The Journalism School
Case Consortium @ Columbia
Columbia University

CSJ-14-0055.3

Chasing the Community Newspaper Rainbow: The *Whiteville News Reporter* and the Digital Age Teaching Note[1]

Case Summary

In June 2014, Les High, editor of the small, prizewinning *Whiteville News Reporter,* and his sister Stuart High, director of special projects, debated what their business and journalistic priorities should be for the paper in the coming year. The *News Reporter* was a twice-weekly, family-owned paper founded in 1896; it served one of the poorest counties in North Carolina. In the early 1950s, it had won the Pulitzer Prize for exposing the local activities of the Ku Klux Klan.

In 2009, the *News Reporter* joined a five-year research project at the University of North Carolina-Chapel Hill aimed at developing new business models to help community news organizations thrive in the digital age. S. High joined the leadership team in 2011, as the paper struggled to emerge from the economic slump of 2008. In April 2014, the study results were published in a book, *Saving Community Journalism: The Path to Profitability*, and on the accompanying instructional website. Among the study's conclusions: to survive the disruptive force of the Internet, newspapers should pursue a three-pronged strategy of cost reduction, attracting new readers and reversing revenue declines.

During the study, Les High had opted to focus on building revenue. Though omitted from the case as proprietary information, the Highs were willing for purposes of classroom discussion (instructors may use this information) to report that the *News Reporter* had 2006 revenue of $2.7 million. As of 2013, revenue was half that. The profit margin in 2006 was 20 percent; in 2014, it was 5-10 percent. The 2014 newsroom budget, which L. High considered "sacrosanct," was approximately $250,000, exclusive of benefits.

[1] Further suggestions on teaching this case can be found at "Just for Educators." See: http://www.savingcommunityjournalism.com/for-educators

This Teaching Note was written and contributed by Professor Penny Muse Abernathy of the University of North Carolina, Chapel Hill. (0814)

In May 2014, four of the study participants—including High—presented their experiences at a workshop. The *Santa Rosa Press Democrat* in northern California had pursued new forms of advertising revenue. The *Rutland (VT) Herald* had invested in personnel, able to hire more reporters and editors after it cut costs by outsourcing printing and distribution operations. The *Southern Pines Pilot* had created and published a variety of new products, some only tangentially related to the newspaper.

As High listened to his colleagues, he decided it was time to reexamine his own strategic plan. The *News Reporter* had identified six special-interest "communities of readers" (such as sports lovers or parents), and had successfully launched one new section ("Sports of All Sorts"), plus a quarterly lifestyle magazine. He and his sister now wanted to pay more attention to cost reduction, including possibly outsourcing printing. More immediately, with only limited resources, they had to decide whether to launch a new parenting section vs one directed at a younger cohort.

The case briefly reviews the history of the scrappy paper and places its economic woes in the context of the wider newspaper industry. It explores the dynamics and decision-making processes within the mission-driven news enterprise. As the case ends, the question on the table is: will any or all of these initiatives help the *News Reporter* transform its business model so it can thrive in the digital age?

Teaching Objectives

Media headlines frequently focus on the challenges confronting the nation's 100 or so largest newspapers. This case delves into the strategic and economic challenges confronting the country's other 11,000 newspapers as they attempt to navigate a period of disruptive and disorienting change. Traditionally, papers with less than 15,000 circulation have been categorized as community newspapers. But in an era when more people access news online than through traditional mediums, such a constraining definition seems outdated. This case categorizes newspapers based not on their print circulation, but on their mission. It focuses on the *News Reporter*—one of the smallest papers in a five-year research project at UNC-Chapel Hill—but lessons are applicable to any dailies and weeklies with less than 100,000 circulation.

The case is designed to help students reflect on the role that strong community news organizations play in our news ecosystem. Industry observers, as well as government agencies such as the Federal Communications Commission, have estimated that community newspapers have historically produced as much as 80 percent of the "news that feeds democracy"—the sort of accountability journalism that helps keep democratic government and capitalism functioning.

The *News Reporter* was one of the smallest papers ever to win the Pulitzer Public Service Award. Most students are surprised to learn that this journalistic pursuit of justice came at a significant cost as local readers and advertisers, inflamed over the "bad publicity" that resulted

from the coverage, boycotted the paper for years. This represents the kind of complex financial and journalistic decisions community paper publishers and editors routinely weigh as they consider whether they can afford a tough expose. Such choices in the digital era, with sharply lower profit margins, are even more critical and can well determine whether a paper survives.

Students also come to understand the complexity of the business equation for community newspapers in the digital era. In contrast to manufacturing or retail industries, which make a profit by selling directly to customers, local newspapers traditionally made a profit by selling access to readers to local advertisers. This worked well when community newspapers were de facto geographic monopolies. But the Internet disrupted the cost structure of papers, and siphoned off both readers and advertisers. A paywall alone has to date proven insufficient to replace lost revenue.

