

Written by Jeff Ignatius

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Denver's *Rocky Mountain News* closed in February. The *Seattle Post-Intelligencer* published its last print edition on Tuesday, and the threat of closure has been levied against the *San Francisco Chronicle* - which lost more than \$1 million a week last year.

Earlier this month, *Time* magazine identified the "10 major newspapers that will either fold or go digital next."

And the Associated Press summarized in a March 15 article: "Four newspaper companies, including the owners of the *Los Angeles Times* and *Chicago Tribune* and *The Philadelphia Inquirer*, have sought Chapter 11 bankruptcy protection in recent months."

Industry analyst Mike Simonton of Fitch Ratings has predicted: "In 2009 and 2010, all the two-newspaper markets will become one-newspaper markets, and you will start to see one-newspaper markets become no-newspaper markets."

This is a grim environment in which to operate, and the Quad Cities' daily newspapers are not insulated from it.

The Project for Excellence in Journalism's 2009 State of the News Media Report includes the following information:

- "We estimate that roughly 5,000 full-time newsroom jobs were cut, or about 10 percent, in 2008."

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- "The physical dimensions of the daily paper are getting smaller"
- "The stock of publicly traded newspaper companies fell 83 percent in 2008."
- "Most of these papers, however, are still profitable, and could continue in business once separated from the parent company's debt."

While this analysis addresses the newspaper industry as a whole (or, in the case of the last item, newspapers published by companies in bankruptcy), the gist also applies to the Quad Cities' two daily-newspaper publishers: Lee Enterprises (the publicly traded, Davenport-based owner of the *Quad-City Times*) and Small Newspaper Group (the privately held owner of the *Rock Island Argus* and the Moline *Dispatch*).

The *Argus/Dispatch* has made significant cuts to its news operations. Both dailies switched to a smaller physical size. Lee stock has plummeted over the past two years and now trades for less than a dollar a share. And Lee's debt continues to put it in a precarious financial position, although it recently averted default by refinancing and restructuring its debt.

But while the situations of the local dailies echo national trends, there's reason to expect that the Quad Cities will remain a two-daily-newspaper market for the foreseeable future.

While *Argus/Dispatch* Publisher and Editor Gerald J. Taylor conceded that the physical newspaper product is "a Baby Boom generation kind of vehicle, ... the good news for newspapers today is that we in many ways are still *the* mass medium in a local community."

It's becoming apparent, however, that in the long run, publications will need to find new revenue streams to replace the advertising that's leaving print - and online ads aren't the answer. Newspapers are just beginning to explore business models from foundation ownership to

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not-for-profit status to pay-per-view content.

"In Good Shape"

On an operational level, both the *Quad-City Times* and the *Argus/Dispatch* appear relatively well-positioned. While the past year was hardly a *good* one for either paper, they did better than the industry as a whole. And both the *Quad-City Times* and the *Argus/Dispatch* are profitable, representatives said.

Revenues for the *Argus/Dispatch* and related publications (except the *Leader*) were down 1 percent last year, Taylor said last month, "which we felt pretty good about, frankly. ... We're in good shape. Last year was a tough year in a lot of ways." Taylor estimated that circulation is down 2.5 percent over the past five years.

He added that the prognosis is "good" for Quad Cities newspapers.

That's in part because the newspapers aren't really fighting for the same audience; the *Quad-City Times* dominates the Iowa side of the river, while the *Argus/Dispatch* own the Illinois side, and neither company has been able to make significant inroads into the other's territory - a fact acknowledged by the *Argus/Dispatch*.

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Dispatch

when it shut down the Iowa-side weekly

Leader

last year, and by both papers when they entered a joint-distribution agreement in December. ("Five years ago I'd have said that would never happen," Taylor said of the pact.)

"One of the reasons that this market has sustained as many publications as it has is because it's really not just a market; it's two markets," Taylor said. "The river is a lot wider than it looks in that sense."

Both newspapers measure their "reach" only based on one side of the river. Lee claims to reach with its print product 73 percent of its Quad Cities market, which it defines as Scott County. And Taylor said the daily *Argus* and *Dispatch* reach between 50 and 60 percent of the households in their "city zone," which basically comprises the Illinois Quad Cities. Combined, the company's publications hit 88 percent of the households in its city zone, Taylor said.

