

Managing Change -- the Newspaper Industry's Strategy Paradox

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Introduction

Despite today's technology-driven world, most newspaper companies still rely heavily on revenue generated from print products—print products that are produced by gigantic older printing presses that have a minimum amount of process automation. For the newspaper industry, while print revenue is declining there is no concomitant rise in online revenue. Even though Borrell and Forrester data show that businesses spend billions of dollars on media advertising and promotions, this revenue has been largely untapped by the newspaper industry – an industry that has not positioned itself in the past to capitalize on this new opportunity.

Add to these factors the changing landscape of the *new digital media* space – rapidly growing use of the Internet, the influx of new digital media technologies/platforms such as tablets and other mobile devices, video, etc., the rise in user generated content and social networking – coupled with an increasing demand for up-to-the-minute news, all in a down economy. Newspapers are *making changes* to transform their ability to execute more effectively and efficiently in this new digital world in order to survive.

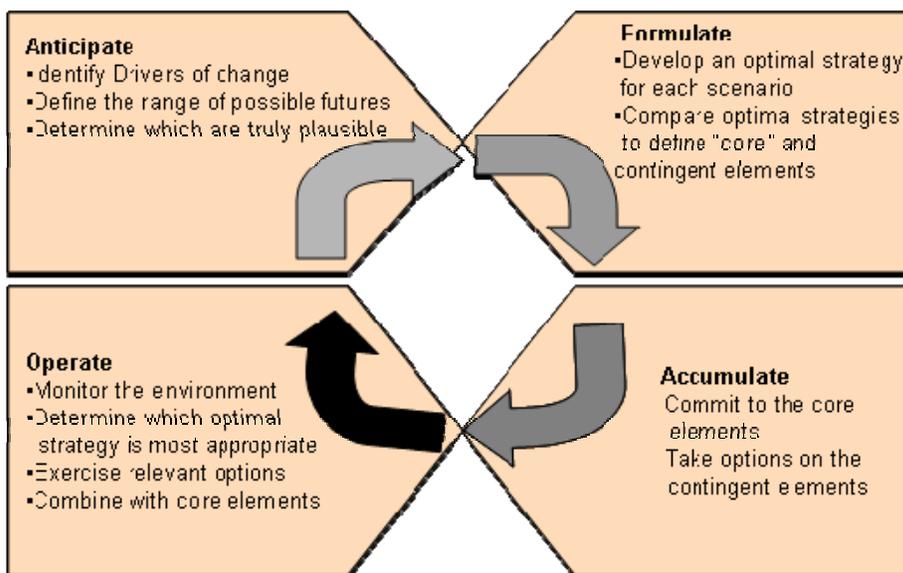
But what is the end game? What is the newspaper industry's strategy for surviving in the foreseeable future? According to Michael Raynor in his book, [The Strategy Paradox: Why committing to success leads to failure and what to do about it](#), “Strategies with the greatest possibility of success also have the greatest possibility of failure...” This is what Raynor refers to as the *strategy paradox*.

Do Raynor's recommendations for the *strategy paradox* apply to the newspaper industry? What is the newspaper industry's strategy? Can the strategy be defined in terms of a set of core products, services, and technologies required for survival now and in the future? Is the newspaper industry committed to the “core” over the next 2 years, 5 years? 10 years? What if?

This paper will review basic concepts of Raynor’s *strategy paradox* and use specific scenarios to explore how these concepts might be used by the newspaper industry to *manage this change*.

Strategic Flexibility

Does the newspaper industry’s strategy embrace the concept of *strategic flexibility*? According to Raynor, *strategic flexibility* is an iterative process that includes 4 main steps (see below), along-with continuous review.



Courtesy: *The Strategy Paradox*

While each newspaper company’s strategy will be slightly different, we will begin our discussion by assuming that every newspaper company must have *strategic flexibility*. Let’s quickly look at the steps in this concept as it relates to a newspaper company:

- **Anticipate** – The newspaper company can’t predict the future, but it can put some boundaries around the possible futures for the industry over a relevant time horizon and define the possibilities in that space. By doing this, the industry can create a framework for discussing the future, without having to stake the future on “guessing right”
- **Formulate** – The newspaper company can then use these anticipated scenarios to determine strategies that are required to be successful under these different conditions. This means developing an optimal strategy for each scenario that includes key elements required for success – technologies, resources, capabilities, or other assets required to implement the strategy. Once the elements have been defined, they will need to be divided into two groups: **core and contingent**. Core

elements are common to most optimal strategies; contingent elements are unique to one optimal strategy.