The case lays out a three-pronged strategy that publishers should consider: cut costs, attract new readers, and build revenue streams. The *News Reporter* is one of the publications featured in *Saving Community Journalism* (Chapters 4 Through 7). The book can be used as an additional resource in teaching this case. One of its many lessons is that newspapers need to experiment, learn to "fail fast," and move on.

A third case objective is to have students consider how newspapers pursue transformative change, and how difficult it is to sustain the pace of change over years. The case describes how researchers recommended that the Highs set a goal of simultaneously decreasing print legacy costs and increasing digital revenue by 30 percent over a five-year period. Students can discuss why Les High decided at the time to ignore costs while focusing on revenue.

By 2014, he and the team have made little progress towards reinventing the business model. Why does he decide not to pursue certain initiatives and delay others? Is this due to internal pressure or his own strategic thought-process? Given scarce resources, has he been wise in the decisions he made from 2009-2014? Which of the changes he is considering (from outsourcing printing to creating an in-house digital ad agency) will most likely help the *News Reporter* advance? Does the staff have the experience, confidence and bandwidth to rev up the pace and scope of change?

The case can also be used to consider the form of ownership most likely to dominate the newspaper industry in the digital age. Will we see an increase in the number of small, independently owned and operated news organizations, or will there be further consolidation of the industry with a few large companies owning a majority of local entities? There are economic arguments for both scenarios. Students can consider the pros and cons of each and how ownership can affect the decisions that a newspaper publisher or editor makes. They can also consider the implications this might have on an economically struggling community such as Columbus County.

Class Plan

This case can be used in a course/class about the business of media, community journalism, strategic management, or entrepreneurial journalism. It is designed to be used as a stand-alone assignment or in combination with the text, *Saving Community Journalism: The Path to Profitability*.

Regardless of which method is chosen, faculty are encouraged to use the instructional tools available on the free website. The site is divided into four sections. The first, Get Started, consists of five lessons on how to create and implement strategy in a news organization. Dig Deeper provides numerous examples of how newspapers in the study reinvented themselves by shedding legacy costs, building community on many platforms and pursuing new ad revenue. The third section, Learn More, suggests additional readings, and the fourth allows professors and students to stay up-to-date on new research and insights. Finally, there are lesson plans for each chapter in *Saving Community Journalism* in the Just for Educators section.

Pre-class study questions. The instructor can help students prepare for class by assigning this question:

1) What are the internal and external challenges that Les and Stuart High face as they attempt to reinvent the business model for the *News Reporter*?

Instructors may find it useful to engage students ahead of class by asking them to post brief responses (no more than 250 words) to the above question in an online forum. Writing short comments challenges students to distill their thoughts and express them succinctly. The instructor can use the students' work both to craft talking points ahead of class and to identify particular students to call upon during the discussion. For context, you may want to direct students to consult the Pew Research Center's *The State of the News Media, an Annual Report on American Journalism*.

In-class questions: The homework assignment is a useful starting point for preliminary discussion, after which the instructor could pose any of the following questions to promote an 80-90 minute discussion. The choice of questions will be determined by what the instructor would like students to learn from the class discussion. In general, choosing to discuss a few questions in depth is preferable to trying to cover them all. Instructors may want to begin by showing the short (2 ½-minute) video embedded in the case. Filmed at the end of 2011, just after Stuart High had returned to the paper, the video sets the stage for discussion of the paper's strategic path.

Use the four questions below to evaluate the options the *News Reporter* is considering. The questions take students through a simple strategy process that begins with articulating the mission of the *News Reporter* and ends with selecting one or more strategic initiatives to pursue.

a) Should we care whether the *News Reporter* survives? Is the fate of Columbus County tied in some way to the fate of the *News Reporter*? If the *News Reporter* fails to adapt, what are the chances that another news organization will succeed in the market?

This question is designed to get students to consider the mission of a community news organization, and why its survival is critical to the fate of economically challenged Columbus County. Get Started (Lesson 1) lists three vital roles that community newspapers have historically performed: set the agenda for debate of public policy issues, encouraged regional economic growth, and nurtured political and social identity. Students can discuss how well the *News Reporter* is performing each of these roles.

b) How must the *News Reporter* change in order to adapt and survive? Where has it made the most progress? Where does it still face significant challenges?

This question is designed to help students understand the traditional business model for community newspapers, which relied on advertising for the vast majority of revenue and profit, and how that model has changed. Get Started (Lesson 2) suggests a set of five questions that professors can use to walk students through an analysis of the *News Reporter*'s business model. Alternatively, a professor can do an abbreviated analysis using these four questions:

b1) *What processes are involved in creating a newspaper?* There are three main processes: creation, aggregation and distribution of content. The Internet is undermining both the aggregation process (by siphoning off readers and advertisers who can choose more targeted products), and the distribution process (by eliminating a barrier to entry—the cost of owning and operating a press).

b2) *How does a paper make money?* Primarily through advertising, which is why newspapers must address the decline of print advertising by learning how to sell across multiple mediums. Many readers value the information in advertising because it helps them make more informed choices.

b3) *Who are a local newspaper's competitors?* This can include traditional rivals (such as television and radio stations, billboard companies and telephone directories), new entrants (digital start-ups focused on a niche, such as sports) and substitutes (such as Facebook).

b4) *How will the News Reporter grow?* Who are its current loyal readers? What drives their loyalty? How are their media habits changing? Is the newspaper keeping pace? How can the newspaper attract new readers and revenue?

c) Should the *News Reporter* pursue a three-pronged strategy of shedding legacy costs, building multiple communities of loyal readers on many platforms, and pursuing new adverting revenue? How successfully has the team done all three? Should it adopt the goal of decreasing print costs and increasing digital revenue by 30 percent?

