

Two of the key features of emerging media are that its reach and impact are far more targeted and measurable than before. This is driving a greater willingness to spend by both advertisers and publishers. There are an array of traditional media revenue models that will continue in various guises, potentially driven by the emergence of micro-payments. Classifieds is rapidly disengaging from traditional media, though some companies are still managing to keep them connected. One of the most important shifts is that advertising is now often aggregated. Media can sell advertising directly, as the major publishers do. However now, by virtue of Google's AdWords program and imitators, anyone can publish online and get advertising revenue without having to sell it. This is transformative in enabling the many of the "long tail" to move towards becoming viable - though small - media properties. Microsoft too is aggressively following the ad aggregation path. The emerging players in ad aggregation are both enabling a massive growth in media diversity, and stand to do enormously well in allowing advertisers to reach their target market, wherever they are turning their attention.

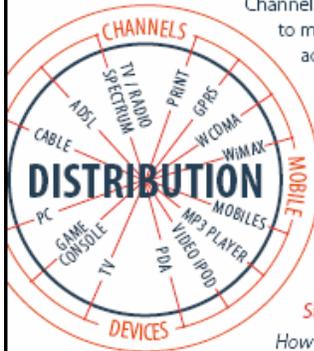


**Strategic questions:**

*Are media content and classifieds natural partners, and if so how do you connect these effectively? Where are the aggregation points into which you can bring together or deliver highly relevant advertising?*

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### Distribution: channels, devices, and mobility



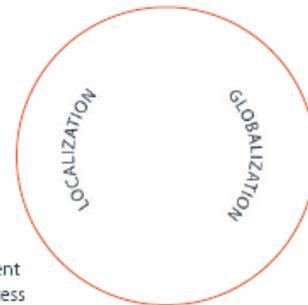
Channels and devices are distinct. There are an array of delivery channels for media, often not directly linked to media themselves. The devices through which media is delivered are critical leverage points to guide access to media, as Apple has proved with the iPod. The most fundamental shift is that both channels and devices are shifting to the mobile, rapidly enabling anywhere/ anytime consumption of media. Perhaps the most important example of this is video glasses. It is just this year that video glasses have become high quality and comfortable, which along with the advent of mobile video content and devices, are making them a real consumer technology that is likely to take off in a big way. The availability of video displays everywhere will create a massive demand for video content, that will be fed not just by media and entertainment companies, but also by individuals who have cameras and home video production facilities. As display prices drop, every available surface will become a video screen for advertising and content. In time, e-paper, which is foldable or rollable, and can be instantly updated with the latest news or video, will begin to supplant print magazines and newspapers.

**Strategic questions:**

*How can you leverage your presence in devices to content distribution or vice versa?  
How will you participate in the massive boom of video content demand?*

### Globalization and localization

Online distribution means that any media can have global access. There is some content that is of truly global interest, such as celebrity news, some business and financial news, specialist topics, and some entertainment. This content can basically be produced anywhere, so expect to see global media content begin to be produced in surprising places. Yet much content requires localization – witness how often TV series are re-produced for different nations, let alone how much syndicated news is adapted locally. Some news, entertainment, and media is purely local in interest, but in many cases broader-interest content requires localization. Aspirants to global media positioning will need to understand and invest in the process of content localization.



**Strategic questions:**

*How global or local in interest is your current content and distribution?  
What degree of localization is required in content, format, and distribution, and what capabilities or alliances are necessary for this?*



### Intellectual property and media

The Future of Media Strategic Framework is released under a Creative Commons Attribution-Share Alike 2.5 License. This means that while Future Exploration Network retains copyright you can use it – even for commercial purposes – as long as you attribute it to the creator. It also means, that if you think it should be different or want to improve on it, you can do so as long as you release it under the same license – feel free to do so! There are a plethora of dilemmas and thorny issues for media organizations to resolve in how they protect their own content, as well as license user-submitted content. Locking content down will in many cases prove to be less valuable than allowing it to be reused appropriately by other content creators. A living content landscape benefits content creators far more than a rigid world.

**Strategic questions:**

*What licenses do you offer for user-submitted content?  
In which situations should media-generated content have Creative Commons or similar licenses that allow reuse and adaptation?*

**Overall questions on the Future of Media Strategic Framework:**

*Where across the strategic framework are you currently playing (content/ formats/ revenue/ distribution)?  
How can you leverage your current presence into new domains?  
What partners or alliances do you need to generate the most value from your existing capabilities?*

**FIVE IDEAS TRANSFORMING MEDIA**

**Shifting**



Media in every form will be shifted by users to suit them. For example, video-on-demand (or mobile video) is transforming the way people watch TV much in the same way that podcasting is changing the way that people listen to radio. Both put the audience squarely in charge of programming. In the future people will seek to watch, read and listen to what they want, when they want, on any device they want.

*Implications:*

Many media and content companies will continue to try to pin down usage with digital rights management, but imposing tight restrictions will be a losing battle. Content will increasingly be designed or edited for specific locations or situations.

*Opportunities:*

Providing people with the ability to transfer content from one device to another. For example, live news that can be transferred mid-stream from the TV to the car. Content created for specific occasions. Making shifting easier.

**Time compression**



One of the most powerful trends today is that people are busier and have less time. They are increasingly stressed and sleep deprived. If you want to connect with people you need to make it easy and make it fast. This does not necessarily mean the death of the two-hour movie or the 120-page magazine, but it will have to be good.

*Implications:*

There will be increased demand and availability of snack-sized formats, and content that is available in a variety of sizes or lengths. Long copy journalism and rigorous analysis will become a specialist demand.