- **Accumulate** – The newspaper company would then commit to the core elements without hesitation, since these have been identified as common across several optimal strategies and therefore have minimal risk (a small chance of having “guessed wrong”). By combining scenarios with optimal strategies, the company would then have automatically placed boundaries on the assets needed in order to be successful across a range of possible futures. Investments in contingent elements would then be optional.
- **Operate** – The company would then closely monitor the environment to determine:
 - Which scenario accurately reflects the most important elements of the future that “arrives”
 - Which optimal strategy is most appropriate?
 - Which contingent elements are most appropriate?
 - Which options should be executed and which should be abandoned?
- **Review** – The newspaper company would constantly review, renew, and refresh the set of scenarios to reflect changes that occur over time

How do we get started?

The answer is simple: *by asking questions*. These are just a few questions that might be asked and answered by a typical newspaper company:

1. ***What is the operating scope that would be covered by scenarios for the newspaper company?*** Most newspaper companies own a variety of other businesses, products, and services -- both related and unrelated to news. To get started the company might ask and answer the question with regard to scenarios for its core businesses, products and services.
2. ***What is the timeframe for implementation?*** Is it 2 years? 5 years? 10 years? Or is the future now?
3. ***What are current media trends? What are current trends in technology?*** What inferences can be made from these trends? Based on these trends, is the company positioning itself now for the future? Do scenarios developed reflect these trends?
4. ***What are core initiatives and do those initiatives align themselves with current trends?***
5. ***What are core technology initiatives and do technology initiatives support core initiatives and current trends?***

All of these questions should be asked and answered as a part of the effort to develop *strategic flexibility*.

What about uncertainty?

According to Raynor, there are four dimensions of uncertainty. For the newspaper industry, these sources of threat/and or opportunity are the causes of market disruption. Possible examples are listed below:

- Economy
- Online Growth
- Social Media
- Technology
- Strategic Partnerships

These disruptors/opportunities have changed the newspaper industry's audience, its market, sales models, and associated revenue. And the industry must now look closely at potential strategic options associated with each of these opportunities. Ideally, for each scenario the company would develop a matrix of hypothetical drivers of uncertainty associated with each of these opportunities.

What are Plausible Scenarios?

The newspaper industry should define scenarios that capture the range of plausible futures in which it might have to operate. Once these future conditions have been defined, then level-based tasks need to be defined for each scenario. Levels of the organization included in the analysis are corporate, operating divisions or business units, and functional management.

Corporate level tasks would include building an optimal strategy for each possible scenario, then analyzing the strategies to determine core and contingent elements. This effort will result in creation of the strategic *foundation* and strategic *options* required to give operating divisions the *strategic flexibility* needed to be successful.

Operating Divisions would choose to implement a specific strategy developed by corporate --created from core and contingent elements -- while hedging downside risk. This means that there would be little or no strategic changes made at this level.

Functional management has one job – *to execute!* This group would have no strategic latitude and must learn how to deliver on commitments that have already been made – as efficiently and effectively as possible!

In reality, what do you do with Core and Contingent Elements?

As previously discussed, the company should invest in core elements because these assets and capabilities will be of value irrespective of the specific optimal strategy selected. To analyze real options, Raynor advocates using an “*accumulate/create*” technique as follows.

For the core elements, “*accumulate/create*” means investing in a manner that gives the right (*but not the obligation*) to make additional investments at some future point. For example, entering into a new business as an “option” as opposed to making a “big commitment” allows a company to cut its losses if the new business fails fast or to ramp up its investment if it is successful. *Exercising this real option is equivalent to learning.*

For the contingent elements, “*accumulate/create*” means making investments in assets/capabilities that “might” be needed for capital management to allow the company to act when and as necessary. For example, recombining assets that were once autonomous into a new configuration might allow the organization to shift its position. *Exercising this real option is equivalent to changing strategies.*

What about the risks?

We know that there are risks. Raynor says that the strategy paradox exists because the “*strategies with the greatest possibility of success also have the greatest possibility of failure...*” So how do we mitigate the risk? Here are six steps that get us started in the right direction:

1. Isolate a couple of plausible scenarios that might be the “*possible futures*” over the near term
2. Develop strategies for these scenarios
3. Identify the core and contingent elements required to support these scenarios
4. Commit to the core elements and find ways to take options on the contingent elements
5. Define scenario-based tasks for each level of the organization
6. Review and adjust as the future “arrives”

The end result is a *flexible strategy* that ensures success and mitigates risk for a set of plausible scenarios over a finite horizon.

