



## Buy It or Make It? The *Charlotte Observer* and the Associated Press

In the fall of 2009, *Charlotte Observer* Editor Rick Thames wondered what his newspaper would look like a year hence. For more than 120 years, the *Observer* had not only covered Charlotte, but had set the public agenda for 40 counties across southern and western North Carolina. But like so many metro dailies, the *Observer* since 2000 had suffered circulation declines, weakened print advertising sales, and a steady migration of its audience to online alternatives.<sup>1</sup>

Thames had already cut costs across the board. He had offered buyouts to members of the newsroom, and the publisher did likewise on the business side of the paper. He laid off some staff outright.<sup>2</sup> He had also looked for other revenue sources, including creating a network of hyperlocal community websites, which would provide both new advertising and news opportunities. But one critical, and expensive, service remained so far untouched: the Associated Press (AP) wire.

For generations, the venerable wire service had brought the nation and the world to Charlotte's front door with fast, reliable reporting. It had provided a rich supplement to the *Observer's* local, state, and regional coverage. In late 2009, however, the *Observer* was approaching a crossroads in its relationship with the AP. Over the previous decade, the cooperative—owned by its members, who paid hefty fees to belong—had struck numerous deals with online portals to syndicate its content across the Internet. Notably, these deals did not benefit the AP's members.

At the *Observer*, Editor Thames was left to wonder if—and how—the AP's future growth strategy included his paper. On the one hand, the AP provided crucial services, including breaking

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<sup>1</sup> "The State of the News Media, 2010," PEW Project for Excellent in Journalism, [http://www.stateofthemediamedia.org/2010/newspapers\\_summary\\_essay.php](http://www.stateofthemediamedia.org/2010/newspapers_summary_essay.php)."

<sup>2</sup> "Pressure on the Presses," *Wall Street Journal*, <http://online.wsj.com/public/resources/documents/NEWSPAPERS0903.html>.

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*This case was written by Joseph E. Williams for the Knight Case Studies Initiative, Graduate School of Journalism, Columbia University. The faculty sponsor was Dean of Academic Affairs William Grueskin. Funding was provided by the Edward Klauber Seminar in Journalism Leadership. (0311)*

news, international, and sports coverage. Furthermore, it had recently created tiered levels of service—Complete and Limited—to assist struggling newspapers by providing them with content choices which could mean savings. On the other hand, the AP was expensive, with major metro dailies spending high six-figure sums—or more—to fully subscribe. Thames had to reconcile where and how the AP’s strengths fit into the *Observer’s* strategic roadmap and whether the two organizations’ leadership teams shared similar goals for the future.

The *Observer* was changing, too. Thames and his leadership team faced numerous choices. Should the paper try to remain the source for its readers of all categories of news—the longtime model for a metro daily? Or should it focus on local reporting? In either scenario, what role would the AP play? Should the *Observer* continue as a Complete AP subscriber, scale back to the Limited tier, or eliminate the service altogether, relying instead on a combination of local staff reporting, supplemental wire services, and shared content from fellow McClatchy Company newspapers? With the *Observer’s* AP subscription up for renewal by the end of 2009, Thames would need to decide soon.

### **The AP and the *Observer***

The *Charlotte Observer* and the Associated Press shared a history reaching back more than a century. The AP was conceived in 1846, when *New York Sun* proprietor Moses Yale Beach brought together six New York newspapers to share reports across a wire. Soon after, the *New York Times* joined.<sup>3</sup> The new initiative galvanized contentious rivals around the idea of sharing in order to augment their newsgathering and extend both their reach and influence.

Daniel Craig became the AP’s first general agent in 1851 and redefined the service as a “news vendor.” The AP, headquartered in New York but with national and international ambitions, sold its news to out-of-town newspapers and in turn asked those papers to contribute news reports to the association. The business model—a not-for-profit news cooperative owned and governed by participating newspaper members—took shape. AP content came both from its own reporters and from members (AP staff rewrote member content in its own style before sending dispatches out on the wire).

For hometown publishers of all sizes, the wire as it expanded offered unprecedented advantages, “making it possible for a... paper to publish a story from Europe or Asia as quickly as the *New York Times* or the *Chicago Tribune*.”<sup>4</sup> As such, it became “indispensable... for a local editor striving

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<sup>3</sup> Walter Mears, *Breaking News; How The Associated Press Has Covered War, Peace, and Everything Else* (New York: Princeton Architectural Press), 2007, p. 403–404.

