

The Future of Newspapers: An Interview with Geoffrey Sands

Guosong Shao
University of Alabama

Abstract: The emergence of the Internet has posed serious challenges to the traditional business models of print newspapers. How can the newspapers survive in the Internet age? What strategies could print newspapers use to fight back? In Spring 2006, the author thus conducted an interview with Geoffrey Sands, Head of North American media practice at McKinsey, inviting him to address such kinds of questions on the future of newspapers. [China Media Research. 2008; 4(2): 100-101]

Keywords: Newspaper, Internet, strategy, quality journalism

First published in 1605, newspapers have since thrived even in the face of competition from radio and televisions. However, recent emergence of the Internet has posed serious challenges to their traditional business models. Newspapers' circulations are declining in most countries while advertising revenues, which have long been a key source of newspaper incomes, are shifting their focus to the Internet. The future of print newspapers seems very unclear.

How can newspapers survive in this Internet age? So far there has been no clear-cut answer to this question. Given that McKinsey has long been a worldwide leader in media consulting, the author thus conducted a face-to-face interview with Mr. Geoffrey Sands, Head of North American media practice at McKinsey. Mr. Sands earned both BA and MBA from Yale University. He has accumulated over 20 years' experience working with leading media, entertainment, and marketing companies. Below are the excerpts from the interview. Responses have been edited.

Shao: Let me ask you a blunt question: what is the value of a newspaper today?

Sands: I think a newspaper should define itself primarily as a local media company that provides service to their readers as well as local advertisers and connect the advertisers to their readers. I think you always have a number of different, sustainable business models that rest on that proposition. Whether it expresses itself in print, online, mobile, or other forms of content delivery, I think its core value remains unchanged. That may be what newspaper publishers should look for. The fundamental value proposition I think is that it is attractive, and it is sustainable. I don't think it is going anywhere. Every consumer researcher suggests new ads people about what they are interested in as far as news goes. It is local sports, local weather, local government, and all such things. So, there is tremendously mundane interest in local information - that is really where the direction of the move is. One of the few growth areas in media is being local. So I think the idea connecting local communities to advertisers is not going away. It is just a question of

different forms that value proposition takes.

Shao: As you know, many newspapers are making a huge push onto the Internet. My question is: will online revenue continue to grow enough to make up for declines on the print side as the websites of newspaper mature?

Sands: I don't know the answer to this question per se. I think that this question is not just one transferring of advertising from print to online. You have to look at overall pools of local advertising dollars. Some of those are going to move online; some move to broadcast television; and some move to local cable. And as television becomes more sophisticated in terms of targeting, you will see it is becoming a much better collective marketing medium. If I were a newspaper publisher, I would be certainly concerned about online, but I'd be especially concerned about fragmentation of local media dollars because of multiple outlets.

Shao: Beyond traditional advertising, what other revenue models could newspapers pursue strategically?

Sands: I think the revenue models are very swarm to subscription models, and very swarm to advertising models. These are two basic revenue models. And I think there is a role for exploration among those different models in terms of different kind of bundles. For example, newspapers can certainly consider exploring free circulation that a lot of newspapers are doing, which is pure-advertising based. You know there are some of the younger demographics. They are not used to paying for newspaper and have thus been moving to less expensive, more advertising-based circulations. There are any members within these business models, and pricing configurations that newspapers have to experiment.

Also, you cannot just cut the cost for direct growth. The way out of newspapers and other media is always on the revenue side, creating new ideas, creating new value propositions, and creating new ways to engage with customers. The cost cutting efficiency models have been tried in a number of cases very publicly within the U.S. newspaper industry, but I don't think it is proved to be a long-term solution at all.

Shao: It is reported that newspapers' profit margins hover around 20 percent — extraordinary when

compared to almost any other business sector — but their stocks are getting pummeled. So, is there any good reason for newspapers to remain publicly traded?