A Look at Possible Futures for the Newspaper Industry

Several newspaper companies have already begun the process of managing the risks associated with different possible future scenarios for the industry. Here are some examples of changes that have been made and are occurring right now in the industry:

- In 2006, [the Wall Street Journal began working with ABB, Inc.](#), a process control systems company, to provide an automation solution for 17 printing plants. The ABB solution allowed The Wall Street Journal’s US edition to appear in a new, slimmer format (3 inches slimmer) and saved publishers Dow Jones millions of dollars (\$18M) in annual production costs, while the *Media Giant* retained its traditional broadsheet profile and secured print quality.
- In 2009, [the Wall Street Journal launched WSJ Live!](#), a streaming video tablet App. WSJ Live was launched as a news video product that leveraged the “new technologies of the day” while converging them “to create an easy-on-the-eyes, easy-to-use new consumer product”.
- In 2010, John Paton, of the Journal Register Company (JRC), introduced his *Digital First* strategy and the [Ben Franklin Project](#). JRC’s Ben Franklin Project changes the news gathering process, placing the focus on Digital First and Print Last, and uses only free tools from the Internet to create, publish, and distribute content both online and in print. Audiences will be encouraged (and provided

with free tools) to participate in the process. In the article, [Journal Register Company: Hurricane Irene meets Ben Franklin](#), we learn how the JRC put the new *Mobility* model into practice.

- In 2011, the Wall Street Journal introduced WSJ Social. In the online article introducing the new product, ([WSJ Social for a World Where Facebook is the New Internet](#)), the newspaper deals with *Social Unrest* by filtering “ Journal content through the so-called social graph to yield a news product that lives entirely within the walls of Facebook.”



(*Note:* Example analyses of *real options* for possible futures for the newspaper industry are attached in the Appendix. **Have any of these possible futures arrived?**)

What’s next?

Developing a strategic plan is tricky. In addition to completing the usual SWOT Analysis, newspaper companies must also learn to have open on-going discussions about possible futures. The threat to print products *and print revenue* is real – *one possible future has already arrived!* What is the role of the “new” newspaper company? What is its strategy? What are its products? What markets should it target? Who is its audience? Surely these and other strategic questions have been asked over and over again. But as the markets/audiences change are newspapers positioned and ready to change their strategies to accommodate the change?

The survivors in this industry will find new ways to *manage this change*. These companies have already built and analyzed plausible scenarios for this and other possible futures. They have identified and invested in both core and contingent elements required to support each of these future scenarios. And they have developed *flexible strategies* that include a strategic *foundation* and strategic *options*, using core and contingent elements, that allow the company’s corporate, operational and functional units to *learn, adjust, execute, and succeed* despite the *strategy paradox* -- now and in the foreseeable future.

APPENDIX – Real Options Analysis for the Newspapers

Examples of Real Options Analysis for Newspapers:

Scenario	Summary
Media Giants	<p>In this scenario, the print product continues to remain the primary focus of the Newspaper industry. The economy is down and newspapers continue to use existing technologies to print newspapers. Newspapers must cut costs so they look for ways to provide the same products at a lower cost. Reductions in personnel are made. Distributed print processing and distribution centers emerge. Very little investment is made in resources or technology to support digital media, outside of the traditional websites that are a reproduction of the print product online. And while there is growth in online advertising revenue, the overall contribution of online or other digital revenue to the bottom line remains significantly lower than the print product's contribution. Newspaper editors and columnists maintain strict editorial policies for the print product and the online product, allowing "controlled" user contributed content. The public maintains its view of the newspaper as the "trusted source" of news but because of economic conditions, advertisers are less willing to spend thousands of dollars on print advertising. Advertisers also buy less CPM based advertising. Reader subscription is down. The public turns to the Internet and other sources for news and advertising because it is "free".</p>
Social Unrest	<p>In this scenario, the print product continues its status as the primary form of news media. The economy is in a downturn and newspapers begin to make incremental investments in technology for print, online and mobile processes. The overall contribution of online revenue to the bottom line remains significantly lower than the print product's contribution. Newspapers begin to encourage more "real-time" user interaction with their websites (images, Blogs, profiles, etc.), but for the most part the traditional newspaper editorial control still exists. Meanwhile, Internet use grows and people begin to flock more often to real-time, less censored social platforms such as YouTube, Facebook, Twitter, gaming sites, etc. Newspapers struggle to figure out how they "fit" in this new space. Advertisers begin to demand reports and become suspicious of impression-based advertising. Expectations revolve around lead generation. Advertisers become suspicious of newspaper advertising programs because while investments are made in Social Media services, the number of qualified leads obtained from these programs is minimal. Advertisers are still learning about their alternatives, experimenting with Social Media either internally or with smaller less "trusted" niche providers. The newspaper is also experimenting with these concepts. During this experimental phase, the newspaper is still profitable, with less than desirable profit margins .</p>