*Opportunities:*

Those that can provide snappy, entertaining, and high-value content at the right price will do very well. There will be an increasing premium on filtering for targetted audiences, high-quality editing, and effective visual design of information.

**Infinite content**



The supply of content will become effectively infinite. The "million channel universe" will include not just traditional media delivery and the Internet, but also a whole set of new devices and delivery platforms. Production tools in the hands of the masses will tap new talent – and lack of talent. It will be increasingly challenging to attract audiences' attention and build brand loyalty against infinite choice.

*Implications:*

Many choices will be made by selecting tried and reliable sources. Yet there will also be opportunities for any new quality content to break in – there will be no cartel but a moving mosaic of older as well as newly established media brands.

*Opportunities:*

Anyone that can help people to filter the infinite supply to find the gems will do very well. Branding will be critical, yet new content brands will be able to be rapidly established.

**Generational change**



The media is run by ageing baby boomers that still think wearing a pair of Levi 501s is cool. Many of these traditional media companies will find it difficult to adjust to the new media landscape of mobile platforms and customer created content due to their investments in old-media infrastructure and business models. Most innovation will therefore come from the outside, either from young people, or from companies outside the existing media establishment.

*Implications:*

For mainstream media companies, acquisitions will often go further than innovation from within. Anthropological studies of how young people use media in their natural habitats will drive new products. Gen X management may play it safe until it's too late.

*Opportunities:*

Gen Y co-created content and filtering. Providing platforms to build relationships and share content. Repurposing all content for delivery to mobile platforms.

**Media is everywhere**



In the future everything from walls and table-tops to cereal packets and clothes will be screens and video will be everywhere. E-paper will add video and audio functionality to the formerly static pages of newspapers, and books will play commercials for the author's latest novel. If the advertisers have their way, there will be no respite outside your front door.

*Implications:*

Consumers may respond aggressively to the commercial invasion of public and private spaces. Devices such as TV-B-Gone will be used to shut off or shut out clutter.

*Opportunities:*

Getting messages closer to consumers. For example, since 70-80% of purchasing decisions are made in-store, ads will be in shops and malls rather than on TV at home. Producers of quality video content will reap a bonanza.

Flickr photo attributions: 1. Noys 2. Marc van der Chijs 3. Goldberg 4. DEMOSH 5. vic15

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MEDIA SNIPPETS

In **1892** there were 14 evening *newspapers* in London. Now there is just one.

*Prospect*

The number of children in Japan aged **5-9** years old that own mobile phones is predicted to double to 64% by the **end of 2007**.

*Wireless World Forum*

**74.2%** of Americans watch TV and read the newspaper at the same time, while **66.2%** watch TV while surfing ONLINE.

**17%** of Sony PlayStation owners in America are aged **50+**.

*The Observer*

36% of US high-school students **believe** that newspapers should get "government approval" of news stories prior to publication.

*University of Connecticut*

>More than half of American **teens** have created content for the INTERNET.

*Pew Research, November 2005*



**ABOUT FUTURE EXPLORATION NETWORK**

Future Exploration Network (FEN) assists major organizations globally to gain insights into the future, and to develop strategies and innovation capabilities that create competitive advantage. Clients of FEN's key executives include AXA, CNET, Coca-Cola, Deutsche Telekom, IBM, KPMG, Macquarie Bank, Microsoft, Morgan Stanley, Toyota, Unilever, and Virgin.

**ROSS DAWSON : Chairman**



Ross Dawson is a globally recognized business strategist and authority on the future of technology and business, a bestselling author, and a frequent international keynote speaker. He has been featured in many leading media worldwide including CNN, Bloomberg TV, SkyNews, and the Washington Post, and is the author of the highly influential Trends in the Living Networks blog ([www.rossdawsonblog.com](http://www.rossdawsonblog.com)).

**RICHARD WATSON : Chief Futurist**



Richard Watson is a leading international trend-watcher and futurist, having established organizations including [nowandnext.com](http://nowandnext.com), a bi-monthly review of new ideas, innovations, and trends, Global Innovation Network, and Free Thinking. He is a columnist for Fast Company and regular writer for other leading publications globally, and is a non-executive director of international design firm Elmwood.

**PARTNERS AND ASSOCIATES**

FEN draws on a partner network of world-leading experts and practitioners in the US, UK, Australia, Germany, Canada, Thailand, and beyond, to create unique, highly customized services for its clients.

**SERVICES**

**Strategy consulting and research**

FEN applies a range of tools and approaches to assist its clients to develop clear, actionable strategies in highly uncertain environments. We have deep expertise in applying scenario planning to build robust strategies.

**In-house workshops and presentations**

Executive presentations and workshops can be custom-designed for the client's industry and situation to stimulate, provoke, and provide input into specific strategic decisions.

**Events**

FEN creates focused, relevant, highly interactive conferences and events that bring together the best minds in the field. FEN organizes both public events, and custom-designed events for key sponsors.

**Innovation**

Organizations can benefit greatly by implementing specific initiatives to support innovation. These can range from provocation workshops to implementing organization-wide innovation processes.

**KEY THEMES**

**Future of Global Business**

The rapid development of a globalized, intensely interconnected world has powerful implications, including emerging competitive challenges and massive new opportunities.

**Future of Technology**

The manifold dimensions of emerging technologies – informational, biological, structural, and more – will be central to our future. Technology landscapes and other tools provide deep insights into the strategic implications of specific technologies.

**Future of Media**

In an economy based on the flow of information and ideas, media is the convergent space in which almost all industries become participants. The nexus of "mainstream" and new media will see immense value created... and lost.

**Future of Financial Services**

Money is information. Financial services are being rapidly transformed by new possibilities, new entrants are coming to play, and established institutions must play to their strengths.

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## Endnotes

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