NEWS WAR (PART 3) WHAT’S HAPPENING TO THE NEWS

27 Feb 2007

<https://www.pbs.org/wgbh/pages/frontline/newswar/etc/script3.html>

Video: <https://vimeo.com/econexcel/latimesstock>

NARRATOR: But the deal didn't play out as they thought, and with circulation continuing to fall, Tribune needed to find savings at The LA Times. Printing and delivery account for 70 percent of the cost of producing a newspaper, so this is where they started cutting. But soon, Tribune also wanted cuts in the newsroom, which had become the second largest in the country.

DEAN BAQUET: It was clear that some cuts had to be made. I'm not sure that those were the right cuts, but at a certain point, if you're going to lead your newsroom and the publisher made a convincing case that we had to do layoffs, you do them.

JOHN CARROLL: They cost-cut every year. And for a while, it was fine because there really was considerable fat in the operation. But after a while, it began to damage the business side of the paper and its ability to keep the circulation up. It damaged the news side of the paper. It reduced the amount we were able to give the reader.

DEAN BAQUET: The cuts started to be sort of part of the life of the paper. And I think this is true in a lot of papers. It wasn't just layoffs, it was every few months- I mean, you'd start the year with a budget, and every few months, you'd re-budget and you'd cut more newshole, more space for news.

JOHN CARROLL: It was happening at an accelerating pace, and it was happening at a time when the paper was making lots and lots of money.

NARRATOR: The LA Times was taking in over a billion dollars a year, over $200 million in profits.

JOHN CARROLL: A typical newspaper makes a 20 percent operating margin. That's roughly double what the typical Fortune 500 company makes. People think of this as a poor, washed-up old business. It's not. It makes tons of money.

LOWELL BERGMAN: So what's the rationale behind that? I don't understand. I mean, why do you have to cut costs when you're making hundreds of millions of dollars?

JOHN CARROLL: Because you have to make more every year than you made the last year in order to keep the shareholders happy. And so even if you made barrels full of money one year, you've got to make more than that the next year.

LOWELL BERGMAN: The Los Angeles Times grosses over a billion dollars a year, and apparently over $200 million a year in profit. Is that about accurate?

DAVID HILLER: Yes.

LOWELL BERGMAN: It's a pretty good business.

DAVID HILLER: It's a very good business.

LOWELL BERGMAN: It makes a lot of money.

DAVID HILLER: Yes.

LOWELL BERGMAN: So what's the financial problem?

DAVID HILLER: The issue for the whole newspaper industry, not just The Los Angeles Times, is what's the financial trajectory of the business over time? Is it getting bigger or is it getting smaller? That's plainly the concern that the investors have and why Wall Street is being so harsh on newspaper companies at the present time.

LOWELL BERGMAN: Your stock, for instance.

DAVID HILLER: Our stock. But all Knight Ridder's stock until they were sold, New York Times stock, today McClatchy stock. **The question is not about how you're doing today, but the question is, how are you going to be doing in the future?**

NARRATOR: The big worry on Wall Street is that profits from newspapers will vanish over the next few years as the major papers lose advertising dollars to the Web almost as fast as they're losing readers.

LAUREN RICH FINE, Managing Dir., Merrill Lynch: Newspapers are not a growth business. The industry is under enormous financial pressure. And so to invest in these stocks with a very, very uncertain future is a challenge. And the advice that we've given our clients is to stay on the sidelines until we can figure out what the growth rate is, if there's a growth rate, but until then, you really don't need to own the stocks.

At one point at their peak, newspapers were generating close to 70 percent of their pre-tax profits from their classified advertising. Today, a good portion of help wanted classified has gone on line.

NARRATOR: People looking for cars, jobs and places to live are now going on line instead of browsing newspapers, and ad dollars are following those eyeballs.

LAUREN RICH FINE: It's just amazing what you can do on line. It's just better on line. That's ultimately why the newspaper industry is under pressure. Classifieds are better on line, period.

NARRATOR: One of the biggest players in the on-line classified ad business is based in a modest house in San Francisco. Craigslist began in the late '90s as an on-line community bulletin board set up by computer programmer Craig Newmark to service what he calls his "nerd subculture."

LOWELL BERGMAN: How big are you?

CRAIG NEWMARK, Founder, Craigslist: I tell people five-seven, but it's five-six-and-a half. Our little company has 24 people right now. We're in over 300 cities and around 35 countries, getting well over 5 billion pages views a month, and increasing all the time.

LOWELL BERGMAN: Can we say the company you started is now worth $30 million, $40 million, $50 million? Or more?

CRAIG NEWMARK: We actually don't know. I've seen current estimates anywhere from $250 million to $2.4 billion. I don't believe any of it. I don't care, except it's flattering. Who cares? We're not selling. It doesn't matter.