<sup>4</sup> Peter C. Marzio, *The Men and Machines of American Journalism* (Washington, D.C.: The National Museum of History and Technology, The Smithsonian Institution) p. 115.

to produce a complete and credible newspaper.” In the early 20<sup>th</sup> century, the cooperative boomed, expanding its newspaper clientele by 1,300 percent—from 100 to 1,400 members—from 1914 to 1940.<sup>5</sup>

*Charlotte Observer*. The press in Charlotte, North Carolina, stirred to life in the late 1860s. Charlotte, known as the “Queen City,” had escaped the ravages of the Civil War better than most of its southern counterparts, projecting “a spirit of enterprise that attracted people and inspired optimism.”<sup>6</sup> Responding to the city’s growing prosperity and sophistication, the *Charlotte Daily Observer* opened its presses in 1869 and, in 1875, joined the Associated Press as a subscribing member.<sup>7</sup> *Observer* Editor Thames, a career newspaper reporter and editor who first came to Charlotte in 1988, recalls the AP’s early value to its members:

It was the newspaper’s window to the world. Newspapers knew what was happening locally, but especially in that day, they performed a service of telling their readers about the entire world, and the AP made that possible.<sup>8</sup>

Over the decades, AP offered its members breaking news, international reporting, and sports coverage, including a full catalogue of out-of-town scores, statistics, and game briefs. Members relied on it for news that was fast and accurate. “When something is developing rapidly, no one can touch AP with the speed of their updates,” says *Charlotte Observer* Page One Editor John Arwood.<sup>9</sup> One of the AP’s greatest assets “is consistency of style and format,” adds Charles Broadwell, publisher of the *Fayetteville (NC) Observer*.<sup>10</sup> Its bylaws were specific: “The news gathered and distributed by the Associated Press shall be as objective and complete as human endeavor can make it.”<sup>11</sup>

By 1960, it had 3,000 reporters, photographers, and editors spread across 242 bureaus in 121 countries. These journalists produced most of the wire’s national and international news, though member newspapers contributed 45 percent of the content for state AP reports. Some 1,800 news organizations were members, paying the AP handsome monthly fees, which varied according to the

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<sup>5</sup> Phillip Cook, Douglas Gomery, and Lawrence Lichty, *The Future of News: Television-Newspapers-Wire Services-News Magazines* (Washington, D.C.: The Woodrow Wilson Center Press), 1992, p. 148.

<sup>6</sup> Jack Claiborne, *The Charlotte Observer: Its Time and Place, 1869-1986* (Chapel Hill: University of North Carolina Press), 1986 p. 7–8. Details in this section on Charlotte newspapers are drawn from this book, p. 10 & 44.

<sup>7</sup> The *Daily Observer* was not yet the *Charlotte Observer*. In a confusing sequence of events, a second paper, the *Charlotte Daily Chronicle*, opened in 1886. One year later, the *Daily Observer* folded and, in 1892, the *Daily Chronicle* took the “Observer” name.

<sup>8</sup> Author’s telephone interview with Rick Thames on December 6, 2010. All further quotes from Thames, unless otherwise attributed, are from this interview.

<sup>9</sup> Author’s interview with John Arwood in Charlotte, NC, on February 9, 2010. All further quotes from Arwood, unless otherwise attributed, are from this interview.

<sup>10</sup> Author’s interview with Charles Broadwell in Fayetteville, NC, on February 4, 2010. All further quotes from Broadwell, unless otherwise attributed, are from this interview.

<sup>11</sup> “Article VII, Section 4: 23,” *Associated Press Charter and Bylaws: 1846-2008*, 42<sup>nd</sup> Edition, Revised March 2008.

circulation of the news operation. The members owned the cooperative, and top newspaper executives occupied 18 of the 19 board of directors' seats.

In the US, the cooperative maintained a bureau in most states; the bureau chief was responsible for fulfilling partners' requests for coverage and voicing members' concerns to the board. Former New York and Ohio AP Bureau Chief Beth Grace reflects on the strong bond between the AP and its members:

AP for many, many years was seen as a partner to papers... or a member of their staff. I remember when I was a brand new bureau chief in New York, and I went to see the publisher of the *Elmira Star-Gazette*. He didn't know me from a hole in the wall. I walked in and we sat down, and he's telling me stories like I've known him for 100 years. He opens his budget to me... shows me every page of his budget. And I realized for the first time, I was a member of his staff. I was his partner.<sup>12</sup>

The AP's well-defined purpose—to provide members with national and global reach—continued into the 21st century. That purpose weathered many a technology-driven change. In the 1920s, the innovation was radio, followed by television in the 1950s, cable TV in the 1970s and, by the 1990s, the Internet. Each new technology weakened the market for newspapers, the AP's principal partner, and as early as the 1960s, the AP began to see its growth plateau.<sup>13</sup> Between 1960 and 1985, according to one study, contracts for major wire services fell by 12.3 percent, while the number of newspapers buying multiple wire services declined by 15.6 percent.<sup>14</sup>

Then, after 2001, the established relationship between the AP and its members began to shift.

## Enter the Web

At first, the Internet was not seen as a substitute for traditional news sources. Newspapers and broadcasters still felt an obligation to provide a full menu of news. "When I first got here in 1988, there was certainly much more of a sense of responsibility that [we] needed to cover the world," Thames recalls. "I would say that right up until recently... the *Observer* still saw itself as responsible for a comprehensive world and national report. AP could provide that." September 11, 2001, changed that. As Thames remembers it, "9/11 was one of those moments."

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<sup>12</sup> Author's interview with Beth Grace in Raleigh, NC, on February 1, 2010. All further quotes from Grace, unless otherwise attributed, are from this interview. In 2010, Grace was Executive Director of the North Carolina Press Association.

<sup>13</sup> "Daily and Sunday Newspapers: Number and Circulation," Table 1093, *Editor and Publisher International Year Book*, 2008. The total number of daily newspapers stagnated throughout the 1960s and then began declining.