This question asks students to consider the internal politics that managers must deal with, as well as constraints in the external environment. Three points that the professor might want to reinforce:

c1) It is difficult for companies that have been monopolies to know how to respond to competitive threats,

c2) Though it seems easy, shedding legacy costs in any type of industry is difficult. That is especially true for newspapers since they must be careful not to alienate loyal print-only readers. Students might want to discuss why Jim High is having a hard time agreeing to outsource printing since loyal readers, who will still receive the paper at their doorstep, likely won't even notice.

c3) All managers are subject to a phenomenon known as "confirmatory bias." We analyze and synthesize data based on previous experience. Therefore, it is important to have clear measurements to determine if a new venture is successful or not. Get Started (Lesson 3) suggests several ways to measure success.

d) Which of the initiatives that Les and Stuart High are considering will help the *News Reporter* achieve the transformation he seeks?

In the concluding question, instructors will want to probe whether the Highs are being sufficiently bold. Are they considering the appropriate options, or are there other things they should be doing? The Dig Deeper section has numerous examples of how other newspapers are tackling these strategic initiatives.

At the end of the discussion, the instructor can ask students to vote on the options. After the vote, the instructor may wish to point out that the options are not mutually exclusive. In other words, the Highs can investigate the possibility of outsourcing printing even as they and the other editorial staff begin identifying features, such as obituaries, to move online. Similarly, he can opt to launch POP in the summer even as the regular editorial and advertising staff aim at a fall launch for the parenting section.

Final assignment: Instructors may elect to have students do a 1,000-word memo, laying out the broad outline of a five-year business plan for either the *News Reporter* or an all-digital start-up in Columbus County. The memo should be addressed to either the Highs, or to the director of a nonprofit or private investment group considering investing in the new venture.

Suggested Readings

Depending on what topics the instructor wants to stress, there are numerous suggestions for related readings in the Learn More section. In addition, professors can access lesson plans for each of the nine chapters in *Saving Community Journalism* in the Just for Educators section. In

addition, there is a synopsis for each of the recommended books or reports below on the *savingcommunityjournalism.com* site.

Research on the Industry

Each of these reports has an "Executive Summary," as well as sections devoted to the plight of newspapers.

Pew Research Center's Project for Excellence in Journalism, *The State of the News Media, an Annual Report on American Journalism, 2014*. See: http://stateofthemedia.org.

Steven Waldman et al, *The Information Needs of Communities: The Changing Media Landscape in a Broadband Age,* Federal Communications Commission, July 2011.

Knight Foundation, *Informing Communities: Sustaining Democracy in the Digital Age: The Report of the Knight Foundation on the Information Needs of Communities in a Democracy,* Washington, D.C.: Aspen Institute, 2010.

On General Business Strategy Creation and Implementation

Instructors who want to supplement the material on Get Started will find these books provide a useful framework for conducting a strategic analysis of news organizations.

Richard Foster and Sarah Kaplan. *Creative Destruction: Why Companies That Are Built to Last Underperform the Market—And How to Successfully Transform Them.* New York: Doubleday, 2001.

Robert S. Kaplan and David P. Norton. *The Strategy Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment.* Boston: Harvard Business School press, 2001.

Robert L. Simons. *Seven Strategy Questions: A Simple Approach for Better Execution.* Harvard Business Review Publishing, 2010.

On Media Strategy and Consumer Behavior

These three books deal with changing consumer behavior and the implications this has on readership of community newspapers.

James T. Hamilton. *All the News That's Fit to Sell: How the Market Transforms Information into News.* Princeton, N.J.: Princeton University Press, 2004.

Eli Noam. *Media Ownership and Concentration in America.* Oxford and New York: Oxford University Press, 2009.

Frederick Reichheld. *The Ultimate Question: Driving Good Profits and True Growth.* Boston: Harvard Business School Press, 2006.

On Columbus County, NC

American Communities Project website

Synopsis: The website uses census data to sort US counties into roughly a dozen categories, and then labels them by primary characteristic such as "college town" or "working class county." Move the cursor over the extreme southeastern tip of North Carolina to discover that Columbus and most of the surrounding counties are labeled "African American South." Click on the icon for this category to learn that residents in this area of the country, which stretches through Louisiana and into parts of Texas, confront some of the most serious and pervasive social and economic issues in the country, including high rates of poverty, mortality and illiteracy. To retrieve specifics on Columbus County, students can also consult the North Carolina Department of Commerce site.

http://americancommunities.org/