Although Lee Enterprises and *Quad-City Times* leaders declined to be interviewed by the *River Cities' Reader*

, the company's report to its shareholders - released last week - noted that its newspapers' advertising revenues have "outperformed the industry every quarter since 2003. Over the last two years, Lee's advantage has averaged nearly 5 percentage points per quarter."

But advertising revenue for Lee newspapers was still down 8.8 percent from Fiscal Year 2007 to Fiscal Year 2008 (which ended September 30), and 15.2 percent in the first quarter of Fiscal Year 2009 compared to the first quarter of Fiscal Year 2008.

Lee President, Chair, and CEO Mary Junck told shareholders that "we believe the vast majority of our revenue downturn is directly related to the poor economy."

Yet that seems like a cop-out, because the crisis in daily newspapers was there long before the economy took a nosedive.

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As the State of the News Media Report noted: "The problem facing American journalism is not fundamentally an audience problem or a credibility problem. It is a revenue problem - the decoupling, as we have described it before, of advertising from news." (For a summary of that report's conclusions, see the sidebar at RiverCitiesReader.com.)

In other words, more readers nationwide are consuming the digital product instead of the print one, despite papers' efforts to stabilize circulation. But advertising revenues haven't followed them online. So while newspapers can rightly claim that their online audiences are growing, their revenues are declining.

Argus / Dispatch: "We've Flattened the Newsroom Structure"

While Taylor paints a rosy picture of the health of the *Argus* and *Dispatch*, there's no doubt that the papers' profitability has come at a cost.

"Consciously in the last year, we've trimmed about 40 situations - about 20 percent of our workforce," he said. A lot of the cuts, he said, were a function of consolidating operations into its Moline building, shutting down the *Leader*, and backing off the WiMax project undertaken by its Quad-Cities Online division.

But the news operation has also been trimmed. Taylor said his newsroom has approximately 10 fewer people than the 65 it had a year ago - and the losses have been split roughly evenly between reporters and editors.

"We've flattened the newsroom structure out a lot," he said. In the past year, "we totally reorganized our newsroom."

Gone is the traditional structure with beats and sections and what Taylor called "silos."

In their place are six "information pods," groupings with four to seven reporters and one information editor. Two of those are fairly traditional newsroom departments - sports and photo - but the other four represent a different way of doing business: a breaking-news pod that

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typically covers police, crime, and government, an entertainment/community pod, a business/health pod, and a special-sections pod.

While reporters no longer have traditional beats, he added, they still specialize in a few areas. "You're trying to broaden their horizons, but you're still maintaining some focus," he said.

"The whole thrust of that was to try to make sure that we could have more writing talent, more reporting talent than we could get out of the old system," he added. "The information editors in some cases are going to act more like reporters than editors."

Taylor said that one aim was to refocus on "individuals and lifestyles," and he used the example of covering issues that affect the Arsenal because it's become the area's largest employer. It's a subtle difference, but the emphasis is less on institutions than the people affected by those institutions.

The new structure, Taylor said, was the idea of a committee of approximately 20 members of the news staff. They were charged with looking at how the newspaper could be produced with fewer resources, he said: "Assume that you're not going to have any more help than you have today in terms of news. Assume in fact that you'll probably have less. ... How do we make better use of the Internet ... to get people to help provide content for our papers?"

(To that end, the *Argus* and *Dispatch* last month started QC Capture, a user-submitted photo feature.)

There's no doubt that every company has its organizational inefficiencies, but a critical question is whether the quality of journalism suffers when the newsroom staff is trimmed by more than 15 percent.

Taylor boasted that "we still do a lot of enterprise," but when questioned about what that entailed, he defined it far more broadly than its traditional meaning of in-depth or investigative journalism.

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"Our notion in today's world is that we try to do what we like to call 'targeted local enterprise,'" he explained. "That means trying to keep those various groups within the community in your sights and in your mind at all times." The *Argus/Dispatch*, he said, added a Hispanic columnist, and for the past few years has sought for its "viewpoints" page column-length submissions from groups and perspectives that have been underrepresented in the newspaper in the past.