<sup>14</sup> Cook, Gomery, and Lichty, *The Future of News: Television-Newspapers-Wire Services-News Magazines*, p. 155.

There was, all of a sudden, this understanding that we weren't the sole source of information and that this was very different from what it might have been 10 years before. The Internet emerged as a viable source of information, and people began to realize that they could see and hear a lot of their world and national news in real time.

In the aftermath of 9/11, the Internet gradually transformed into a mainstream news and information vehicle. Search engines and aggregators such as Google and Yahoo! matured into powerful online search hubs that influenced how information was accessed, organized, and distributed. Meanwhile, web-based businesses such as Craigslist and eBay.com opened ecommerce channels that gutted revenues, primarily classifieds, long controlled by newspapers. News moved steadily from print to online. Readers benefited from global news sources, most of them free. Newspapers suffered as ads and subscriptions went into steep decline. As newspapers struggled, so did their creation—the AP.

*AP Changes.* In March 2003, Louis Boccardi, who had led the AP for 18 years, stepped down, handing the reins to Tom Curley as the cooperative's 12<sup>th</sup> CEO. Boccardi heralded Curley as having "the deep knowledge of the news industry to keep AP strong."<sup>15</sup> Curley—who among other achievements had helped launched *USA Today*—had ambitious plans to modernize the AP's technology and revamp its business model for the digital era. He had good reason: whereas in the mid-1980s newspapers accounted for more than 50 percent of AP's revenue, by the 2000s that had declined to 20 percent. While this represented one of the wire's largest revenue sources, the AP nonetheless was losing money on its services to newspapers and had to find ways to make up the shortfall.<sup>16</sup> In a 2007 keynote address at a Knight-Bagehot program dinner, Curley admonished the newspaper industry for allowing Internet portals to "run off with our best stuff, and we're afraid or unable to make or enforce deals that drive fair value. The first thing that has to go is the attitude, our institutional arrogance."<sup>17</sup>

## Skeptical

Many AP initiatives under Curley invited direct collaboration with members to ensure that they were better served by the wire. In July 2005, for example, the cooperative introduced the Online Video Network, an ad-supported video service that would bring together AP and member video content on newspaper, radio, and TV websites. In 2007, it introduced the first of four regional editing

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<sup>15</sup> Associated Press, "Tom Curley, president and publisher of USA Today, named AP CEO to succeed Louis D. Boccardi," March 28, 2003, [http://www.ap.org/pages/about/pressreleases/pr\\_32803.html](http://www.ap.org/pages/about/pressreleases/pr_32803.html).

<sup>16</sup> Rick Edmonds, "Curley: Newspapers Now Provide Only 20 Percent of AP Revenue," Poynter.org, October 26, 2010, <http://www.poynter.org/latest-news/business-news/the-biz-blog/106533/curley-newspapers-now-provide-only-20-percent-of-ap-revenue/>.

<sup>17</sup> Associated Press, "Remarks by Tom Curley," Knight-Bagehot Dinner, November 1, 2007, [http://www.ap.org/pages/about/whatsnew/wn\\_110107a.html](http://www.ap.org/pages/about/whatsnew/wn_110107a.html).

desks, intended to streamline workflow so copy would reach members faster. AP also introduced a new story filing protocol, called “1-2-3,” that aimed to make storytelling more versatile by delivering content in a variety of forms across an array of formats, including mobile alerts and social networks.

Building on those innovations, Curley in April 2008 unveiled AP Mobile News Network, a multimedia application for wireless devices that would provide a standardized interface for smartphone users to access national AP as well as local, branded member content. Beyond content, AP touted that Mobile News would offer a “new outlet for members to sell local advertising to the mobile audience.”

Other new programs, however, seemed to *Observer* editors intended principally to protect the market position of the corporate cooperative. In 2006, for example, AP struck an agreement with Google, the leading global search engine and information aggregator, to carry AP stories and photos on its Google News service. This was exclusively an AP contract. Even though a small percentage of repurposed member content would be packaged to Google for distribution under AP’s banner, AP members would not benefit financially.

Furthermore, to cut costs the AP continually consolidated its state bureau structure, reassigning chiefs to cover much larger territories. When Curley arrived in 2003, there were 43 chiefs.<sup>18</sup> By 2009, that number had been more than halved, to 21.<sup>19</sup> Formerly, North Carolina had a dedicated bureau chief. Now that person covered four states (Alabama, Georgia, North Carolina, and South Carolina).<sup>20</sup> For Thames, this was another sign that the AP’s relationship with its members had changed. Thames, who had become *Observer* editor in 2004, says:

Where we used to have a North Carolina bureau chief, the bureau chief is now based in Atlanta. She’s been in her job at least four months, if not longer, and we’ve yet to have a phone call. I’ve heard nothing from an AP person for six months or more. We used to get regular visits from the bureau chief, scheduled on the calendar. There was a time when we really were partners, and we worked closely together. There’s just a different expectation about what our relationship should be.

