Newspapers Strike Back

I am often asked my opinion and occasionally my advice on how the newspaper industry should navigate these radically changing times in the media industry. The transformative effect of the Internet need not be emphasized. In general, newspapers still largely use the Internet to offer at least some of their contents as a tease to subscribe online or just to stay with the printed product. The goal remains fixed to raising a contribution to the vast expenses traditional newspapers incur that don't affect Internet operators: newsprint, presses, and the very expensive physical delivery systems of newspapers in large metropolitan areas.

The explosion of sources of information and entertainment has placed a greater premium than ever on the editorial function. It is more important than ever that someone assemble the news in reasonable variety, thoroughness, and apparent importance and present it conveniently and with some flair and elegance. Ultimately, I suspect we will all be paying subscribers to a round-the-clock Internet newspaper, and will each have a designer edition where our own news preferences are weighted in our own version. They will be updated constantly and if we wish them printed, we will print them on more sophisticated home printers than are generally available now (which just produce regular fax-pages). The designer newspaper would be connected to YouTube, the archives, and all current related stories.

Shepherding our newspaper companies along to this or any similar concept was always going to be a laborious business and was the principal reason that my associates and I headed for the exit in that business in the late 1990s. But there are and will always be people who want a printed newspaper and there are frequent conditions when such a product is much easier to read than anything on a screen. And people who like to read paper newspapers are not exclusively or even mainly those in the extreme winter of their ineluctable old age.

Unfortunately, I have the impression that apart from *The Wall Street Journal* and a mere handful of other major newspapers, the whole industry is focused almost exclusively on endless and rather undiscriminating cost-cutting. The newspaper industry has been like a retreating army, but not an army conducting an orderly, if painful, retirement to a stronger position, as in the Russian army against Napoleon or Hitler, but rather an army in a rout, scrambling from the enemy with little idea of regrouping, like the French army in 1940.

I know how faddish and obtuse the advertising community can be, and even 20 years ago there was no shortage of advertising agencies convinced that newspapers were for the elderly and frugal and offered a reduced opportunity for an advertising dollar than television or glossy magazines, despite the proliferating number of television channels, the tendency to surf between channels and to edit out the commercial breaks electronically.

Those trends have certainly accelerated in the intervening years, but so has the plethora of media choice and the fragmentation of public loyalty. Now that the Internet has effectively the same picture definition as television, there is an infinite number of channel-equivalents, while there remain very few newspapers and most of them have historic titles and command, even now, immense goodwill for their trademarks of authoritative news and feature and comment delivery.

The teeming innumerability of non-newspaper options has become a potential asset for the newspaper, and so has its demographic. Practically everyone in Canada who buys and reads a newspaper today is an ABC 1 reader: a person of relatively high wealth, income and education, and an ideal target for advertisers. All the traditional admen’s piffle about doddering old newspaper readers should be exposed as the ageist idiocy that it is. Newspaper readers do actually read the newspapers, including the advertisements. They don't surf, and if they see something they like, they have the money to buy it, unlike most of the slavering devotees of the social media imparting to the world the flavour of ice cream they experimented with when they took their romantic attachment of the moment to the mall. Newspapers are the least mindless medium, and should exploit that commercially.

In these circumstances, good print journalists are hireable at reasonable rates, and newspaper readers have been culled down to the true and prosperous believers who don't mind paying more for a better product. This was a lesson we proved at the *London Daily Telegraph* when we defeated Rupert Murdoch's *Times* in the cover price war 15 years ago, when he took the *Times* downmarket as he cut its price and made it a second read for mid-market subscribers (of the *Mail* and *Express*) and we cut price a little but invested in quality and took the top off the traditional ultra-desirable *Times* readership disgusted with Rupert's pandering to the spivvy and the shallow.

This is an opportunity for the whole industry now: raise quality at minimal cost, continue to economize where it is not reflected in the product in the hands of the readers, and raise the cover prices to compensate for (declining) softness in advertising revenues. With so much unutterable pap floating around the media, quality readers of interest to advertisers will happily pay a little more to get something good.

The first battle remains what it was when I was on the newspaper firing line, though it has become more difficult to reverse the psychology of newspaper defeatism and sell advertisements and edit and price the newspaper in the confidence of opportunity and not in the self-defeating rationalization of "managing decline," which is rarely other than a morally evasive collaboration in one's own defeat, and a management excuse for under-performance. This is not France in 1940, but France in 1914 – the long retreat from the Rhine followed by the miracle of the Marne and the defeat of the invader.

All stakeholders at Postmedia are ready for it. They almost suffered the bends with the 90 per cent decline in the stock price in three years, followed by the short-fuse choice to endure an 85 per cent dilution or invest nearly three times the current price of a share to multiply their shareholding by seven. This was the ingenious equity portion of the acquisition of Sun Media newspapers, which brings PostMedia $94 million of free pre-tax cash flow with almost no debt attached to it, and increases the number of shares outstanding seven-fold, from 40 to 280 million.

Shareholders had to make that choice with only patchy pro forma projections to go on and before the Sun acquisition was officially approved. The Ontario Securities Commission should have required a longer delay on more information, and if the acquisition of Sun had been allowed before the refinancing had been launched, the management could have spoken more candidly about the cost savings that a merged company could effect. (They will be larger than was stated, for public and personnel relations reasons.)

As often happens, the OSC behaved as if its initials stood for Office of Stupidity and Cowardice and sat like a suet pudding instead of assisting the management in helping shareholders make an informed decision at no cost to the company. The American fund that controls Postmedia/Sun Newspapers (its incumbency guarded by a minefield of anti-intrusion measures enshrouded by an unusually heavy cloud of poison pills floating from golden parachutes) was well-paid to backstop the issue. No one cares who owns the company and foreign ownership rules are usually absurd, but it’s time for this company to perform.

This stock appears to be stalled at a trickle of trades at around twice free cash flow once the Sun acquisition has been consolidated. The stock has only traded a few thousand shares in the three weeks since the deal closed, and this is the first time in over 50 years of stock market involvement in this and other jurisdictions that I have seen a listed public company multiply its outstanding shares by seven and practically cease trading. Instead of enlightening investors, the management has been as silent as a sphinx.

I bought a small shareholding at a low price a couple of years ago and exercised some rights last month, and I want to sell some shares to pay some legal bills left over from my late persecution. My position is not material. But the shareholders who took the sleigh-ride from $10 or $15 and then poured money into the rights issue on scanty information deserve a break, just as the employees deserve a comfort level that they won’t all walk the plank and the ship won’t sink.

These are fine titles that have been admirably recapitalized in an expanded and stronger company, and there is a way forward. Usuriously overpriced debt is about to be refinanced; that underwriting will fly off the shelves given the cash flow that will back the issue and be enhanced by it, and that offering should be entrusted to whichever financial house undertakes to open up a reasonable market in the stock.

I am sure all stakeholders are anxious for an end to silence, declinism, illiquidity, and under-recognition of value, and expect something useful to occur soon.

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