"While investigative reporting is something we'd *like* to do more of, the first reality is: We need to keep those local groups in our sights, in our focus, and in our pages," Taylor said. "We need to get their faces in the pages of the print product, we need to get their faces and their pictures *à la* QC Capture on the Web site, we need to give them something they can't get anywhere else. And hopefully we'll find some time to do some investigative stuff as it comes along."

That diversity within the pages of the *Argus/Dispatch* is what Taylor said he's most proud of in the past year: "It isn't a single project or a single story. I think we've gotten more people - more local people - across more of ... our targeted groups. I think we've managed to get them into the paper, onto the front pages, onto the section fronts. ... I think we've done more of that at a time when we've been losing staff than I would have ever imagined."

In that same vein, the papers started a partnership with the Latino newspaper *Hola* in which the publications share some content. "That's a significant hunk of the population in terms of the Hispanic population that we don't reach with our traditional paper, and probably aren't likely to," Taylor said.

Along with that shift in newspaper content, there's less room *for* content - although Taylor suggested that most of the cuts in his papers were national and international news, and sports. "We've tightened up the papers," he said. "We've tightened the news hole and redistributed it somewhat. ... You'll see some redistribution of how we do things on different days of the week. ... Maybe a little less newspaper, a different[ly] designed newspaper on certain days of the week."

***Quad-City Times* : "Minimize the Impact"**

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A *Quad-City Times* representative said no similar cuts or structural changes have happened at his paper.

Editor Steve Thomas declined on his and Publisher Julie Bechtel's behalf several requests for an interview with the *River Cities' Reader*. But he did respond to written questions.

"The staffing levels of the *Quad-City Times* newsroom have not changed in the last few years, nor since last year," he wrote in an e-mail. "We are down 1.7 FTEs [full-time equivalents] from February 2008, but that includes an open sports-reporting position that I will be filling when we identify the right candidate."

He also wrote that neither the newsroom structure nor the news-gathering process had changed in the past year, and that there are no plans to change either.

That is in the context of cuts throughout Lee Enterprises. Last week's report to shareholders said the company had suspended 401(k) contributions and had instituted a pay freeze and unpaid furloughs. Dividends have also been suspended.

Dan Hayes, Lee's vice president for communications, said in January that Lee executives were not making public comments. Early last week, he wrote that Lee President, Chair, and CEO Mary Junck was not available for an interview for at least two weeks. Hayes provided written responses to questions about Lee Enterprises.

"Staffing levels, unpaid furloughs, and other local cost actions are determined locally," Hayes wrote. "Because of the recession, all locations have reduced costs."

Staffing at Lee newspapers, according to Hayes, dropped from 8,141 full-time equivalents in December 2007 to 7,276 in December 2008 - a reduction of more than 10 percent.

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He said that he did not have statistics on newsroom employment, but added: "Overall, we have reduced staffing less than you've seen at other newspaper companies."

Joyce Dehli, Lee's vice president for news, wrote: "As we've reduced costs, we've tried to minimize the impact on newsrooms whenever possible. ...

"Lee newspapers have cut back on the amount of nationally syndicated content they purchase. It also means travel has been reduced. At the same time, we've recently developed a new system for sharing stories, photos, videos, and other content among Lee newsrooms, which they can adapt to serve their own readers or use instead of syndicated material. It also makes it easier for newsrooms within a region or state to send one reporter to cover an event of statewide significance, rather than each one sending its own reporter."

Lee reported an operating loss of more than \$1 billion in Fiscal Year 2008, followed by a \$34-million operating loss in the first quarter of Fiscal Year 2009.

Hayes said that most of the 2008 operating loss was a result of one-time impairment charges. "All of Lee's properties are profitable," he wrote. "The impairment charges are required by accounting rules and were caused by the decline in Lee's stock price and diminished revenue trend as a result of the recession."

In Fiscal Year 2008 on a cash basis, Hayes wrote, "Lee had revenue of \$1.03 billion, cash costs of \$821.9 million, and operating cash flow of \$207.0 million."