The *Observer* leadership wondered if the AP was trying to move beyond the exclusive business-to-business arrangement that its members had bought into and, instead, become a business-to-consumer news vendor. If true, this could position it as a direct competitor to local news outlets in

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<sup>18</sup> Author’s interview with Sue Johnson in Raleigh, NC, on February 1, 2010. Johnson served as North Carolina AP Bureau Chief from 1999–2009.

<sup>19</sup> See: <http://www.ap.org/media/pdf/coblist.pdf>.

<sup>20</sup> See: <http://www.ap.org/media/pdf/coblist.pdf>.

their own markets. Editor Thames and Managing Editor Cheryl Carpenter began to suspect as much. “It didn’t seem that AP viewed us in the same way that they had before,” Thames remarks.

I felt like they were seeing us less as a partner... I know they have people in Charlotte covering various fields, but their presence here feels surprisingly competitive. This coincided with when they began to talk less about what we would need and more about the enterprise that they wanted to do. I guess that was part of the AP’s new approach to coverage... Some of these things that AP is building don’t feel like they’re actually helping me as much as they may be providing AP with a new revenue stream...

“They often remind me that most of their revenue doesn’t come from newspapers anymore,” adds Managing Editor Carpenter.<sup>21</sup>

I’m always reminded of where we are in their pecking order. And I often think, “Well that’s interesting, since most of your product comes from newspapers”... I think they should be more into sharing. It feels like a business transaction, [yet] our history together is that they were born of us.<sup>22</sup>

## “Going Local”

At the same time, the *Observer* had been making its own changes. The advent of the Web had affected its operations profoundly. In 2009, the paper lost 21,000 daily and 18,400 Sunday readers (circulation declines of 11 and 8 percent respectively).<sup>23</sup> Its weekday circulation dropped to just over 167,000, the lowest since 1986. In March 2009, Thames was forced to cut staff by 14.6 percent and reduce the pay—and in some cases the hours—of most remaining employees.<sup>24</sup>

As Thames and his executive team pondered how to strategically re-position their news franchise, they kept coming back to what they knew best: local news. Notes Thames: “As we gradually came to terms with the advances of other media, we started looking more to local.” The paper’s content decisions, and sources of coverage, came to reflect this conclusion. Content analysis of Section A of the *Observer* reveals shifting fault lines from 2000 to 2008.<sup>25</sup> From 2000–2008, staff-reported stories on local

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<sup>21</sup> Rick Edmonds, “Curley: Newspapers Now Provide Only 20 Percent of AP Revenue,” p. 38.

<sup>22</sup> Author’s interview with Cheryl Carpenter in Charlotte, NC, on February 9, 2010. All further quotes from Carpenter, unless otherwise attributed, are from this interview.

<sup>23</sup> Mark Washburn, “Newspaper circulation continues to drop,” *Charlotte Observer*, April 27, 2010, <http://www.charlotteobserver.com/2010/04/27/1400173/newspaper-circulation-continues.html>.

<sup>24</sup> “Pressure on the Presses,” *Wall Street Journal*, <http://online.wsj.com/public/resources/documents/NEWSPAPERS0903.html>.

<sup>25</sup> The *Charlotte Observer* had five daily sections: Section A, Local and State, Sports, Business, and Entertainment. Traditionally, Section A served as a gateway into the rest of the paper and was dominated by non-local news. In 1985,

and regional topics grew as a relative percentage of overall section content.<sup>26</sup> The *Observer* also accentuated local content on the front page, with 57 percent of staff-generated Section A reports reaching the front in both 2005 and 2008, as opposed to 52 percent in 2000 and 32 percent in 1985. By contrast, total AP content dipped from 2000 to 2005 and steadied in 2008 primarily as a result of demand for Presidential election coverage.<sup>27</sup>

Even with this evolution, however, the AP maintained a prominent place in the *Observer's* pages. While Section A local content enjoyed relative growth, AP stories continued to account for the majority of material appearing in the section, augmented by supplemental wire services such as the New York Times News Service and McClatchy-Tribune Information Services. AP briefs (short news vignettes) rounded out the *Observer's* pages, especially as the financially-strapped paper shrank its “news hole” to save money in printing costs. “We still have to be an aggregator of sorts because the bulk of our core readers are not as Internet savvy as you might think,” says *Observer* National Editor Rich Mathieson. “A lot of them do still rely on us to be the paper of record.”<sup>28</sup>

*McClatchy purchase.* Meanwhile, an unexpected outside development reinforced the *Observer's* move toward a more local mission. In March 2006, McClatchy acquired Knight Ridder.<sup>29</sup> The merger provided the *Charlotte Observer* with additional influence throughout the Carolinas.<sup>30</sup> In South Carolina, McClatchy already owned three dailies—*The Beaufort Gazette*, *The Herald* (Rock Hill), and *The Island Packet* (Bluffton). It added *The Sun News* (Myrtle Beach) and *The State* (Columbia), which was the largest daily in the state. Combined with its assets in Charlotte and Raleigh, McClatchy was now the dominant news provider in the Carolinas.

With Charlotte perched just 20 miles from the South Carolina border, news from its southern neighbor was relevant to many of the *Observer's* readers. Now it was accessible and plentiful. “We suddenly had these other papers around us in the Carolinas that became our sister papers,” Thames recalls.

