Title:
Mismanagement At The New York Times

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Summary:
The New York Times Company (NYT) isn’t just reporting the news – it’s making the news. At yesterday’s annual meeting, shareholders withheld 28% of their votes for the four directors elected by holders of the company’s common stock. Nine other directors are elected by holders of the Class B shares, effectively granting control of the company to a group holding less than a 1% economic interest in the business.

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Article Body:
The New York Times Company (NYT) isn’t just reporting the news – it’s making the news. At yesterday’s annual meeting, shareholders withheld 28% of their votes for the four directors elected by holders of the company’s common stock. Nine other directors are elected by holders of the Class B shares, effectively granting control of the company to a group holding less than a 1% economic interest in the business.

Most of the large newspaper companies have not done a great job of earning the best returns for their shareholders. Some of these companies overdid acquisitions. The New York Times Company illustrates the danger of adding to the empire – you dilute the crown jewel.

In 1993, the company bought The Boston Globe. Unfortunately, this is exactly the kind of paper that will be hurt by online news sources. Second-tier major city dailies are not in a strong position, because they try to be all things to all people.

A newspaper can thrive by dominating a specific niche. That niche can be geographical or topical. Community newspapers can thrive, because they still have no real competition. The news they report is unique. It is very important to a very small group of people.

A company that owns clusters of these papers in wealthy suburbs will do fine. By reporting on local schools, sports, and events these publications set themselves apart from all other news sources. They have a mini-monopoly both on the news they provide and on the ads they run.

There are places in states like New York, New Jersey, Connecticut, and Pennsylvannia where advertisers benefit from targeting specific communities, because the demographics of the next town over are not nearly as attractive. A lot of this has to do with public schools. I don’t see that system changing anytime soon. So, I imagine these properties will fare much better than big city newspapers.

The New York Times Company has one great asset – its brand. The New York Times and The Wall Street Journal each have a very valuable national brand. People all over the country have been exposed to them through other media outlets. The value isn’t really in the size of the circulation. If you think of the entire country as their potential market, their circulations are tiny (the news business is very fragmented).

A few years ago, it would have been crazy to think of the entire country as a potential market for these publications. But, I don’t think that’s the case today. These papers could earn a lot of money online. Of course, they have to figure out how to earn money online.

Long-term, I don’t like the idea of expensive online subscriptions. It looks like a great idea now, but it could limit future ad revenue. Becoming a dominant online news destination would prove extraordinarily profitable. Unfortunately, no one is going to capture more than a tiny sliver of the online news market by charging a lot of money for their content.

It isn’t just an issue of people not wanting to pay. It’s also an issue of exclusivity. The less exclusive an online news source is the more often it will be cited. People who don’t visit your site are far less likely to reference it. Just as importantly, no writer wants to exclude any part of his own readership. So, many writers simply won’t cite a subscription service.

Some online writers do reference subscription services. Knowing how strongly people react to being excluded, I think writers who cite paid services are absolutely nuts. Even if it isn’t consciously acknowledged, readers will enjoy your site less if it points out something they can’t have.

Both The New York Times Company and Dow Jones (DJ) went the route of buying an established online destination. I’m always skeptical of these kind of me too acquisitions. These businesses did need to go online, but they needed to do it in their own way. The acquisitions will probably work out better than I thought they would. But, I still think the real value is in the brand.

Is the New York Times Company cheap? It’s close. If you agree with me about the potential for a real national news brand, the stock looks cheap. Otherwise, it looks about fairly priced.

Newspapers have been beaten down a lot recently, but they were so well-loved to begin with that they aren’t at the kind of levels that guarantee market beating returns regardless of how well they’re run. That’s happened in other businesses. You could extract more cash from a dying business than the stock was selling for. That isn’t the case here. The stock is currently priced as if it were a continuing (albeit mature) business.

If the New York Times is truly a dying business, it isn’t worth the current price. But, if there is real value in the brand, it’s a bargain right now.

I’m not confident in the decision making at this company, because I’ve seen how capital was misallocated in the past. Many of these questionable investments were small relative to the value of the core franchise. But, that doesn’t excuse the lack of focus and the lack of a true owner oriented culture.

The favorable economics inherent to the business are no excuse either. There are very profitable companies out there that aren’t nearly as profitable as they could be. For instance, Campbell Soup (CPB) consistently earns good returns on capital; but, I haven’t seen any evidence that those returns were the result of skillful capital allocation. I think much the same is true at the New York Times Company. A great franchise helps cover-up less than optimal uses of capital – and the Times’ management has benefited from inheriting a great franchise.

If I were confident about the way this company will be run and the way capital will be allocated, I’d be buying shares right now. There’s real value and real opportunity in this franchise. But, I’m not sure there’s the will to do what needs to be done.