Sands: You know there are arguments on both sides, and I am not sure I have a particular point of view. I think there are some in the newspapers industry who argue very passionately that traditional private family ownership is the best model because it should really have what newspaper does in terms of printing information and contacting the general public, and it shouldn't be subject to the same kind of marketing pressures as other for-profit companies. The other is to argue that you can balance the interests of shareholders and the interests of readers, and have a perfectly attractive growth and price. You know there has been a long debate in this regard within the newspaper industry. People are still strongly about their both sides. There are others more qualified to say when they look at such cases as Washington Post. They did a great job in balancing their responsibility to their readership and their responsibility to their shareholders. I think they did a terrific job.

Shao: McClatchy's CEO Gary Pruitt said: "good journalism is good business." Do you agree with him? Many publishers struggle to meet revenue goals as they seek to produce a quality publication. If you were a publisher, how would you address that divide?

Sands: I think there are always pressures that are difficult to manage, making it challenging to balance those interests. Like I said, there are enough examples, good illustrations about what Gary Pruitt is saying. There are companies that have been able to do both. And good journalism could find audience, loyal audience. Wherever you have loyal audiences, you have advertisers. I would certainly agree not to minimize the challenges and doing that, which is considerable. I think there are enough examples that good journalism and good business are co-existing. I will return to Pruitt.

Shao: What if the readers didn't care about the quality journalism?

Sands: I believe there is always an audience for quality journalism. Not everybody wants their news or any kind of content, but some people just like to avoid news fees. I think whoever serves the public pool should remember that people take ball.

Shao: In 10 or 20 years, do you think people will still go out in the morning and get their newspapers?

Sands: Some people will. You know there is really a question, that is, how many people? I think it is going to be fewer people. It largely depends on pricing models and value propositions. Yes, I think people will continue to do that. The challenge for newspaper publishers is how to get existing core readers to spend whatever it is, five, six or seven minutes a day with newspaper. When there is such spending lost on that, that is when you start to see the subscription fall off. I think there is an issue, and this is a question of generation, of how much young

people really like newspapers. So, will newspaper still be around in 10 years? I think so, for smaller group people. Will newspaper companies still be around? I absolutely think so because I think they will find other ways to reach their customers. If you look at transactions, newspapers I think are now at middle road from a single medium focus to multiple media, which will probably be even more, and their core capability will be the aggregation and contextualization of information. I think they will do that in a number of different ways and different pricing models: some will be free, some will be free advertising-supported, some will be on a subscription basis, and some models will be on paper use basis. So I think the complexity of newspaper and local media companies have magnified tremendously, but the core value propositions will always be there.

Shao: Could you please provide our readers with a brief introduction to your company's media consulting practice?

Sands: We media and entertainment is a large global practice of McKinsey. We have numerous people who focus exclusively on this industry in offices all over the world. It is certainly a bias, but I think it is an exciting sector to work in. We serve most of the major media companies; you know large global media companies, leaders, and everyone in the different sectors. The practice covers broadcast, cable, television, cable operators, magazine, newspaper, and book publishing, internet services, games, music, sports, sports team, sports leagues...the whole range of different things. We work with these companies on their major strategic organizational operational issues. That is what we do. These issues for these companies which you know are much like newspapers are becoming tremendously complicated. All businesses have had spectacular growth rates for many years. A large part of companies are facing challenges that they really didn't have before. And we're seeing that growth is slow in a lot of traditional sectors, and you have new emerging sectors that are exciting and unpredictable as well.

Shao: Do those CEOs often listen to you?

Sands: Yes, I do think so. I think it is a matter of principle that we don't tend to work with companies that are reluctant to listen to the advice we gave because what is important for us is that we have impact. Impact is defined by working with these leading companies on their most important issues and achieving results for them. So if nobody is listening to us, that means we don't have impact.

Correspondence to:

Guosong Shao
College of Communication and Information Sciences
University of Alabama
Tuscaloosa, AL 35487
Email: gshao@bama.ua.edu