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for instance, a coded sample revealed that more than 86 percent of total Section A content originated from non-local sources. Also: The author coded a sample of Section A stories in the *Charlotte Observer* from 1985 through 2008, organizing the study in five-year increments (1985, 1990, 1995, 2000, 2005, and 2008). 2008 was selected because it was the last full year of content available to research when the project was completed in fall 2009. Content analysis was then performed to determine trends in news sources and coverage.

<sup>26</sup> See Appendix 1.

<sup>27</sup> “People couldn’t get enough of that and were very engaged and letting us know that they wanted to read this,” recalls *Observer* National Editor Rich Mathieson.

<sup>28</sup> Author’s interview with Rich Mathieson in Charlotte, NC, on February 9, 2010. All further quotes from Mathieson, unless otherwise attributed, are from this interview.

<sup>29</sup> David Lieberman, “McClatchy to buy Knight Ridder for \$4.5 billion,” *USA Today*, March 13, 2006, [http://www.usatoday.com/money/media/2006-03-13-knight-ridder\\_x.htm](http://www.usatoday.com/money/media/2006-03-13-knight-ridder_x.htm). To complete the acquisition, McClatchy assumed \$2 billion in Knight Ridder debt.

<sup>30</sup> See: Lieberman, *supra* note 44.



Here we are with seven sister papers regionally. We were fascinated by that and said, “If we work together, we can actually make our report richer because we’re going to accommodate each other’s special needs in the process.”

*CaroNews*. Later in the summer of 2006, the seven North Carolina and South Carolina dailies settled on a news-sharing arrangement called CaroNews. The papers implemented technology that allowed the various staffs to coordinate their planning and coverage.<sup>31</sup> “Our... publishing system has allowed us to see what the other McClatchy papers are working on [in real time],” says Mathieson.

CaroNews is an extension of the sharing that allows us to share budgets [the stories and projects developed on a particular day], see stories, and request stories from our sister papers. We share quite a bit with South Carolina. We actually share a copy desk and lots of resources with Rock Hill. We also get quite a few stories from Columbia and Myrtle Beach.

In 2008, the two star papers in the new cooperative took an even more dramatic step. For decades the *Observer*, a Knight Ridder property, and its Raleigh counterpart, the McClatchy-owned *News & Observer*, had competed fiercely.<sup>32</sup> As the two most-widely circulated dailies in the Tar Heel state, they vied for scoops on subjects ranging from state politics to basketball to news investigations.

But after two years under McClatchy ownership, *Observer* Editor Thames and his Raleigh counterpart, John Drescher, decided to see whether they could wring some efficiency out of combining several operations. They merged their capital bureaus and sports staffs and eventually did the same with the features staffs.<sup>33</sup> An editor from Charlotte oversaw sports, while editors from Raleigh supervised features and state politics. The two staffs co-produced and co-edited the sections. Once the initial awkwardness of partnering with longtime rivals subsided, Thames began to appreciate how the collaborative efforts had extended his paper’s news footprint.

Questions did arise about reducing the number of distinct news voices covering state government at a time when many media companies had taken the economic decision to limit their presence in Raleigh. Rob Christensen, a 32-year statehouse reporter for the *News & Observer*, stresses that “the more eyes and ears, the better it is for the citizenry and the harder it is to cover up a story.”<sup>34</sup>

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<sup>31</sup> “McClatchy’s Carolina Papers to Connect via CCI Newsgate Data Center,” CCI Europe, January 8, 2008, <http://www.ccieurope.com/Default.aspx?ID=593&PID=2434&M=NewsV2&Action=1&NewsId=95>.

<sup>32</sup> Knight Newspapers bought the *Charlotte Observer* in 1955. Knight then merged with Ridder Publications in 1974, becoming Knight Ridder.

<sup>33</sup> Fiona Morgan, “The *N&O* cuts 70 jobs, consolidates coverage with *Charlotte Observer*,” *Independent Weekly*, June 18, 2008, <http://www.indyweek.com/indyweek/the-nando-cuts-70-jobs-consolidates-coverage-with-charlotte-observer/Content?oid=1209104>.

<sup>34</sup> Author’s telephone interview with Rob Christensen on November 12, 2008. All further quotes from Christensen, unless otherwise attributed, are from this interview.

Initial concern, however, defused as shared resources meant formerly over-committed journalists could specialize. According to then-*Observer* politics reporter Mark Johnson, “we’ve done some very different things already. Now I’m on an actual beat. I’m more consistently focused on a limited area, the executive branch, so I’m talking to the governor’s office a lot more. It allows me to report with more depth and detail.”<sup>35</sup>

Sports editors divided basketball assignments among the merged staff. Reporters were encouraged to disclose to their counterparts special projects that they were working on. This limited redundant coverage and allowed the sister paper to fully incorporate and promote the work. Gary Schwab, who headed the new arrangement, applauded the new workflow efficiencies and expanded story reach that sharing created, although he conceded that “telling each other what we’re working on was like the New York Yankees and Boston Red Sox exchanging strategies for an upcoming three-game series in the midst of a heated pennant race.”<sup>36</sup>

Newfound benefits also extended to the editing process. National Editor Mathieson extolled the arrangement for enabling the paper “to be more efficient in our production methods. It allows us to share copy editors and line editors and designers. For example, a story can be line edited in Raleigh, copy edited in Charlotte, and then run in both papers.”