Examples of Real Options Analysis for Newspapers:

Scenario	Summary
Techno-World	<p>In this scenario, Newspapers make radical changes in technology investments in support of digital media, and begin to embrace all forms of advertising. Newspapers focus on optimizing mobile, online, and print publishing processes. The production workflow is reversed from an environment where the print product drives digital content to an environment where digital content drives the print product. All forms of digital media are embraced and advertising strategies are developed to support some of the different types. The portfolio of digital solutions includes digital ad platforms (including online display, video, mobile, etc.), SEM, SEO, text messaging, reputation management, social media services, etc.) User contributed web content is welcome and the most popular (properly edited) user-contributed content is pushed to the print product with related follow-up stories. Digital content is designed with SEO in mind, linking to trusted sources and related content to provide a rich media source with targeted advertising that drives users to advertiser sites and into their doors. Advertisers see the Newspaper as a trusted source of diverse product offerings for print, mobile and digital advertising. The public trusts the newspaper to deliver up-to-the minute relevant local and national news both online, on mobile devices, and in print.</p>
Mobility	<p>In this scenario, Newspapers make radical changes in their use of technology in support of digital media. Social Media (Facebook, Twitter, Four Square, etc.) media channels are supported and digital advertising strategies are developed in support of all types of digital media. Newspapers focus on the use of free technologies that optimize online, mobile and other digital initiatives while re-engineering print publishing processes. The production workflow is reversed from so that mobile and online content are first, and print content is last. The portfolio of digital advertising includes a huge focus on mobile ad platforms & video advertising, as well as ads on Social Platforms (Facebook, Twitter, etc.), and more traditional banners, display ads, text ads, etc. Users become valued sources of content and the most popular (properly edited) user-contributed content is pushed to all media channels with related follow-up stories (online and in print), video, photos, pod casts, advertising, etc. Newspapers become a rich media source with targeted advertising that drives online, mobile and print audience growth. Advertisers view the Newspaper as a trusted source of diverse product and services offerings that include advertising options for all forms of digital media. The community is engaged and collaborates with the newspaper to deliver up-to-the minute relevant local and national content -- not just news --on mobile devices, online, and in print.</p>

Scenario	Summary
Partner Up	<p>In this scenario, the economy is stagnant and newspapers make huge reductions in force. Newspapers outsource to print and digital partners to improve print, print-to-web, and digital processes in lieu of making investments in support of digital media and related technology. The overall contribution of digital revenue to the bottom line remains lower than the print product's contribution but a sustainable growth trend in digital revenue is observed. Newspapers allow more "real-time" interaction with the website (images, Blogs, user profiles, etc.), and the traditional newspaper editorial roles shift to that of participant/contributor in conversations that occur related to hot topics, hyper-local news and events. These conversations begin in the community and become foundational to the "news", which is available via digital media first. Follow up in-depth coverage is available online and in niche print publications, based on popularity. Via its partners, the newspaper company learns to embrace and use the Internet and social sites such as YouTube, Facebook, Four Square, gaming sites, etc. to augment its content and extend its audience. Partner companies are also used to help advertisers in SEO, SEM, Social Media, and Reputation Management, diverting dollars traditionally spent on the print product to these other opportunities. Advertisers become dependent on newspapers as a trusted one-stop-shop for new digital advertising alternatives, rather than experimenting with SEM and SEO either internally or with smaller less "trusted" niche providers. During this time, the newspaper sees an increase in profitability, with growing profit margins.</p>
Press Release	<p>In this scenario, digital media has a catastrophic impact on the newspaper's print product. Digital media providers adopt a push rather than pull service model, with personalization on laptops, mobile phones, iPads, and other mobile devices using behavioral targeting and mobile GPS for geo-targeting, etc. People automatically get news, info about music, games, events, etc., including targeted advertisements, based on location and preferences -- behavioral history at Google, Yahoo, and BING -- pushed from these sites to their mobile devices. Newspaper websites struggle to differentiate themselves from other sites that provide local news and content. The public is suspicious of the newspaper's ability to deliver up-to-the minute relevant local and national news both online, on mobile devices, and in print. The traditional print news product has all but disappeared. Specialty/niche publications are the only form of print product; these products are free. The Newspaper can no longer afford the cost of large print production processes or distribution centers. Advertisers no longer see value in investing in advertising campaigns in the newspaper's print product.</p>