Lee has targeted cutting costs 12 to 13 percent in the current fiscal year, following a 2.7-percent reduction last year.

Cost-cutting would almost certainly be necessary in the current economy, but it's made even more important by the company's debt and share price.

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Lee remains saddled with debt from its \$1.5-billion acquisition of Pulitzer in 2005. In February, Lee refinanced \$306 million in debt and restructured \$1.1 billion in payments. Those moves essentially bought the company time; in December, Lee reported that impending debt payments and the company's cash flow "raise significant uncertainty about the company's ability to continue as a going concern."

But restructuring and refinancing haven't done much for the company's stock price.

Lee stock traded at more than \$35 a share in early 2007 but on Monday closed at 28 cents a share. On February 20, the day after the refinancing was announced, the stock closed at 52 cents a share.

It last closed above a dollar on November 28, 2008. Hayes said that shareholders last week authorized the board to conduct a reverse stock split, in which multiple shares of Lee stock would be consolidated. That move would be undertaken to push the stock's price above the \$1 minimum required for listing on the New York Stock Exchange, although that rule has been temporarily lifted. "Under the relaxed rules, Lee is in compliance," Hayes wrote.

The Trouble with Cost-Cutting

What all this cutting and reorganization ignores, though, is that newspapers haven't figured out how to generate equivalent revenue from online readers.

The *Quad-City Times* has Quadville, and the *Argus/Dispatch* in February launched QC Capture, and both try to capitalize on the popularity of social-networking and community-building tools.

There are two problems, though.

First, newspapers (and institutions in general) are not good at anticipating and adopting trends. "The newspaper business has always been sort of glacial in terms of change, and that doesn't cut it anymore," Taylor said. "We're constantly trying to innovate on that Web site. ... Do we

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know how to capitalize that? No, but I can tell you that we're working on it."

Let's say that newspapers figure that out, though. It still doesn't change the basic economics that online ads don't command the same per-reader rates as print publications.

And it's not a small gap. Taylor described it as "pennies on the Web per reader versus the dollars per reader that you have on a regular basis on the print product. That's going to remain the challenge."

Sidebar: A Stroke, Followed by a Debilitating Illness -- Newspapers in 2009

The Project for Excellence in Journalism's [2009 State of the News Media Report](#) begins: "Newspaper ad revenues have fallen 23 percent in the last two years. Some papers are in bankruptcy, and others have lost three-quarters of their value. By our calculations, nearly one out of every five journalists working for newspapers in 2001 is now gone, and 2009 may be the worst year yet."

And the report is similarly succinct in defining the problems and challenges in the news media:

"Even before the recession, the fundamental question facing journalism was whether the news industry could win a race against the clock for survival: could it find new ways to underwrite the gathering of news online, while using the declining revenue of the old platforms to finance the transition?"

"In the last year, two important things happened that have effectively shortened the time left on that clock.

"First, the hastening audience migration to the Web means the news industry has to reinvent

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itself sooner than it thought -- even if most of those people are going to traditional news destinations. At least in the short run, a bigger online audience has worsened things for legacy news sites, not helped them.

"Then came the collapsing economy. The numbers are only guesses, but executives estimate that the recession at least doubled the revenue losses in the news industry in 2008, perhaps more in network television. Even more important, it swamped most of the efforts at finding new sources of revenue. In trying to reinvent the business, 2008 may have been a lost year, and 2009 threatens to be the same."

"Imagine someone about to begin physical therapy following a stroke, suddenly contracting a debilitating secondary illness.

"Journalism, deluded by its profitability and fearful of technology, let others outside the industry steal chance after chance online. By 2008, the industry had finally begun to get serious. Now the global recession has made that harder."

What the report makes clear is that even though newspapers are not losing many readers, they are shifting from the print product to the online version -- a transition that doesn't translate into revenue:

"Circulation fell 4.6 percent daily and 4.8 percent Sunday to roughly 48 million for the latest period compared with a year earlier. That brings them down 13.5 percent daily and 17.3 percent Sunday since 2001.

"Traffic to newspaper websites is growing. Unduplicated Web audiences are now estimated to add 8.4 percent to the average newspaper's readership. That makes up most, but not all, of the print audience decline."