*Local net.* As the *Observer* leveraged its corporate parent to enrich its state and regional coverage, it continued to solidify its focus on local news. This meant dedicated staff and space in the paper for local reporting, but also cultivating new sources of news that broadened and deepened its foothold within the greater Charlotte area. Early in 2009, Innovations Editor Steve Gunn began a search for new “fishing holes” for news.<sup>37</sup> Over the course of the year, his casting net reeled in an eclectic cluster of 12 local websites that he hoped would help the paper “make sure everybody in Charlotte gets the best news and information possible when we can’t afford to do it all.”

Slated to start in early 2010 as the Charlotte News Network, the website consortia would not replace standard newsroom coverage, but would provide a valuable assist to constrained staff and newsroom resources.<sup>38</sup> It also would carry the *Observer*’s brand into urban, suburban, and even rural outposts. Qcitymetro.com, for example, could contribute cultural stories from Charlotte’s African-American community. DavidsonNews.net would provide “feet on the ground” in Davidson, a

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<sup>35</sup> Author’s telephone interview with Mark Johnson on November 14, 2008. All further quotes from Johnson, unless otherwise attributed, are from this interview.

<sup>36</sup> Gary Schwab, “When Fierce Competitors Join the Same Team,” *Nieman Reports*, Nieman Foundation for Journalism at Harvard University, Fall 2008, <http://www.nieman.harvard.edu/reportsitem.aspx?id=100499>.

<sup>37</sup> Author’s telephone interview with Steve Gunn on January 4, 2011. All further quotes from Gunn, unless otherwise attributed, are from this interview.

<sup>38</sup> See: “Pressure on the Presses,” *supra* note 4.

southern suburb around Davidson College. Editor Thames expected upwards of 200 stories and photos from community contributors to appear in the *Observer's* pages in 2010.

The *Observer* envisioned a local advertising network built around the blogs that would allow sponsors to make targeted buys across selected sites, with the respective blog and the newspaper splitting the income. "This is the digital version of journalism beginning to sprout across the landscape," remarks Thames.

What's interesting is that we're organizing it for our region, and the AP may be missing an opportunity. Now, it may be that this development is too small for them and isn't going to be their mission anymore. But if you're talking about supporting institutions that are covering news, it strikes me that we are making moves now to organize partners in a way that was once the beginnings of an AP.

## AP Fights Back

As the *Charlotte Observer* developed state and regional news-sharing partnerships and embarked on new local content initiatives, it began to question whether it really needed the AP any more. If readers could get their national and international news off the web, and the *Observer's* future survival depended on superb local coverage, why would it pay for the AP?

Apparently, the *Observer* was not alone. In April 2008, the AP took steps to address such concerns. The board of directors voted to reduce member assessments by a total of \$21 million, or 10 percent, for 2009.<sup>39</sup> AP's vice president and director of strategic planning Jim Kennedy concedes that the wire "learned a tough marketplace lesson" by not more quickly appreciating the changing needs of its base.<sup>40</sup> Then in October, as newspapers' bottom lines continued to hemorrhage, AP introduced an additional round of 2009 cuts that would bring the total to \$30 million. It also issued a moratorium on future rate hikes under the current pricing structure.<sup>41</sup> Finally, it pledged to launch a "re-examination of the AP membership structure and of service options... including the creation of different classes of membership and services."<sup>42</sup>

At the *Observer*, editors eagerly awaited news of the new service option. They hoped that it might mark a retreat from what they considered a new mindset at AP. Editor Thames, for example,

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<sup>39</sup> Associated Press, "AP announces formation of the Mobile News Network and further cost reductions for member newspapers," April 14, 2008, [http://www.ap.org/pages/about/pressreleases/pr\\_041408a.html](http://www.ap.org/pages/about/pressreleases/pr_041408a.html).

<sup>40</sup> Author's interview with Jim Kennedy, AP's vice president and director of strategic planning, in New York, NY, on February 15, 2010. All further quotes from Kennedy, unless otherwise attributed, are from this interview.

<sup>41</sup> Associated Press, "AP Board approves further rate reductions; AP to undertake review of membership structure," October 23, 2008, [http://www.ap.org/pages/about/pressreleases/pr\\_102308a.html](http://www.ap.org/pages/about/pressreleases/pr_102308a.html).

<sup>42</sup> Ibid.

had long felt that Curley's appointment had marked the beginning of a new way of doing business at the wire service. He comments:

It did appear that [Curley's] arrival coincided with renewed emphasis on the business of AP... When I would be visited by bureau chiefs, more often it was because they had a new product they wanted to sell... whereas in the past they've been more about how to improve coverage. It just felt like it became more of a business relationship from that point forward.

The *Observer* hoped for increased choices. "An à la carte feature is a good idea," says Managing Editor Carpenter. "Each day we can choose what we need, rather than what they deliver to us."

In April 2009, at the cooperative's annual meeting, CEO Curley and Board Chairman Dean Singleton announced several changes: 1) An additional round of \$35 million in fee reductions would kick in for 2010; 2) AP would allow members to cancel service with only a one-year notice, as opposed to the long-standing two-year requirement; but 3), and most important, was the unfurling of Member Choice, which gave newspaper partners the option to continue at a "Complete" level of coverage and service or drop down to a new "Limited" tier that would reduce content, but also lower costs. AP described it this way:

The revised Member Choice plan is designed to provide flexibility and customization that will allow AP member newspapers to choose the level of content that best serves their needs, while also enabling them to control their costs. AP Member Choice Complete will provide full access to all of AP's English-language text reporting. AP Member Choice Limited will provide a reduced AP text news report for newspapers that need less national and world coverage. Each of these services can be customized by adding or removing various categories of news. Members will also be able to choose from supplemental services, including Photostream, video and multimedia produced services.<sup>43</sup>

During his keynote address to the annual meeting, Curley affirmed the cooperative's commitment to members: "Today we emphasize one point. AP is fully committed to helping the industry meet the challenges we face together.... AP will be there for you, anticipating as best we can where we need to be and what we need to deliver. Our basic promise to the Cooperative is undiminished by the difficult economic environment."<sup>44</sup>

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<sup>43</sup> Associated Press, "AP board announces initiative to protect industry content; Further rate reductions and new 'Limited' service respond to member needs," April 6, 2009, [http://www.ap.org/pages/about/pressreleases/pr\\_040609a.html](http://www.ap.org/pages/about/pressreleases/pr_040609a.html).

<sup>44</sup> Associated Press, "Remarks by Tom Curley," AP Annual Meeting, April 6, 2009, [http://www.ap.org/pages/about/pressreleases/pr\\_040609d.html](http://www.ap.org/pages/about/pressreleases/pr_040609d.html).

## Observer Reaction

At the *Observer*, initial excitement over the announcement that the AP would re-consider its pricing structure quickly turned to concern once the changes were rolled out. As Thames examined details of the two tiers, his enthusiasm waned. A full subscription gave the *Observer* access to 500–600 AP stories daily, including all state wires and full sports coverage. According to the AP, Limited provided a “very tight selection of top breaking news from US, world, sports, business, entertainment—plus home state wire.” The daily content menu included:

- Top Breaking News: At least four top general news stories
- National: Up to 15 stories per day
- International: Up to five stories daily
- Business: Up to five stories daily, plus Wall Street wrap-up
- Sports: Up to three stories daily. Standings and scores on major pro sports. Scores only on major college games.
- Entertainment: One per day, with three People items
- Strange News: Two stories per day

Altogether, Limited members would receive between 35 and 40 stories per day, or approximately six percent of the “unfiltered firehose” of content that Thames had grown to expect. They would not receive any state wires beyond their own, meaning no South Carolina content. Furthermore, if Limited subscribers required stories above and beyond the guaranteed daily bundle, they would have to buy back into pricey AP vertical content categories, such as Sports, Money and Markets, Lifestyles, and News Analysis.

The system was structured such that members could test the Limited product, then upgrade to Complete at any time. However, if they took the full package, they were required to stay at that level for the duration of their two-year contract. Thames perceived this pricing model as “restrictive.” He observes:

I think that a lot of people feel that, from the standpoint of a large newspaper, it was set up in a way where we really don’t have a choice. I’ve tried to liken it to when you go to McDonald’s: “For this much, you can get a small drink, and for five cents more, you can get something the size of a small barrel.” That’s what this feels like. So I didn’t feel like it was a very attractive model for us. As we studied their pricing model, we saw that we had some stark choices to make.

## Observer Weighs Its Options

By late fall 2009, with the *Observer*’s AP contract up for renewal at the end of the year, Thames faced a critical decision: whether to extend the Complete wire subscription that *Charlotte* had enjoyed

for generations, drop back to the Limited tier, or eliminate the AP altogether and instead turn fully to alternative news sources. While cost would be an important factor, Thames' dilemma transcended dollars and cents. Beyond budgetary ramifications, the decision could have profound content implications and set a precedent for the future identity and purpose of the newspaper. He began assembling a pros and cons list for each of the options and also consulted with Drescher, his colleague in Raleigh.

*Bottom line.* With advertising revenue declines making cost efficiencies top-of-mind in the *Observer* newsroom, Thames had no choice but to start with the bottom line. Switching to Limited would save money—money that could then be re-dedicated to pressing needs such as staff and technology. The decision, however, became more complex in light of the Limited pricing structure.

Thames acknowledges that “we know we need AP in many ways”—needs that exceeded Limited's skeletal 40-story daily offering. *Charlotte* would have to buy back into several AP content verticals to buttress the Limited foundation. Sports were a must. “We don't see any way around that,” he concluded. “There's no supplemental that would take care of that for us.” News Analysis and Money & Markets were also likely add-ons. The paper's annual fees would still drop, but not as dramatically as Thames had hoped. All told, the *Observer* would save just under \$100,000. Thames sized up the quandary:

When I looked at the cost structure of going with the full AP versus Limited, it was, to me, unfair that going to Limited wasn't going to save me that much money because the service itself is quite a bit different. But even so, I could save enough money to preserve perhaps two or three jobs in my newsroom. I had to think hard about that because if I could make this work, then I could keep these local resources trained where they need to be.

*Content.* Then there was the matter of content. Thames felt confident in the local-first strategy that the *Observer* had adopted. He notes:

Jim Collins in *Good to Great* talks about “what are you going to be the best in the world at?”<sup>45</sup> We thought there was a good, strong message there for regional newspapers. And that is, “We're going to be the best in the world at covering our regions. We're not going to be the best in the world at covering the world.” There are others out there who are aspiring to do that. We think our job, actually, is to interpret the world for people who live in our region. It's important that we understand world and national news, but we then need to take what we know and make it relevant to living in Charlotte.

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<sup>45</sup> Jim Collins, *Good to Great: Why Some Companies Make the Leap... and Others Don't* (New York: HarperCollins Publishers), 2001.

Community feedback suggested that readers hungered for local news. Meanwhile, the *Observer's* portfolio of local initiatives, from the Charlotte News Network to social media tools, engaged the audience in new and dynamic ways, introducing diverse, complementary sources of journalism and extending the paper's brand deeper into area neighborhoods.

When it came to covering the rest of the state, Thames also liked his position. He estimated that between them, the *Charlotte Observer* and the *Raleigh News & Observer* generated nearly half of the material that ran across the North Carolina AP wire on any given day. The news sharing arrangement between the sister papers had been in place for nearly 18 months. Though the *Observer* still subscribed to the state AP, Thames saw potential for the two dailies to join forces with other papers around North Carolina, which could eliminate the need for the state wire completely.

Converged state coverage was only one example of a larger collaborative spirit pervading the industry. "In most cases, papers of any size across the state aren't really competing against each other directly anymore," Thames explained. "Informally, there's a lot of [cooperation] going on. [Newspapers] are just saying, 'let's work together. We'll build our own partnerships.' It's not just within companies. It's across company lines."

*Regional.* On a regional level, Editor Thames and National Editor Mathieson bemoaned that a move to Limited would strip away their access to the South Carolina state AP wire, from which they frequently plucked content. In fact, Mathieson emphasized that, in many ways, carrying the South Carolina wire was of greater importance than the home state feed. However, CaroNews was continuing to evolve, giving the *Observer* access to a widening array of stories from its McClatchy brethren in Columbia, Myrtle Beach, and Rock Hill. In addition, the paper continued to pay for supplemental wire service from the New York Times News Service and Bloomberg, and through its corporate parent, it had access to McClatchy-Tribune Information Services. All of these enhanced its regional content.

Nonetheless, to break from the AP entirely would be painful—to readers as well as to editors. Much of the audience that would pick up the newspaper in the morning still looked to the *Observer* for many of the features that AP delivered. "We recognize that for many people—for probably most of our readers—we are a primary news source for the world beyond the Carolinas," Mathieson explains.

As a daily page filler and news compass, the AP still presented strong value to the *Observer*, especially as its own resources thinned. There was still no viable alternative to AP's sports service, which provided abundant content in one of the *Observer's* most popular and heavily advertised sections. Though Bloomberg was pushing to offer stock services, AP's Money and Markets set the standard. "There is essentially no other provider for stock tables printed in newspapers," emphasizes New Products Editor Gunn. "We print 600 a day." If the paper had no choice but to buy back into multiple AP verticals, then was it prudent to vacate its Complete subscription in the first place?

Intangibly, the daily alerts and digests that were bundled into the Complete service helped guide the *Observer* through the daily news cycle. The digests, which provided routine listings of the stories that AP was moving across its wire, were of particular importance. "It's an easy way for wire editors to see what all is on the wire, without having to trawl through thousands of stories and write-throughs," says Mathieson. He describes alerts as "short headlines that report a development about to move as a bulletin or an urgent. They're very important. They let me know what's happening, quickly." Though social networks such as Facebook and Twitter, and 24-hour cable news networks, were becoming handy tip sheets, AP was still the most authoritative source for breaking news.

Thames mulled his dilemma: a deadline to meet, and a franchise's future to protect. For generations, the AP had provided the *Observer* with a valuable set of services that contributed in crucial ways to the excellence of the paper. But in this new century, could the *Observer* any longer afford the AP? Could it afford to do without it?



**APPENDIX 1*****Charlotte Observer Coding/Content Analysis Results Table***

<b>Year</b>	<b>AP Section A Stories</b>	<b>Locally Reported Section A Stories</b>	<b>Local as Relative % of Section A Content</b>	<b>AP Section A Front Page Stories</b>	<b>Locally Reported Section A Front Page Stories</b>	<b>Local as Relative % of Section A Front Page Stories</b>
1985	65	17	13.6%	20	13	32.5%
2000	57	16	14.7%	11	13	52.0%
2005	54	17	15.3%	8	15	57.7%
2008	63	21	17.1%	7	16	57.1%

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**NOTE:** Both overall Section A and Front Page relative % calculations also factor in supplementary wire sources such as the New York Times News Service, McClatchy-Tribune Information Services, Bloomberg, Reuters, and others.